BEHIND
THE NUMBERS
Quality of Earnings Analysis

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Software Sales Commissions and Earnings Quality

How accounting for contract costs is impacting the earnings of 70 big software names

We are continuing our review of the software industry with a look at accounting for costs to obtain contracts. Selling software is a very time-consuming and expensive process. Commissions paid to sales staff typically comprise the lion's share of these costs, but they may also include legal fees, travel and dining, and setup/customization costs.

While these all represent major upfront cash outflows, the contract they result in will benefit the firm over time. Therefore, a company is allowed to capitalize amounts that are deemed "incremental to the contract" meaning that they would not have been incurred if the contract had not been obtained. These amounts are then amortized over the period that the sales contract is expected to benefit the company. Consider the disclosure on deferred commissions from Samsara's (IOT) 2022 10-K:

> *"Deferred Commissions—The Company capitalizes commissions paid to sales employees and the related payroll taxes, as well as commissions paid to referral partners, when customer contracts are signed. These costs are recorded as deferred commissions on the consolidated balance sheets. The Company determines whether costs should be deferred based on its sales compensation plans and if the commissions are incremental and would not have been incurred absent the execution of the customer contract. The Company amortizes sales commissions paid on the initial contract over an expected period of benefit, which the Company has determined to be five years. The Company has determined the period of benefit by taking into consideration its customer contracts and the duration of its relationships with its customers and the life of its technology. Commissions paid upon the renewal of a contract are amortized as expense ratably over the renewal term. Amortization of these costs is included in sales and marketing expense on the consolidated statements of operations and comprehensive loss."*

We do not have a problem with the practice of capitalizing contract costs in the spirit of matching the timing of expenses and the recognition of revenue. However, whenever a company deviates from cash accounting, it introduces the potential for earnings quality distortions. Under cash accounting, commissions would be expensed immediately. By delaying the recognition of the expense, EPS is boosted. We have yet to see a software company adding the amortization of sales commissions back to non-GAAP earnings (yet), so in virtually all cases, these amounts impact non-GAAP earnings as well.

When the company matures and growth normalizes, the amortization of old commissions will approximate the payment of new commissions. However, when growth is high, commissions paid will far exceed the amortization of older commissions which will inflate earnings. As we will see, this effect is more than capable of generating the bulk of EPS for a software company growing rapidly, especially when it utilizes a longer amortization period. It also can play a role in beating earnings forecasts when the payment of commissions jumps unexpectedly.

Analysts should consider the following factors when assessing how accounting for contract costs is impacting their companies' earnings:

- **A longer benefit period means less reliable and more volatile earnings**

  Benefit periods are based on estimates and assumptions and typically range between 3-5 years. It is very important to realize that, as explained in the IOT policy above, the benefit period is not simply how long the contract runs but rather is an estimate of how long the relationship that resulted from the sales effort will benefit the company. In most cases, the benefit period is significantly longer than the initial contract term as it includes an allowance for expected future renewals of the contract.

  The intangible nature of these deferred costs becomes apparent when companies are forced to write down their carrying value because of cancellations or changing business conditions. This is a regular occurrence in the industry. Therefore, amortization of contract costs for companies with 4-5 year terms deserves closer scrutiny than those being amortized over 2-3 years.

  As an example, **Cloudflare (NET)** and **Freshworks (FRSH)** utilize a more conservative 3-year benefit period with NET producing a steady 2-3 cents in EPS from this source while FRSH is producing virtually nothing. In contrast, **Palo Alto Networks (PANW) and**

Elastic (ESTC) use 5-year benefit periods. PANW has seen this EPS source swing from -12 cents to 19 cents in recent quarters while ESTC has seen it swing between 3 and 17-cents.

- **Longer benefit periods are a double-edged sword**

  While longer benefit periods mean less expense is recognized, that expense will stick around longer. When the company is growing rapidly, it will be paying out more in cash commissions than it is recognizing in contract amortization expense. However, the amortization of commissions from earlier deals is a fixed cost that will linger into the future. If the pace of signing up new deals slows, cash commissions will fall while amortization will remain high for the rest of the benefit period. This may lead to an effective drag on earnings where the company is recognizing more expense than it is paying out in cash.

