

ASC 606 Investor Presentation



Primary impacts from 606 transition

FY17 & FY18 will be restated under the full retrospective method

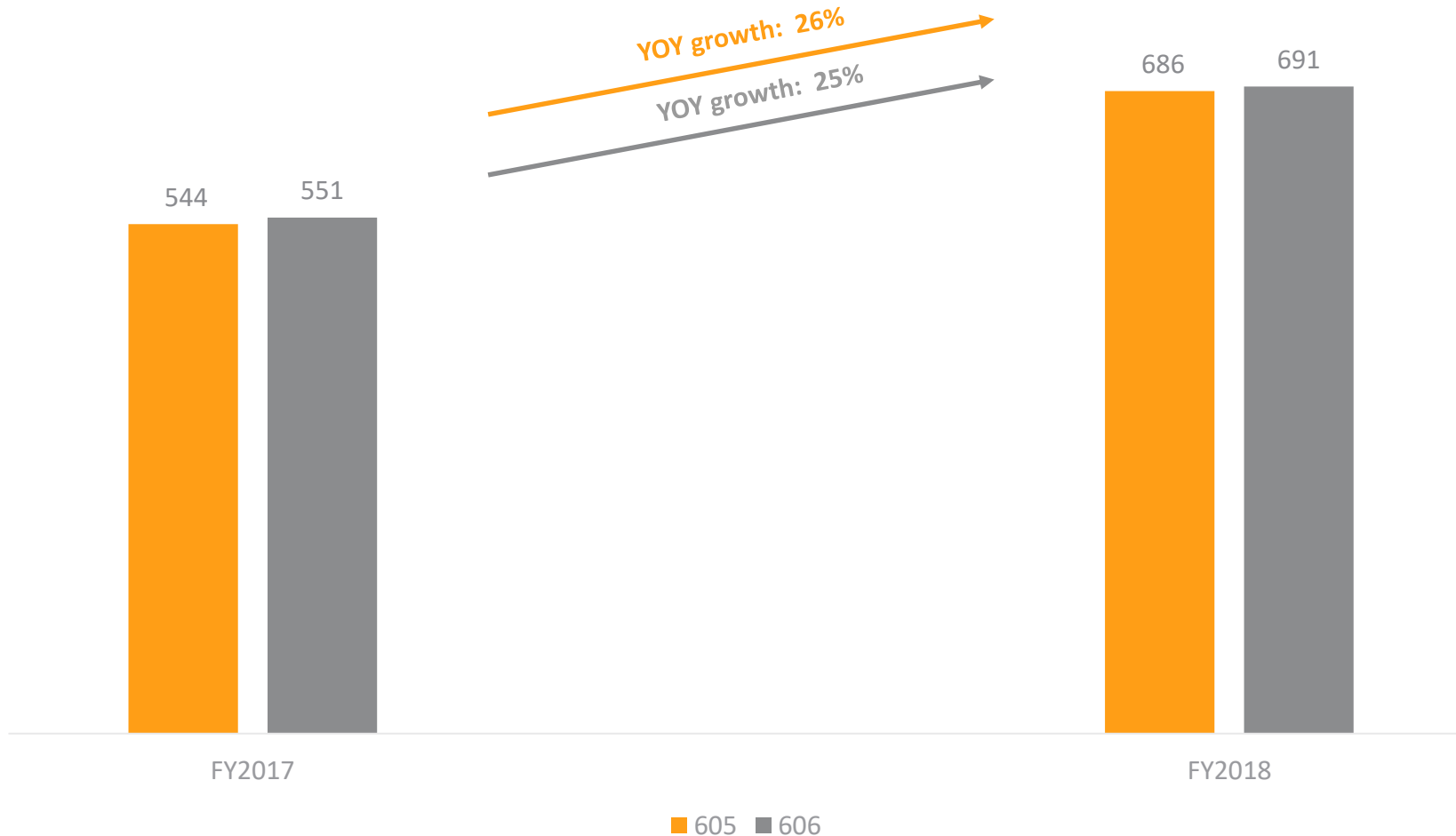
- **Multi-year contracts with ramping fees**: In multi-year arrangements with ramping fees (e.g., Year 1 fees of \$1M, Year 2 fees of \$2M, and Year 3 fees of \$3M), 606 dictates that revenue be recognized equally over each year of the arrangement.
 - Relative to 605, more revenue (which will be unbilled) will be recognized in early years of the arrangement; less revenue in later years.
 - Application of this treatment depends on the terms of the customers' arrangements.
- **Capitalized commissions**: We previously expensed commissions in the period they were incurred. Going forward we will capitalize commissions and amortize over a 3-year term.
- **Calculated billings**: Under 606, the billings calculation will have to change to account for unbilled receivables.
 - New formula → $\text{Calculated billings} = \text{Revenue} + \text{change in deferred revenue} - \text{change in unbilled receivables}$.
 - Using this formula, there is no change to calculated billings.
- **No change to cash flows**

