A&M GLOBAL TRANSACTION ADVISORY GROUP

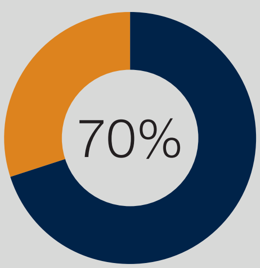
SOFTWARE & TECHNOLOGY INDUSTRY INSIGHTS

OBSERVATIONS FROM PUBLIC COMPANY FILINGS OF THE NEW REVENUE RECOGNITION ACCOUNTING RULES

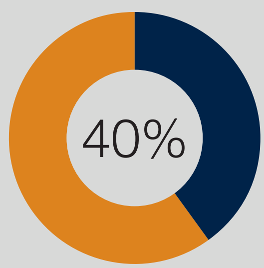
Many software and technology companies have adopted the new revenue recognition accounting rules[1] while others have provided some disclosures regarding their transition plans. Alvarez & Marsal's (A&M's) Transaction Advisory Group has reviewed the most recent quarterly or year-end filings of public companies[2] to provide you with our key observations around adoption of the new rules.

Observations from Public Company Filings

- Approximately 70 percent chose the modified retrospective transition method; less than public company average of 80 percent.
- All filings that we reviewed disclosed an increase to opening retained earnings; the impact was greater for the companies choosing the full retrospective method.
- Over 60 percent disclosed an increase to quarterly revenue in the first quarter of adoption, under the new rules versus the old rules.
- Approximately 20 percent of companies provided disclosures about significant financing components.
- Approximately 40 percent of entities were required to capitalize costs and amortize them on a straight-line basis, some disclosed amortization periods extending beyond the initial contract period (up to seven years).



Transition: 70% of Companies Chose Modified Retrospective Transition Method



Contract Costs: 40% of Entities Were Required to Capitalize Costs and Amortize on a Straight-Line Basis

M&A Transaction Observations

We have performed buy- and sell-side financial due diligence on U.S. and international M&A targets that have recently adopted the new accounting rules. Key observations from such projects include:

- Most companies have elected to adopt the new rules following the modified retrospective transition method. For quality of earnings (QoE) analyses of those companies, we typically recast the results under the new rules to be comparable to the old rules.
- Some targets with significant amounts of multi-year advance billings concluded that there was not a "significant financing component" that required separate accounting.
- Accounting for required commissions deferral impacts most software and technology companies and generally increased EBITDA for growing businesses. Some companies are required to account for certain commissions/bonuses and the amortization period may extend beyond the initial contract term.

[1] Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers. The update was codified as ASC 606, *Revenue from Contracts with Customers*, and ASC 340-40, *Other Assets and Deferred Costs—Contracts with Customers*, and the IASB issued IFRS 15, Revenue from Contracts with Customers (collectively, the "new revenue recognition accounting rules")

[2] Public company filings included public companies with primary or secondary SIC codes "7372 – Prepackaged Software"

Private Company ASC 606 Compliance Timeline:

Initial Assessment

- Choose transition method and develop plan

July 2017

- Determine system and data capture requirements

January 2018

- Implement system changes and data capture processes

July 2018

- Finalize financial reporting changes and prepare for new financial statement disclosures

January 2019

- Effective date for new accounting standard

Assessment ← → Implementation →

A&M's Transaction Advisory Software & Technology Industry Team:

A&M has extensive operational and functional expertise across a wide variety of sectors, including a software and technology dedicated industry group. Our professionals have gained significant sector-specific experience working with many leading technology companies, which has enabled us to better help our clients identify, diagnose and solve complex financial issues and challenges.

Our team can provide you with insights and trainings tailored to your revenue recognition accounting needs, including:

- Financial modeling-focused trainings and key accounting change discussions for private equity deal teams;
- Technical-accounting focused trainings for accounting/finance departments; and
- Implementation-focused deep dives for Chief Financial Officers (e.g., private equity sponsors' CFO conference).

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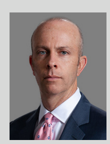

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ABOUT ALVAREZ & MARSAL GLOBAL TRANSACTION ADVISORY GROUP

Alvarez & Marsal (A&M) is a global professional services firm specializing in turnaround and interim management, performance improvement and business advisory services. A&M provides investors and lenders the answers needed to get the deal done. We combine our firm's deep operational, industry and functional resources with Big Four-quality financial accounting and tax expertise to assess key deal drivers and focus on the root cause of any critical deal issues. Our global integrated teams help private equity, sovereign wealth funds, family offices and hedge funds as well as corporate acquirers unlock value across the investment lifecycle.

The firm's Global Transaction Advisory Group includes over 400 professionals in 23 offices throughout the U.S., Latin America, Europe, India and Asia. Our global team has extensive industry knowledge across multiple sectors including, but not limited to, dedicated industry verticals in healthcare, software & technology, energy and financial services.

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