  For example, **Teradata (TDC)** was regularly beating forecasts by a significant margin. However, in the last three quarters, the impact of deferring commissions turned into an EPS ***headwind*** of -4, -8, and -8 cents in the September, June, and March quarters, respectively. In that time, TDC reported earnings in line with estimates twice and only beat once by 3 cents. Similarly, **Salesforce (CRM)** routinely beats estimates by 20-30 cents. However, in the October quarter, the beat was only 5 cents when the commission accounting headwind was 19 cents and in the April quarter, the beat was only 8 cents when the headwind was 20 cents.

- **The benefit of delaying commission expenses can be material**

  When a software company is growing rapidly and the signing of new deals results in huge commission spending, the gap between cash spent and older commissions amortized can be huge relative to reported earnings. We also believe this can impact whether a company beats or misses earnings forecasts. For example, **Samsara (IOT)** routinely beats estimates by 3 cents, but the spread between cash commissions and amortization is routinely 2 cents. Likewise, **WorkDay (WDAY)** beat estimates by 12 cents last quarter but gained 10 cents from this source. Note that both utilize benefit periods of 5 years.

- **Commissions can also be an early indicator of accelerating or decelerating growth.**

  When the level of capitalized commissions jumps, it should indicate healthy business activity in the form of new deals and/or renewals.

- **Normally renewals are amortized more quickly – over 1-2 years vs. new customer contracts at 3-5 years.**

  Sometimes you can see what is happening by looking at the changes in amortization and the amount capitalized over time. New customer commissions and costs tend to be higher than any commissions paid on renewals. This would drive up both the amount capitalized and the total accrual. However, the longer amortization period would mute the impact on the expense.

  To illustrate with some numbers, if a new contract has $50,000 in costs that are capitalized over five years, it has $2,500 per quarter in amortization, or 5% of the total accrual. However, a renewal may have an $8,000 commission but is amortized over the one-year life of that contract. That is $2,000 in amortization per quarter or 25% of the accrual. So having more new contracts makes the amortization as a percentage of the total accrual go down. Having more renewals makes the amortization percentage rise.

For this report, we examined 70 software companies with market capitalizations of more than $5 billion and highlighted four different groups:

- Companies where the earnings benefit of deferring commissions represents a material amount of reported earnings

- Ones that may be about to face earnings headwinds from a decline in benefit from deferring commissions

- Ones that may be about to enjoy a positive inflection point where falling accruals are leading to lower amortization relative to the new commissions being deferred

- Ones where amortization is falling relative to deferred commissions which may indicate that new contracts are rising in the mix of new business.

Note that the tables below refer to the amounts that companies have capitalized each quarter. While a couple of these companies disclose the amounts capitalized, in virtually all cases below we backed into the number using the beginning and ending deferred balances and the amortization expense. While this may not always be 100% accurate given the possibility of undisclosed adjustments to the value of the deferred commission balance, we believe the numbers are more than accurate for this exercise.

Companies where the benefit of deferring commissions is a material part of their low non-GAAP EPS

We discussed in the introduction how the benefit of deferring commissions can comprise a material amount of earnings, particularly for younger, faster-growing companies that are reporting no or small amounts of earnings. Below we identify eight companies where the EPS benefit is a material part of both recent earnings and earnings beats.

		Q-0	Q-1	Q-2	Q-3	Q-4	Q-5
BRZE	Amortization	$7,743	$7,281	$6,660	$6,391	$6,264	$5,577
Amort. Period	Capitalized	$11,538	$11,508	$9,438	$9,178	$6,656	$6,361
4 years	EPS Impact	$0.04	$0.04	$0.03			
	Non-GAAP EPS	-$0.05	-$0.04	-$0.13	-$0.14	-$0.15	-$0.16
	EPS Beat	$0.08	$0.10	$0.05			
CFLT	Amortization	$11,923	$11,053	$10,484	$10,286	$9,658	$8,925
Amort. Period	Capitalized	$15,608	$13,806	$10,160	$20,722	$19,354	$10,643
3 years	EPS Impact	$0.01	$0.01	$0.00			
	Non-GAAP EPS	$0.02	$0.00	-$0.09	-$0.09	-$0.13	-$0.16
	EPS Beat	$0.03	$0.06	$0.05			
ESTC	Amortization	$18,380	$17,572	$17,405	$15,821	$18,230	$17,444
Amort. Period	Capitalized	$21,169	$21,451	$34,060	$27,896	$21,836	$18,753
5 years	EPS Impact	$0.02	$0.04	$0.17			
	Non-GAAP EPS	$0.37	$0.25	$0.22	$0.17	$0.00	-$0.15
	EPS Beat	$0.13	$0.14	$0.12			
GTLB	Amortization	$10,447	$10,070	$10,549	$12,265	$11,075	$10,805