Note: The following pages detail the anticipated impact of ASC 606 to FY17 & FY18 financials. These numbers are subject to change and will be finalized in our Form 10-K.



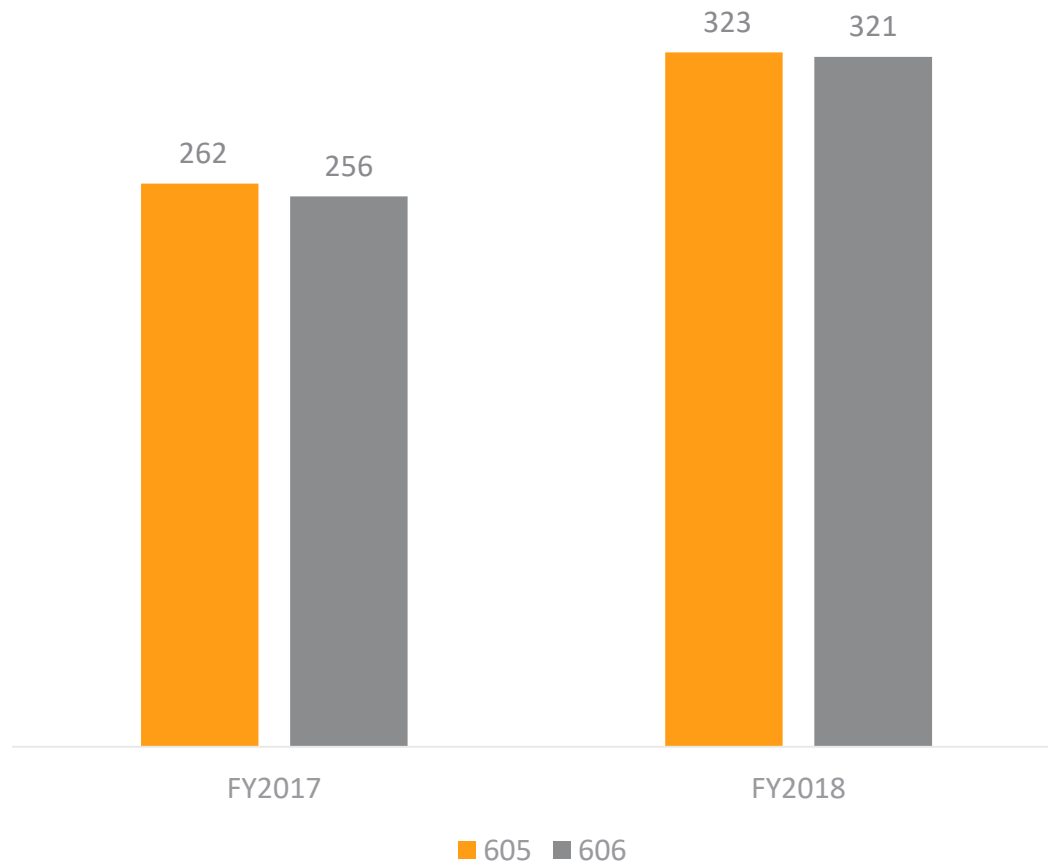
Total revenue (\$M)

