



# New revenue accounting standard – ASC 606

JANUARY 2018



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# Agenda

New revenue accounting standard 606

2018 adjusted outlook





# New revenue accounting standard 606

# Why is this change happening?

- Standard is intended to introduce a global principles-based accounting framework
  - Expectation is that IFRS will be generally consistent with US GAAP
- Will remove existing industry-specific accounting guidance
  - Expanded qualitative and quantitative disclosures (annual and interim)

# How are we impacted by this new standard?

- What changes

- Revenue for on-premise and hybrid cloud subscription offerings
- Changes to operating expenses related to direct selling costs

- What doesn't change?

- Revenue for Cloud services, perpetual licensing for software/hardware and associated maintenance and professional services
- Cost of revenue
- Customer billing, operating cash flow and free cash flow

- What to expect upon adoption?

- Aggregate impact of new standard was not material to our FY 18 outlook
- Financial impact of changes for periods prior to 2018 have been recorded in retained earnings
  - Approximately \$70 to \$80 million decrease in deferred revenue that had a remaining contract period of 2-3 years
  - Approximately \$100 - \$110 million of commissions will be capitalized as an asset and has a remaining amortization period of 2-3 years

# What is the impact to an on-premise subscription?

## Subscription Revenue

- Example: On-premise license is currently over contract term

Year	1	2	3
Current standard			
Billings	\$900*	\$0	\$0
Revenue	\$300	\$300	\$300
Deferred revenue	\$600	\$300	\$0
New standard (606)			
Billings	\$900*	\$0	\$0
Revenue	\$690	\$105	\$105
Deferred revenue	\$210	\$105	\$0

\* Contract value for illustrative purposes only. Values will vary by product and contract terms.

- What changes?
  - Recognition of the license deliverable will be up-front
- What doesn't change?
  - Customer billing or cash flow
  - Updates and support obligation of a subscription will be deferred and recognized over period of service
- What are the impacts?
  - We expect an accelerated revenue recognition model for a small portion of our Networking and Workspace services on-premise subscriptions



# 2018 adjusted outlook



# 1Q18 Financial Outlook

- We do not expect the adoption of ASC 606 to materially impact our FY18 financial outlook or 1Q non-GAAP earnings per share.

	1Q18 Outlook		1Q18 Outlook (606 adjusted)	
	Low	High	Low	High
Net revenue	\$670 million	\$680 million	\$665 million	\$675 million
Non-GAAP earnings per share	\$1.03	\$1.06	\$1.03	\$1.06

# Reconciliation of GAAP to Non-GAAP Earnings

	1Q'18
GAAP earnings per share from continuing operations - diluted	\$0.69 to \$0.71
Add:	
adjustments to exclude the effects of amortization of intangible assets	0.09
adjustments to exclude the effects of expenses related to stock-based compensation	0.28
adjustments to exclude the effects of amortization of debt discount	0.06
adjustment to exclude the effects of restructuring charges	0.03
Less: tax effects related to above items	(0.09) to (0.14)
Non-GAAP earnings per share form continuing operations - diluted	\$1.03 to \$1.06

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