Amort. Period	Capitalized	$12,935	$9,775	$8,523	$16,559	$11,321	$10,622
3 years	EPS Impact	$0.02	$0.00	-$0.01			
	Non-GAAP EPS	$0.09	$0.01	-$0.06	-$0.03	-$0.10	-$0.15
	EPS Beat	$0.10	$0.04	$0.08			

GWRE	Amortization	$4,064	$4,966	$4,403	$4,107	$4,490	$4,736
Amort. Period	Capitalized	$2,064	$10,966	$3,503	$4,807	$1,655	$5,459
5 years	EPS Impact	-$0.02	$0.07	-$0.01			
	Non-GAAP EPS	$0.00	$0.74	-$0.08	-$0.21	-$0.12	$0.03
	EPS Beat	$0.18	$0.37	$0.06			

IOT	Amortization	$11,865	$12,942	$13,469	$13,123	$12,477	$12,331
Amort. Period	Capitalized	$20,075	$22,502	$16,987	$25,077	$16,599	$16,406
5 years	EPS Impact	$0.02	$0.02	$0.01			
	Non-GAAP EPS	$0.04	$0.01	-$0.02	-$0.02	-$0.02	-$0.04
	EPS Beat	$0.03	$0.03	$0.03			

S	Amortization	$12,436	$11,523	$10,740	$10,546	-$6,661	$24,557
Amort. Period	Capitalized	$17,018	$18,180	$12,092	$23,126	-$1,124	$29,940
4 years	EPS Impact	$0.02	$0.02	$0.00			
	Non-GAAP EPS	-$0.03	-$0.08	-$0.15	-$0.13	-$0.16	-$0.20
	EPS Beat	$0.05	$0.06	$0.02			

SMAR	Amortization	$14,061	$12,949	$11,429	$10,381	$9,145	$14,490
Amort. Period	Capitalized	$19,864	$20,139	$18,702	$22,128	$18,445	$21,098
4 years	EPS Impact	$0.04	$0.05	$0.05			
	Non-GAAP EPS	$0.16	$0.16	$0.19	$0.07	-$0.01	-$0.10
	EPS Beat	$0.07	$0.09	$0.11			

- **Braze (BRZE)** is still losing money. EPS has been -$0.14 to -$0.05 in the last four quarters. It is beating forecasts, but 3-4 cents of income from commissions is likely enough to change the market's view of BRZE if it reports a weak quarter.

- **Confluent (CFLT)** has turned profitable with EPS of 2 cents last quarter. The 1-cent impact of commission accounting is material. It appears that growth is picking up again – notice that CFLT had a nearly $10 million spread between new commissions and amortization four and five quarters ago. That dropped to zero and is now widening again.

- **Elastic (ESTC)** is making money and EPS is growing. It has ranged from 17 cents to 37 cents in the last four quarters. However, commissions were worth 17 cents in EPS only three quarters ago.

- **GitLab (GTLB)** is beating estimates by a wide margin. However, actual non-GAAP EPS has been between -6 cents and 9 cents in the last four quarters. It may be growing past this stage, but 1-3 cents deferral of commissions is a material percentage of earnings.

- **Guidewire Software (GWRE)** has earnings all over the board from -14 cents to 74 cents in the last four quarters. Also, look at the swings in new commissions being capitalized. This is creating a source of headwind or tailwind with rapid changes.

- **Samsara (IOT)** is routinely beating by 3 cents as it gets 2 cents from commission income. EPS has turned positive but from -2 cents to only 4 cents in the last four quarters. A penny is material to IOT's results in our view.

- **SentinelOne (S)** is seeing EPS improve but it remains negative ranging from -13 cents to -3 cents in the last four quarters. Getting 2 cents in EPS in this area is material and notice that four quarters ago the spread was worth over 4 cents. This can still produce some wide swings for S.

- **Smartsheet (SMAR)** earned 16 cents in the last two quarters. It is picking up 4-5 cents from commission accounting. Only four quarters ago, commission accounting was worth 8 cents.

Companies that may be about to face earnings headwinds from

Below are 9 companies that could see the beneficial impacts of tailwinds from deferring commissions wane in upcoming quarters.

