

Post Customer Support Analysis

The Challenge

Recent changes to Revenue Recognition (ASC-606) have created issues for software companies, especially those offering on-premise, one-time license payment terms. Despite the rapidly increasing SaaS deployment of software, term licenses represent a significant portion of software revenue and are likely to do so in critical markets that value on-premise software.

In order to provide the appropriate accounting for on-going Post Contract Support (“PCS”) as well as customary updates, improvements, and bug fixes, Granite’s client needed to get a detailed and accurate view of the value of promised services and support as separate for the core software license.

The appropriate selling price for qualifying PCS, including certain updates, improvements and bug fixes that are delivered ratably can be recognized over the license term, even in cases where the new revenue recognition requires the software-specific license fee be recognized at the single point in time in which the software is deployed.

The Solution

Granite adapted the approaches used to value acquired liabilities, such as deferred revenue, to the client’s needs. This leveraged the existing best practices, methods, inputs, assumptions, and available data.

A detailed understanding of the specific promises made at the time of sale, the cost to deliver on those promises and the specific mark-up applicable to each type of expense were developed. Along with an assessment of the appropriate risk of each work stream a hypothetical selling price for the stand-alone PCS was estimated.

These values were tested against comparable margins and cost structures of public companies to assess reasonableness and a final recommendation was provided in terms of both a unit cost and as a percentage of the total license fee.

These values can be used by Granite’s client to recognize the revenue over time as the services are delivered.

The Benefit

This approach leverages the existing best practices, methods, inputs, assumptions, and available data. Granite was able to help the client address a new issue and provide detailed support for a critical revenue recognition assumption while at the same time providing well understood and accepted reasoning to the Company’s external auditors.

Granite Valuations helps companies facing challenging financial reporting and tax valuations, transactions and business planning and analysis matters. The team’s experience as investors, operators, and advisors means Granite’s clients receive high quality advice and deliverables tailored to their needs. Granite’s Managing Directors are directly involved in all phases of the work and personally deliver efficient, high quality, timely and informed advice to their clients. The goal is to provide the greatest value for fee in all of Granite’s engagements.