CONNECTIONS SUMMIT

Who Pays for This?
Strategies for IT Financing

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ELECTRICITIES of NORTH CAROLINA, INC.

Paying for IT

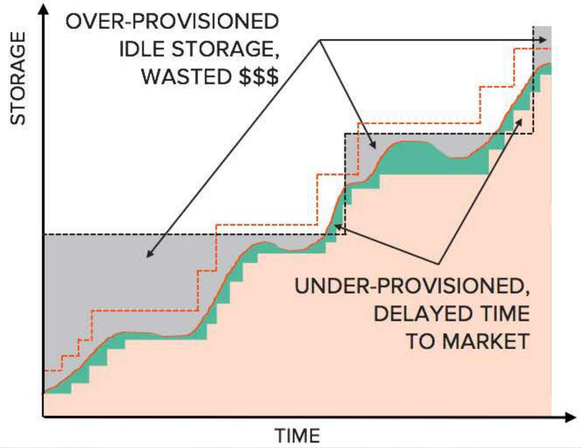
Traditional capital allocation hurdles are transitioning

- Software subscriptions are more prevalent
- Equipment manufacturers are unbundling software/hardware
- Manufacturers and 3rd parties managing more risk for usage based billing
- On premises hosting is more flexible
- Cloud consumption economics are driving most new workloads

Benefits of paying over time

Costs aligned with actual use

- Capital allocations are lumpy and forecasting/planning is critical to budget cycles
- Paying over time helps create recurring expense budgeting, mitigating fully depreciated asset trap (you're stuck with something just because it's paid for)
- Usage based models even with a premium can be cheaper with flexibility
- Usage models mitigate stranded costs or waste
- Paying over time allows for easier incremental spend
- Financing costs are low, and can lock that in over time



Traditional Tools

Operating or Capital Leases and Subscription programs

- Accounting rules around leases have been updated FASB 13 now ASC 842
  - Addresses many imbedded lease type arrangements
  - On premises assets focus on right to direct use and economic benefit

- Many 3rd parties can now "buy and hold" licenses and rent them to an End User
  - Allows leasing companies to offer custom licensing use models
  - Helps transition from perpetual model to operating SaaS model

Usage based models – best practices

Limit risk you're asking the provider to manage

- Identify billing metric based on how you run your operation
- No commitment = more risk = price premium is high
- Commit where reasonable, and pay the premium for only the variable
- Technology risk (data reduction/dedupe) should be considered

OEM programs have to be rigid – consider 3rd parties

- Custom programs can hit all the value marks
- Digest existing equipment
- More flexibility and inclusive

Usage – best practices continued

Watch the exit strategy

- Several programs require “extensions” of entire contract for modest add-ons
- Typical “last 12 months” add-on may require renegotiate is industry norm
- Identify up front the cost to migrate/switch if needed

Accounting considerations

- On premises deals you may lose the ability to direct the usage of any asset
- Contracts should be for capacity not for servers or storage arrays

OEMs – why ELAs are paramount

Enterprise License Agreements - ELAs

- Revenue recognition accounting rules are very rigid – ELAs can be more creative
- ELAs trade commitment for reduced pricing, and accelerate revenue recognition
- Ask how OEM does revenue recognition – if annual, more flexibility options
- ELAs keep competitors out and help seed new products as free trials included
- Some have scale down and convertible options at the end if requested

How you should take advantage

- Included access to items/skus you may not normally get approved to buy
- Term ELA may be considered prepaid expense – many times nothing is owned at the end

OEMs – Subscription vs Perpetual

Valuation

- Many newer software vendors find the subscription "backlog" is highly valued
- Perpetual growth is a function of market penetration – hard for mature products

Transitioning from Perpetual to Subscription

- OEMs struggle with revenue recognition and sales compensation
- Customers need to identify their real breakeven price point
  - Is breakpoint longer than book depreciation, or longer than expected use?
  - Really look at "overbuying" cost vs actual use subscription premium
  - TCO for perpetual needs to have all hidden costs captured to compare

Financing – IT enablement

Get more with less

- Simple way to start more comprehensive projects sooner
- Some ELAs can imbed success resources – with plan identified up front
- Operating expense lets you increment/grow in smaller bites – mitigating risk

New capabilities presented

- Similar to cloud on/off, subscriptions and usage based expense enable options
- Ability to start off at much smaller increments – enabling transitions now

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