Company		Q-0	Q-1	Q-2	Q-3	Q-4	Q-5
ADSK	Total Accrual	$151,000	$120,000	$128,000	$133,000	$105,000	$116,000
	Amortization	$34,000	$33,000	$30,000	$36,000	$35,000	$33,000
	Capitalized	$65,000	$25,000	$25,000	$64,000	$24,000	$24,000
	EPS Impact	$0.14	-$0.04	-$0.02			
	EPS Beat	$0.08	$0.18	-$0.01			
CFLT	Total Accrual	$110,398	$106,713	$103,960	$104,284	$93,848	$84,152
	Amortization	$11,923	$11,053	$10,484	$10,286	$9,658	$8,925
	Capitalized	$15,608	$13,806	$10,160	$20,722	$19,354	$10,643
	EPS Impact	$0.01	$0.01	$0.00			
	EPS Beat	$0.03	$0.06	$0.05			
CRM	Total Accrual	$3,951,000	$4,133,000	$4,278,000	$4,473,000	$3,850,000	$3,898,000
	Amortization	$482,000	$476,000	$470,000	$443,000	$423,000	$408,000
	Capitalized	$300,000	$331,000	$275,000	$1,066,000	$375,000	$505,000
	EPS Impact	-$0.19	-$0.15	-$0.20			
	EPS Beat	$0.05	$0.22	$0.08			
CRWD	Total Accrual	$483,075	$458,685	$441,298	$447,088	$380,895	$350,566
	Amortization	$60,281	$57,555	$55,322	$49,258	$43,996	$39,962
	Capitalized	$84,671	$74,942	$49,532	$115,451	$74,325	$57,586
	EPS Impact	$0.10	$0.07	-$0.02			
	EPS Beat	$0.08	$0.18	$0.07			
ESTC	Total Accrual	$158,360	$155,571	$151,692	$135,037	$122,962	$119,356
	Amortization	$18,380	$17,572	$17,405	$15,821	$18,230	$17,444
	Capitalized	$21,169	$21,451	$34,060	$27,896	$21,836	$18,753
	EPS Impact	$0.03	$0.04	$0.17			
	EPS Beat	$0.13	$0.14	$0.12			
MDB	Total Accrual	$269,600	$256,900	$249,800	$252,400	$233,200	$219,900
	Amortization	$26,100	$23,600	$23,100	$21,700	$20,800	$18,900
	Capitalized	$38,800	$30,700	$20,500	$40,900	$34,100	$30,700
	EPS Impact	$0.18	$0.10	-$0.04			
	EPS Beat	$0.46	$0.48	$0.37			
NOW	Total Accrual	$1,224,000	$1,178,000	$1,169,000	$1,111,000	$980,000	$963,000
	Amortization	$115,000	$112,000	$106,000	$97,000	$92,000	$86,000
	Capitalized	$161,000	$121,000	$164,000	$228,000	$109,000	$72,000
	EPS Impact	$0.22	$0.04	$0.28			
	EPS Beat	$0.37	$0.32	$0.33			
WDAY	Total Accrual	$639,841	$614,364	$597,949	$612,042	$530,724	$519,002

	Amortization	$54,450	$52,094	$48,888	$48,096	$44,830	$42,258
	Capitalized	$79,927	$68,509	$34,795	$129,414	$56,552	$64,742
	EPS Impact	$0.10	$0.06	-$0.05			
	EPS Beat	$0.12	$0.17	$0.19			
ZS	Total Accrual	$372,803	$375,234	$336,200	$315,151	$301,472	$297,002
	Amortization	$30,111	$27,350	$25,315	$23,728	$22,325	$19,738
	Capitalized	$27,680	$66,384	$46,364	$37,407	$26,795	$47,937
	EPS Impact	-$0.02	$0.27	$0.14			
	EPS Beat	$0.18	$0.15	$0.05			

- **Autodesk (ADSK)** we mentioned earlier in the introduction. Its results look seasonal where there is a surge in new commissions once a year and for the rest of the year, the amortization is greater than new commissions setting up an EPS headwind. If it is indeed seasonal, then the big source of income is likely to vanish this quarter. If it's not seasonal, they have a very tough sequential comp to match against. Last quarter, ADSK beat by 8 cents with 14 cents coming from commission accounting. It now has a larger total accrual which should boost amortization expense. If new commissions drop off again, this headwind could not only generate negative EPS, it could be larger than the -4 cents seen recently.

- **Confluent (CFLT)** earns only 2 cents in quarterly EPS and is picking up 1 cent in this area. It already has amortization expense rising at 8% sequentially and new commissions have bounced higher for two quarters now. It would only take a small drop in new commissions to erase the penny CFLT is earning here, which is half its earnings.