All 606 impacts are in subscription revenue; services revenue unchanged

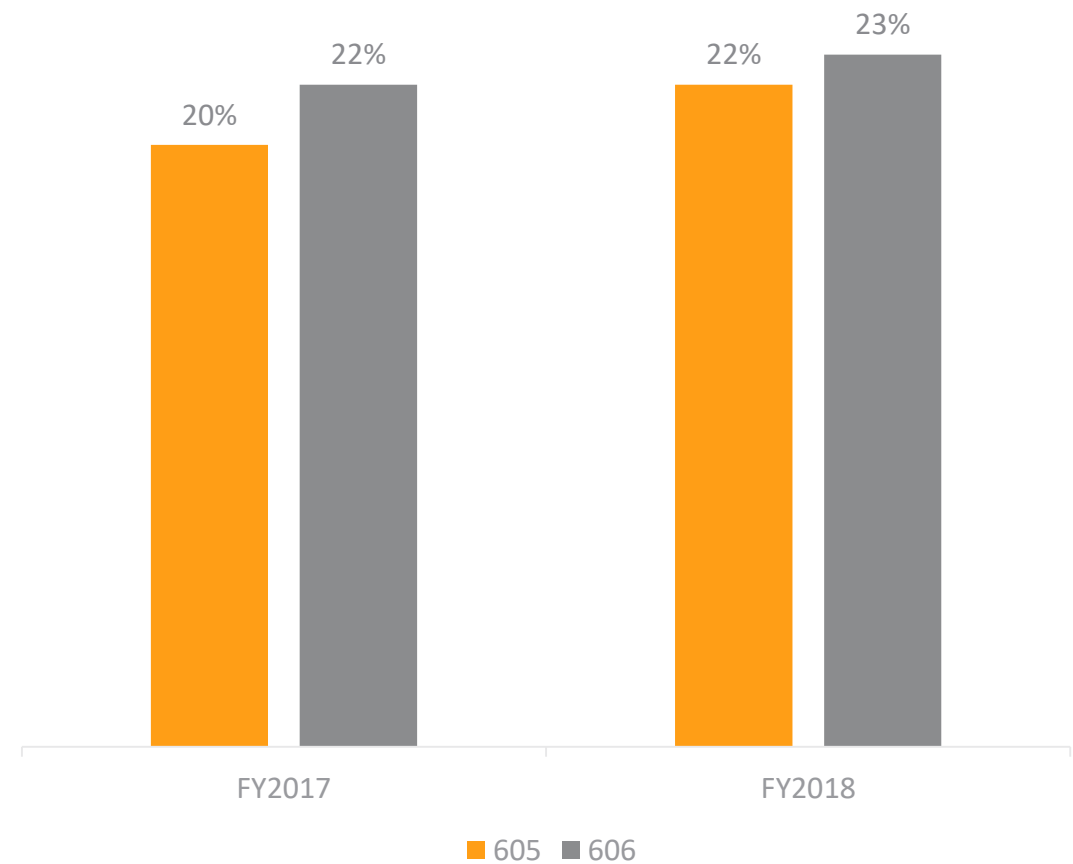


GAAP operating expenses & margin

Operating expenses (\$M)