- **Salesforce (CRM)** saw its accrual peak several quarters ago and has been steadily declining. New contracts have been weaker for several quarters too giving CRM a 19-20 cent headwind for EPS. It only beat forecasts by 5 cents last quarter. This headwind could last another quarter or two. After that, CRM may benefit as the lower total accrual will reduce the amortization expense. Also, it uses a faster amortization period of 4 years for new business, which should help speed that transition.

- **Crowdsource (CRWD)** beat by only 8 cents while drawing 10 cents in EPS from deferring commissions last quarter. That required a surge in new contracts – but CRWD's history shows new contract figures are very lumpy. The big jump last quarter boosted the accrual which will pull the amortization figure higher too. The 10-cent tailwind could drop meaningfully and was a 2-cent headwind only two quarters ago.

- **Elastic (ESTC)** has seen its total accrual stagnate in recent quarters with very modest growth. That is still pulling up the amortization, but there isn't much income coming from this area. It would not take much to swing this from 3 cents of income into an EPS drag. It was a 17-cent benefit only two quarters ago.

- **MongoDB (MDB)** looks like there is some seasonality with one quarter showing an outsized level of new commissions. They just had it again in a quarter where MDB picked up 18 cents from commission income. The y/y numbers are weaker but the accrual keeps rising and boosting the amortization. The amortization is rising as a percentage of the growing accrual too. MDB could see lower commission income in the future.

- **ServiceNow (NOW)** makes sizeable EPS of $2-$3 per quarter so a few pennies of unsustainable EPS wouldn't scare us. However, NOW seems to bounce between huge income from commission income of 20-30 cents in a quarter or almost nothing. We expect the amortization figure to rise faster after several strong new contract periods grew the total accrual.

- **Workday (WDAY)** is seeing the size of its beat get smaller as the amount of commission income rises. Last quarter saw a 12-cent beat with 10-cent from commissions. That's much lower quality than two quarters ago with a 19-cent beat despite a 4-cent headwind.

- **Zscaler (ZS)** had seen strong growth in the accrual, which suddenly declined last quarter. Recent contract growth has not been strong except for two quarters ago. Historically, commission income provided solid income for ZS and last quarter was the first headwind.

Companies that may be reaching a positive inflection point

Below are 6 companies that could see the gap between commissions deferred and amortization fall or even turn positive in upcoming quarters.

Company		Q-0	Q-1	Q-2	Q-3	Q-4	Q-5
DBX	Total Accrual	$47,800	$50,800	$54,700	$59,300	$61,100	$62,700
	Amortization	$9,400	$10,100	$10,700	$0	$10,200	$9,700
	Capitalized	$6,400	$6,200	$6,100	-$1,800	$8,600	$8,400
	EPS Impact	-$0.01	-$0.01	-$0.01			
	EPS Beat	$0.07	$0.06	$0.06			
INFA	Total Accrual	$208,748	$209,820	$212,209	$217,804	$169,537	$172,036
	Amortization	$18,860	$18,163	$17,733	$16,969	$14,639	$14,433
	Capitalized	$17,788	$15,774	$12,138	$65,236	$12,140	$14,775
	EPS Impact	$0.00	-$0.01	-$0.02			
	EPS Beat	$0.04	$0.05	$0.00			
PANW	Total Accrual	$844,100	$886,300	$820,900	$824,700	$830,900	$867,800
	Amortization	$105,500	$116,000	$101,400	$99,000	$97,000	$101,000
	Capitalized	$63,300	$181,400	$97,600	$92,800	$60,100	$201,700
	EPS Impact	-$0.12	$0.19	-$0.01			
	EPS Beat	$0.22	$0.15	$0.12			
PATH	Total Accrual	$203,485	$193,347	$189,926	$187,503	$153,736	$141,913
	Amortization	$21,599	$17,157	$14,072	$21,859	$16,107	$11,038
	Capitalized	$31,737	$20,578	$16,495	$55,626	$27,930	$16,939
	EPS Impact	$0.02	$0.01	$0.00			
	EPS Beat	$0.05	$0.06	$0.09			
TDC	Total Accrual	$72,000	$76,000	$84,000	$92,000	$88,000	$95,000
	Amortization	$10,000	$12,000	$10,000	$10,000	$15,000	$16,000
	Capitalized	$6,000	$4,000	$2,000	$14,000	$8,000	$2,000
	EPS Impact	-$0.04	-$0.08	-$0.08			
	EPS Beat	$0.00	$0.03	$0.00			
TWLO	Total Accrual	$210,100	$219,500	$237,000	$239,100	$223,900	$212,400
	Amortization	$18,361	$18,202	$17,865	$16,591	$15,246	$13,450
	Capitalized	$8,961	$702	$15,765	$31,791	$26,746	$29,450
	EPS Impact	-$0.05	-$0.10	-$0.01			
	EPS Beat	$0.22	$0.24	$0.26			

- **Dropbox (DBX)** has seen its total accrual fall which is cutting the amortization figure. New contract values are rising again. Both situations should help EPS. DBX already is beating estimates despite the headwind.

- **Informatica (INFA)** like DBX has endured a headwind from commission income as amortization has exceeded new commissions. The accrual is falling which should lower amortization, and commissions are growing again. Deferring commissions may soon result in a small tailwind for EPS.

- **Palo Alto Network (PANW)** appears to have a heavy seasonal quarter for renewals that helped commissions jump followed by a weaker quarter. It just endured that and saw a 12-cent headwind from deferring commissions. Notice that the total accrual declined last quarter so PANW may see flat or declining amortization going forward to help EPS. At the same time, commissions could increase again and also help EPS. PANW beat estimates handily despite the big headwind last quarter.

- **UiPath (PATH)** is starting to see the gap between commissions and amortization widen positively. We don't like the beat last quarter was 5 cents with a 2-cent benefit from deferring commissions. But, the near-term gap could rise even higher and drive some extra EPS.

- **TeraData (TDC)** has seen a large drop in the total accrual as amortization exceeded new commissions for all but one of the last six quarters. Now the amortization is falling and the new commissions are increasing. The headwind was cut in half last quarter from -8 cents to -4 cents. TDC has been only meeting or slightly beating forecasts. This could become enough of a tailwind to drive the beats higher.

- **Twilio (TWLO)** had a brutal headwind from amortization exceeding new commissions in the last two quarters costing it 5 and 10 cents in EPS. The accrual is down and should become a tailwind of falling amortization to help going forward. Historically, TWLO has enough new commissions to make this a source of EPS. This could quickly become a 15-20 cent swing in EPS for TWLO.

New Contracts vs. Renewals – a Hidden Positive

What is largely uniform among these companies is they amortize costs to obtain new contracts over longer periods than they do the costs to renew contracts. The view is that software and training tend to entrench a new customer longer. Most companies in the group use a 3-5 year amortization period (many are 5 years) for new contracts. However, renewal costs are tied to the length of the contract which may only be 1-2 years.

As we described in the opening paragraphs, new contract costs tend to be larger, and thus boost the new capitalized amount of costs and the total accrual. But when amortizing them over twenty quarters instead of 4 like a renewal, amortization is a smaller percentage of the total accrual. This would cause a company that sees a rising accrual from signing new deals also enjoy a falling amortization level as a percentage of the accrual and perhaps even in dollar terms. So, an increase in revenue from new customers can boost EPS more than a similar amount of revenue coming from contract renewals.

The following table shows 6 companies where amortization is falling as a percentage of deferred contract costs which may be an indication of a greater percentage of revenue coming from new business.

		Q-0	Q-1	Q-2	Q-3	Q-4	Q-5
AKAM	Total Accrual	$73,996	$72,080	$67,096	$66,385	$59,568	$64,057
	Amortization	$12,840	$12,210	$12,175	$12,021	$12,498	$13,150
	Amort % Total	17.6%	17.5%	18.2%	19.1%	20.2%	19.9%
	Capitalized	$14,756	$17,194	$12,886	$18,838	$8,009	$8,969
DOCU	Total Accrual	$383,205	$369,749	$359,255	$350,899	$329,958	$322,695
	Amortization	$49,399	$50,152	$48,230	$50,664	$44,806	$45,585
	Amort % Total	13.1%	13.8%	13.6%	14.9%	13.7%	14.3%
	Capitalized	$62,855	$60,646	$56,586	$71,605	$52,069	$54,520
ESTC	Total Accrual	$158,360	$155,571	$151,692	$135,037	$122,962	$119,356
	Amortization	$18,380	$17,572	$17,405	$15,821	$18,230	$17,444
	Amort % Total	11.7%	11.4%	12.1%	12.3%	15.0%	14.7%
	Capitalized	$21,169	$21,451	$34,060	$27,896	$21,836	$18,753