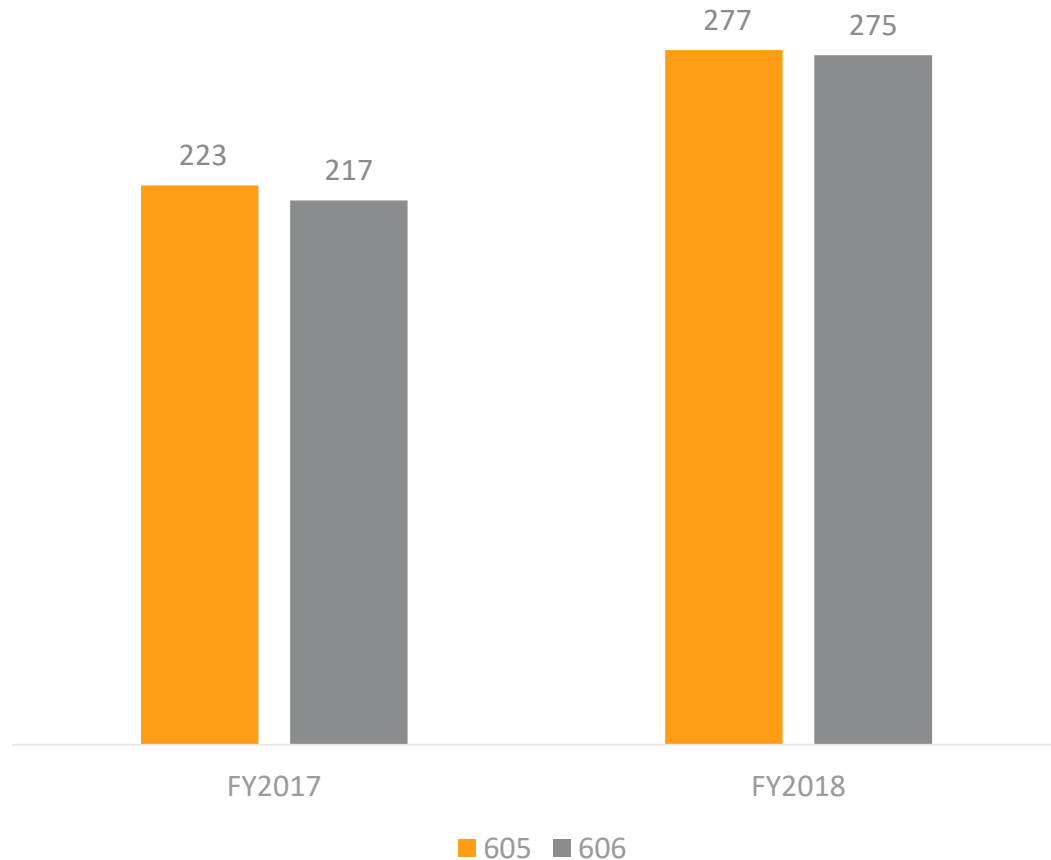


Operating margin (%)