IOT	Total Accrual	$161,500	$153,200	$143,684	$140,200	$128,212	$124,090
	Amortization	$11,865	$12,942	$13,469	$13,123	$12,477	$12,331
	Amort % Total	7.5%	8.7%	9.5%	9.8%	9.9%	10.1%
	Capitalized	$20,075	$22,502	$16,987	$25,077	$16,599	$16,406

NET	Total Accrual	$115,154	$107,482	$98,427	$93,145	$87,282	$80,706
	Amortization	$15,746	$14,902	$14,109	$13,096	$11,801	$10,556
	Amort % Total	14.1%	14.5%	14.7%	14.5%	14.0%	13.4%
	Capitalized	$23,418	$23,957	$19,391	$18,959	$18,377	$14,996

SPLK	Total Accrual	$380,571	$364,058	$353,627	$359,489	$324,155	$312,378
	Amortization	$30,950	$33,613	$32,530	$29,796	$27,835	$26,585
	Amort % Total	8.3%	9.4%	9.1%	8.7%	8.7%	8.7%
	Capitalized	$47,463	$44,044	$26,668	$65,130	$39,612	$38,203

- **Akamai (AKAM)** has seen the amount of new capitalized commissions rise from $8-$9 million per quarter to $15-$17 million. That's a potential sign of more new contracts. The total accrual is rising but amortization is almost flat in dollar terms, which is also a potential signal of the number of new contracts growing. Note that while AKAM's amortization as a percentage of total accruals is falling, it's still in the high teens to 20% range. Many others are below 10% to 12%. We take that as simply AKAM being a more established company with a higher customer base on renewal.

- **Docusign (DOCU)** is a company we already follow more closely. We know a big part of its customers are in real estate-related areas such as mortgage documents and rental contracts. Fewer people are moving or refinancing loans so it saw a slowdown in new contracts in 2022 and early 2023. Amortization as a percentage of the total accrual was rising. The last few quarters have seen higher new accruals, and amortization has flattened out in dollar terms and dropped as a percentage of sales as DOCU is seeing new contracts pick up steam.

- **Elastic (ESTC)** has not seen much of a pick-up in new capitalized costs, yet the total accrual is rising. Amortization as a percentage of sales turned up for the first time in several periods only last quarter. It is also displaying signs of more new contracts in closings. This is one to watch to see where it goes next quarter after the recent reversal.

- **Samsara (IOT)** shows all the signs of a newer company. Not only is the total accrual rising on flat totals for new capitalized commissions, but amortization as a percentage of the accrual is only 7.5%. There are not nearly as many contracts nearing the age of renewal as some others. We would still look at the trends as positive, but as deals age and renewals become a larger part of the total new contracts, IOT may see this percentage rise.

- **Couldflare (NET)** has two issues in play. It is reporting some additional new customers. However, it uses a shorter amortization period on new contracts of only 3 years. Thus, its incremental amortization is coming more from new contracts than its peers. That results in both the accrual and amortization rising, and the amortization percentage not falling as much as others.

- **Splunk (SPLK)** is one to watch next quarter too. It was reporting rising new capitalized expenses and still seeing rising amortization in dollar terms and percentage of the total. It had a noticeable drop last quarter. That likely means a higher percentage of newer contracts. It may also indicate some older initial contracts became fully expensed and are now showing up as renewals in the higher new commissions. Those new renewals simply have not started amortizing in a meaningful way yet. Think of it as an acquisition that is completed in the last week of a quarter. The balance sheet shows all the debt and increase in assets – but the income statement only shows one week of operations. In this case, the amortization may be about to rise again as some contracts rolled over near the end of the last quarter will see a full quarter of expense going forward.

Several Companies in the Group Look Solid Here

In the table below, we show 10 companies where the impact of accounting for sales commissions is not impacting results to any material degree. We're not saying that these companies can never be impacted by this process. However, we noticed that the size of this issue in EPS is a small percentage of total non-GAAP EPS. Also, these companies have been beating forecasts handily in recent quarters. If this moved significantly enough to make a difference – there would be much more drastic signs seen in other areas that would signal this problem. It would likely require a large change in orders either positive or negative to create a material amount of EPS impact.

For example, Akamai is seeing 0-3 cents of quarterly impact in this area. But, EPS last quarter was $1.63 and it normally beats by much more than the commission impact.