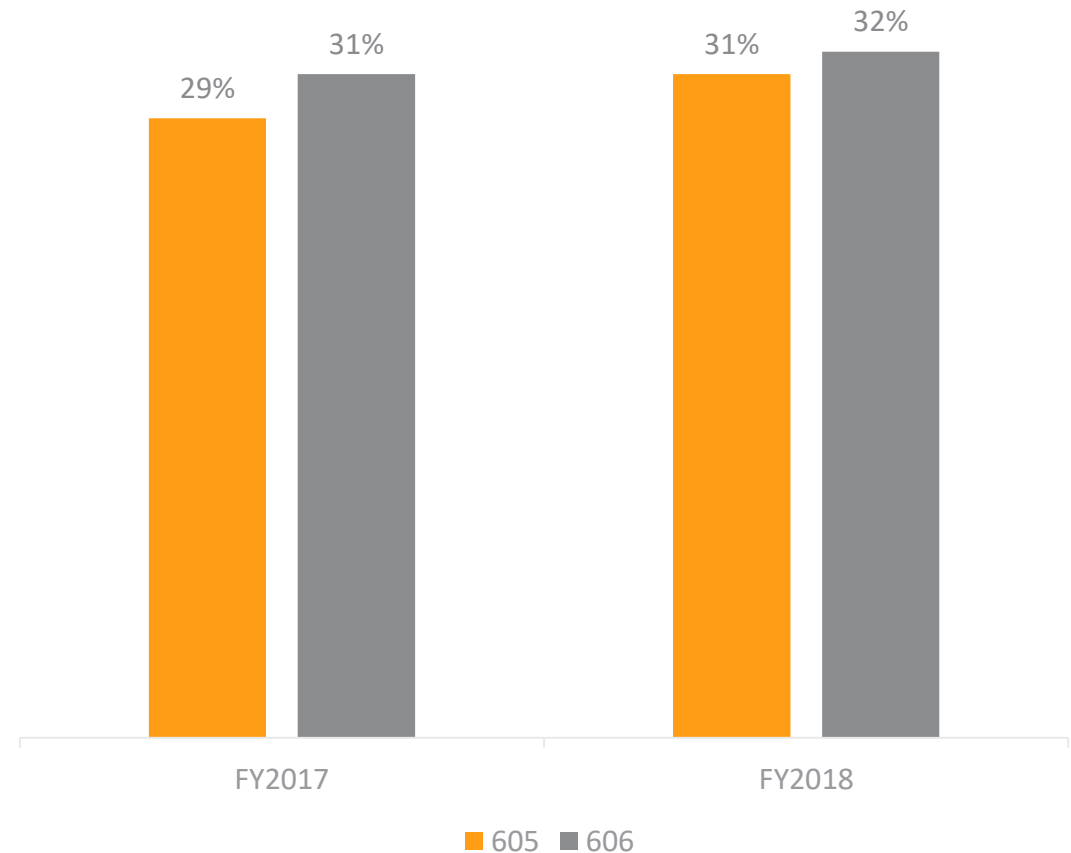


Non-GAAP operating expenses & margin

Non-GAAP operating expenses (\$M)



Non-GAAP operating margin (%)



Note: GAAP to Non-GAAP reconciliation tables available in the Appendix.



Quarterly detail – GAAP

(\$M)	FY'17	Q1'18	Q2'18	Q3'18	Q4'18	FY'18
ASC 605 reported						
Total revenue	\$ 544	\$ 158	\$ 167	\$ 176	\$ 185	\$ 686
GAAP cost of revenue	174	49	51	53	59	212
GAAP opex	262	72	79	81	91	323
GAAP operating profit	\$ 108	\$ 37	\$ 37	\$ 42	\$ 35	\$ 151
% operating margin	20%	24%	22%	24%	19%	22%
GAAP diluted EPS	\$ 0.47	\$ 0.24	\$ 0.25	\$ 0.22	\$ 0.22	\$ 0.92
ASC 606 restated						
Total revenue	\$ 551	\$ 160	\$ 168	\$ 177	\$ 186	\$ 691
GAAP cost of revenue	174	49	51	53	59	212
GAAP opex	256	72	79	81	89	321
GAAP operating profit	\$ 121	\$ 39	\$ 38	\$ 43	\$ 38	\$ 158
% operating margin	22%	24%	23%	24%	20%	23%
GAAP diluted EPS	\$ 0.53	\$ 0.25	\$ 0.25	\$ 0.23	\$ 0.25	\$ 0.97



Quarterly detail – non-GAAP

(\$M)	FY'17	Q1'18	Q2'18	Q3'18	Q4'18	FY'18
<u>ASC 605 reported</u>						
Total revenue	\$ 544	\$ 158	\$ 167	\$ 176	\$ 185	\$ 686
Non-GAAP cost of revenue	162	45	47	49	55	197
Non-GAAP opex	223	62	68	69	78	277
Non-GAAP operating profit	\$ 159	\$ 51	\$ 52	\$ 58	\$ 52	\$ 212
<i>% operating margin</i>	29%	32%	31%	33%	28%	31%
Non-GAAP diluted EPS	\$ 0.73	\$ 0.22	\$ 0.23	\$ 0.25	\$ 0.23	\$ 0.93
<u>ASC 606 restated</u>						
Total revenue	\$ 551	\$ 160	\$ 168	\$ 177	\$ 186	\$ 691
Non-GAAP cost of revenue	162	45	47	49	55	197
Non-GAAP opex	217	62	68	69	76	275
Non-GAAP operating profit	\$ 172	\$ 53	\$ 53	\$ 59	\$ 55	\$ 219
<i>% operating margin</i>	31%	33%	32%	33%	29%	32%
Non-GAAP diluted EPS	\$ 0.79	\$ 0.23	\$ 0.24	\$ 0.25	\$ 0.24	\$ 0.96

Note: GAAP to Non-GAAP reconciliation tables available in the Appendix.



Selected balance sheet items

(\$M)	FY17		FY18	
	ASC 605 reported	ASC 606 restated	ASC 605 reported	ASC 606 restated
Assets				
Unbilled accounts receivable*	\$ 6	\$ 9	\$ 9	\$ 13
Deferred costs, net, noncurrent	—	28	—	30
Deferred income taxes, non-current	<u>16</u>	<u>6</u>	<u>6</u>	<u>—</u>
Liabilities				
Deferred revenue	\$ 214	\$ 209	\$ 275	\$ 267
Deferred income taxes, non-current	<u>13</u>	<u>13</u>	<u>7</u>	<u>10</u>
Stockholders' equity:				
Retained earnings	<u>\$ 213</u>	<u>\$ 238</u>	<u>\$ 355</u>	<u>\$ 388</u>

*Unbilled accounts receivable was previously reported as a component of Accounts Receivable, net, in consolidated balance sheet and prior to the adoption of 606 represented our unbilled professional services revenue for the last month of the fiscal period.





Appendix

Quarterly detail – GAAP to non-GAAP reconciliation

(\$M)	Three Months Ended April 30, 2017		Three Months Ended July 31, 2017		Three Months Ended October 31, 2017		Three Months Ended January 31, 2018	
	As reported	ASC606 restated	As reported	ASC606 restated	As reported	ASC606 restated	As reported	ASC606 restated
	GAAP cost of revenue	\$ 49	\$ 49	\$ 51	\$ 51	\$ 53	\$ 53	\$ 59
Stock-based compensation expense	(2)	(2)	(2)	(2)	(3)	(3)	(3)	(3)
Amortization of purchased intangibles	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Amortization of internal-use software	—	—	—	—	—	—	—	—
Deferred compensation associated with Zinc Ahead acquisition	—	—	—	—	—	—	—	—
Non-GAAP cost of revenue	<u>\$ 46</u>	<u>\$ 46</u>	<u>\$ 48</u>	<u>\$ 48</u>	<u>\$ 49</u>	<u>\$ 49</u>	<u>\$ 55</u>	<u>\$ 55</u>
GAAP operating expenses	\$ 72	\$ 72	\$ 79	\$ 79	\$ 81	\$ 81	\$ 91	\$ 89
Stock-based compensation expense	(10)	(10)	(11)	(11)	(11)	(11)	(12)	(12)
Amortization of purchased intangibles	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)
Capitalization of internal-use software	—	—	—	—	—	—	—	—
Amortization of internal-use software	1	1	—	—	—	—	—	—
Deferred compensation associated with Zinc Ahead acquisition	—	—	—	—	—	—	—	—
Non-GAAP operating expenses	<u>\$ 62</u>	<u>\$ 62</u>	<u>\$ 67</u>	<u>\$ 67</u>	<u>\$ 69</u>	<u>\$ 69</u>	<u>\$ 78</u>	<u>\$ 76</u>
GAAP operating profit	\$ 37	\$ 39	\$ 37	\$ 38	\$ 42	\$ 43	\$ 35	\$ 38
Stock-based compensation expense	12	12	13	13	14	14	15	15
Amortization of purchased intangibles	2	2	2	2	2	2	2	2
Capitalization of internal-use software	(1)	(1)	—	—	—	—	—	—
Amortization of internal-use software	—	—	—	—	—	—	—	—
Deferred compensation associated with Zinc Ahead acquisition	—	—	—	—	—	—	—	—
Non-GAAP operating profit	<u>\$ 50</u>	<u>\$ 52</u>	<u>\$ 52</u>	<u>\$ 53</u>	<u>\$ 58</u>	<u>\$ 59</u>	<u>\$ 52</u>	<u>\$ 55</u>
GAAP operating margin	24%	24%	22%	23%	24%	24%	19%	20%
Stock-based compensation expense	7	7	8	8	8	8	8	8
Amortization of purchased intangibles	1	1	1	1	1	1	1	1
Capitalization of internal-use software	—	—	—	—	—	—	—	—
Amortization of internal-use software	—	—	—	—	—	—	—	—
Deferred compensation associated with Zinc Ahead acquisition	—	—	—	—	—	—	—	—
Non-GAAP operating margin	<u>32%</u>	<u>32%</u>	<u>31%</u>	<u>32%</u>	<u>33%</u>	<u>33%</u>	<u>28%</u>	<u>29%</u>
GAAP diluted EPS	\$ 0.24	\$ 0.25	\$ 0.25	\$ 0.25	\$ 0.22	\$ 0.23	\$ 0.22	\$ 0.25
Stock-based compensation expense	0.08	0.08	0.09	0.09	0.09	0.09	0.10	0.10
Amortization of purchased intangibles	0.01	0.01	—	—	0.01	0.01	0.01	0.01
Capitalization of internal-use software	—	—	—	—	—	—	—	—
Amortization of internal-use software	—	—	—	—	—	—	—	—
Deferred compensation associated with Zinc Ahead acquisition	—	—	—	—	—	—	—	—
Income tax effect of non-GAAP adjustments	(0.11)	(0.11)	(0.11)	(0.11)	(0.07)	(0.08)	(0.10)	(0.11)
Non-GAAP diluted EPS	<u>\$ 0.22</u>	<u>\$ 0.23</u>	<u>\$ 0.23</u>	<u>\$ 0.23</u>	<u>\$ 0.25</u>	<u>\$ 0.25</u>	<u>\$ 0.23</u>	<u>\$ 0.25</u>