		Q-0	Q-1	Q-2	Q-3	Q-4	Q-5
AKAM	Amortization	$12,840	$12,210	$12,175	$12,021	$12,498	$13,150
Amort. Period	Capitalized	$14,746	$17,194	$12,886	$18,838	$8,009	$8,969
3 years	EPS Impact	$0.01	$0.03	$0.00			
	Non-GAAP EPS	$1.63	$1.49	$1.40	$1.37	$1.26	$1.35
	EPS Beat	$0.08	$0.18	-$0.01			

DDOG	Amortization	$10,227	$9,348	$8,648	$8,062	$7,361	$6,558
Amort. Period	Capitalized	$14,995	$15,867	$11,758	$16,427	$13,203	$13,302
4 years	EPS Impact	$0.01	$0.02	$0.01			
	Non-GAAP EPS	$0.45	$0.36	$0.28	$0.26	$0.23	$0.24
	EPS Beat	$0.11	$0.08	$0.04			

FTNT	Amortization	$68,000	$65,400	$62,500	$59,500	$56,700	$54,600
Amort. Period	Capitalized	$79,100	$87,300	$81,200	$97,200	$80,300	$74,000
5 years	EPS Impact	$0.01	$0.03	$0.02			
	Non-GAAP EPS	$0.41	$0.38	$0.34	$0.44	$0.33	$0.24
	EPS Beat	$0.05	$0.04	$0.05			

MANH	Amortization	$2,400	$2,300	$2,300	$2,000	$1,800	$1,900
Amort. Period	Capitalized	$5,300	$3,300	-$3,500	$13,100	$4,600	$2,100
3 years	EPS Impact	$0.05	$0.02	-$0.09			
	Non-GAAP EPS	$1.05	$0.88	$0.80	$0.81	$0.66	$0.69
	EPS Beat	$0.29	$0.16	$0.15			

QLYS	Amortization	$1,500	$1,500	$1,400	$1,400	$1,200	$1,200
Amort. Period	Capitalized	$2,072	$1,841	$1,555	$2,871	$1,640	$1,565
5 years	EPS Impact	$0.02	$0.01	$0.00			
	Non-GAAP EPS	$1.51	$1.27	$1.09	$1.01	$0.94	$0.89
	EPS Beat	$0.38	$0.25	$0.13			

SNOW	Amortization	$18,869	$18,181	$17,672	$15,920	$14,554	$13,770
Amort. Period	Capitalized	$25,478	$24,552	$16,441	$33,430	$23,101	$22,617
5 years	EPS Impact	$0.02	$0.02	$0.00			
	Non-GAAP	$0.25	$0.22	$0.15	$0.14	$0.11	$0.01
	EPS Beat	$0.09	$0.12	$0.10			

SPLK	Amortization	$30,950	$33,613	$32,530	$29,796	$27,835	$26,585
Amort. Period	Capitalized	$47,463	$44,044	$26,668	$65,130	$39,612	$38,203
5 years	EPS Impact	$0.09	$0.06	-$0.04			
	Non-GAAP EPS	$1.52	$0.71	$0.18	$2.04	$0.83	$0.09
	EPS Beat	$0.37	$0.26	$0.30			

TEAM	Amortization	$5,188	$4,423	$3,606	$3,027	$2,541	$2,057
Amort. Period	Capitalized	$6,114	$16,594	$7,051	$11,286	$5,129	$9,556
4 years	EPS Impact	$0.00	$0.05	$0.01			
	Non-GAAP EPS	$0.65	$0.57	$0.54	$0.45	$0.36	$0.27
	EPS Beat	$0.11	$0.12	$0.21			

TYL	Amortization	$5,000	$4,300	$4,300	$4,200	$4,000	$3,700
Amort. Period	Capitalized	$6,500	$4,900	$4,800	$5,400	$6,200	$6,300
3-7 years	EPS Impact	$0.04	$0.01	$0.01			
	Non-GAAP EPS	$2.14	$2.01	$1.76	$1.66	$2.06	$1.88
	EPS Beat	$0.15	$0.12	$0.07			

U	Amortization	$2,500	$2,500	$2,500	$2,500	$2,400	$2,200
Amort. Period	Capitalized	$2,400	$1,200	$700	$1,800	$1,900	$1,700
3 years	EPS Impact	$0.00	$0.00	$0.00			
	Non-GAAP EPS	$0.32	$0.23	$0.06	$0.05	-$0.14	-$0.18
	EPS Beat	$0.13	$0.16	$0.09			

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