Fiscal year detail – GAAP to non-GAAP reconciliation

(\$M)	Fiscal Year Ended January 31, 2017		Fiscal Year Ended January 31, 2018	
	As reported	ASC606 restated	As reported	ASC606 restated
GAAP cost of revenue	\$ 174	\$ 174	\$ 212	\$ 212
Stock-based compensation expense	(7)	(7)	(10)	(10)
Amortization of purchased intangibles	(4)	(4)	(4)	(4)
Amortization of internal-use software	(1)	(1)	(1)	(1)
Deferred compensation associated with Zinc Ahead acquisition	—	—	—	—
Non-GAAP cost of revenue	<u>\$ 162</u>	<u>\$ 162</u>	<u>\$ 197</u>	<u>\$ 197</u>
GAAP operating expenses	\$ 262	\$ 256	\$ 323	\$ 321
Stock-based compensation expense	(33)	(33)	(44)	(44)
Amortization of purchased intangibles	(4)	(4)	(4)	(4)
Capitalization of internal-use software	—	—	2	2
Amortization of internal-use software	1	1	—	—
Deferred compensation associated with Zinc Ahead acquisition	(3)	(3)	—	—
Non-GAAP operating expenses	<u>\$ 223</u>	<u>\$ 217</u>	<u>\$ 277</u>	<u>\$ 275</u>
GAAP operating profit	\$ 108	\$ 121	\$ 151	\$ 158
Stock-based compensation expense	41	41	54	54
Amortization of purchased intangibles	8	8	8	8
Capitalization of internal-use software	(1)	(1)	(1)	(1)
Amortization of internal-use software	1	1	—	—
Deferred compensation associated with Zinc Ahead acquisition	3	3	—	—
Non-GAAP operating profit	<u>\$ 160</u>	<u>\$ 173</u>	<u>\$ 212</u>	<u>\$ 219</u>
GAAP operating margin	20%	22%	22%	23%
Stock-based compensation expense	7	7	8	8
Amortization of purchased intangibles	2	2	1	1
Capitalization of internal-use software	—	—	—	—
Amortization of internal-use software	—	—	—	—
Deferred compensation associated with Zinc Ahead acquisition	—	—	—	—
Non-GAAP operating margin	<u>29%</u>	<u>31%</u>	<u>31%</u>	<u>32%</u>
GAAP diluted EPS	\$ 0.47	\$ 0.53	\$ 0.92	\$ 0.97
Stock-based compensation expense	0.27	0.27	0.36	0.36
Amortization of purchased intangibles	0.06	0.06	0.05	0.05
Capitalization of internal-use software	—	—	(0.01)	(0.01)
Amortization of internal-use software	—	—	—	—
Deferred compensation associated with Zinc Ahead acquisition	0.02	0.02	—	—
Income tax effect of non-GAAP adjustments	(0.09)	(0.09)	(0.39)	(0.41)
Non-GAAP diluted EPS	<u>\$ 0.73</u>	<u>\$ 0.79</u>	<u>\$ 0.93</u>	<u>\$ 0.96</u>

