



ASC 606, Business Metrics and Guidance Approach

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January 25, 2018

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New Revenue Accounting Standard ASC 606

Accounting Standards Codification (ASC) 606

Principles-based revenue
standard

Originally issued in May 2014
by the FASB and IASB

Adopted by Xperi beginning
in 2018

Overview:

Revenue will be recognized when an entity satisfies each “performance obligation” in a customer contract

Goods or services can transfer at a point in time or over time depending on the nature of the arrangement

ASC 606 Impact to Xperi Corporation

What does not change?

- Cash flow (including operating cash flow), billings, customer invoicing, cost of revenue, operating expenses

What changes?

- Revenue for fixed-fee and minimum-guarantee contracts
- Revenue for per-unit royalty contracts
- Small change to other income
- Unbilled contracts at 1/1/2018 will be booked to the balance sheet and not taken to revenue

What are the impacts?

- Years prior to 2018 will not be restated
- For 2018, revenue will be reported under the new standard and disclosed under the prior standard
- Management will focus on billings and operating cash flow as key metrics for the business

Approach to Licensing

The company enters into contracts with customers that are in the long-term interest of the company and its shareholders

- License contracts generate consistent cash flows over multi-year periods
- Fixed fee arrangements provide certainty to both parties and reflect the ongoing value being provided over the license period
- Minimum guarantee arrangements provide certainty and create an incentive for customers to continue designing our solutions into their future products
- Per-unit royalty arrangements deliver value as the company's technology is shipped

Fixed-Fee and Minimum Guarantee Contracts

What does not change?

- Billings and cash collection

What changes?

- Revenue for the entire fixed-fee or minimum guaranteed portion is recognized in the quarter the contract is first effective
- Per-unit revenue above a minimum guarantee is estimated each quarter and trued up when the royalty report is received
- Small amount of imputed interest for contracts greater than one year

What is the impact?

- Higher volatility in quarterly and annual revenue

Example: Fixed-Fee License Contract Over Four Years

Year:	1	2	3	4	TOTAL
Prior Standard					
Revenue	\$10	\$10	\$10	\$10	\$40
Billings	\$10	\$10	\$10	\$10	\$40
Cash Collection	\$10	\$10	\$10	\$10	\$40
ASC 606					
Revenue	\$40	\$0	\$0	\$0	\$40
Billings	\$10	\$10	\$10	\$10	\$40
Cash Collection	\$10	\$10	\$10	\$10	\$40

Per-Unit Royalty Contracts

Example: Per-Unit Royalty Contracts

What does not change?

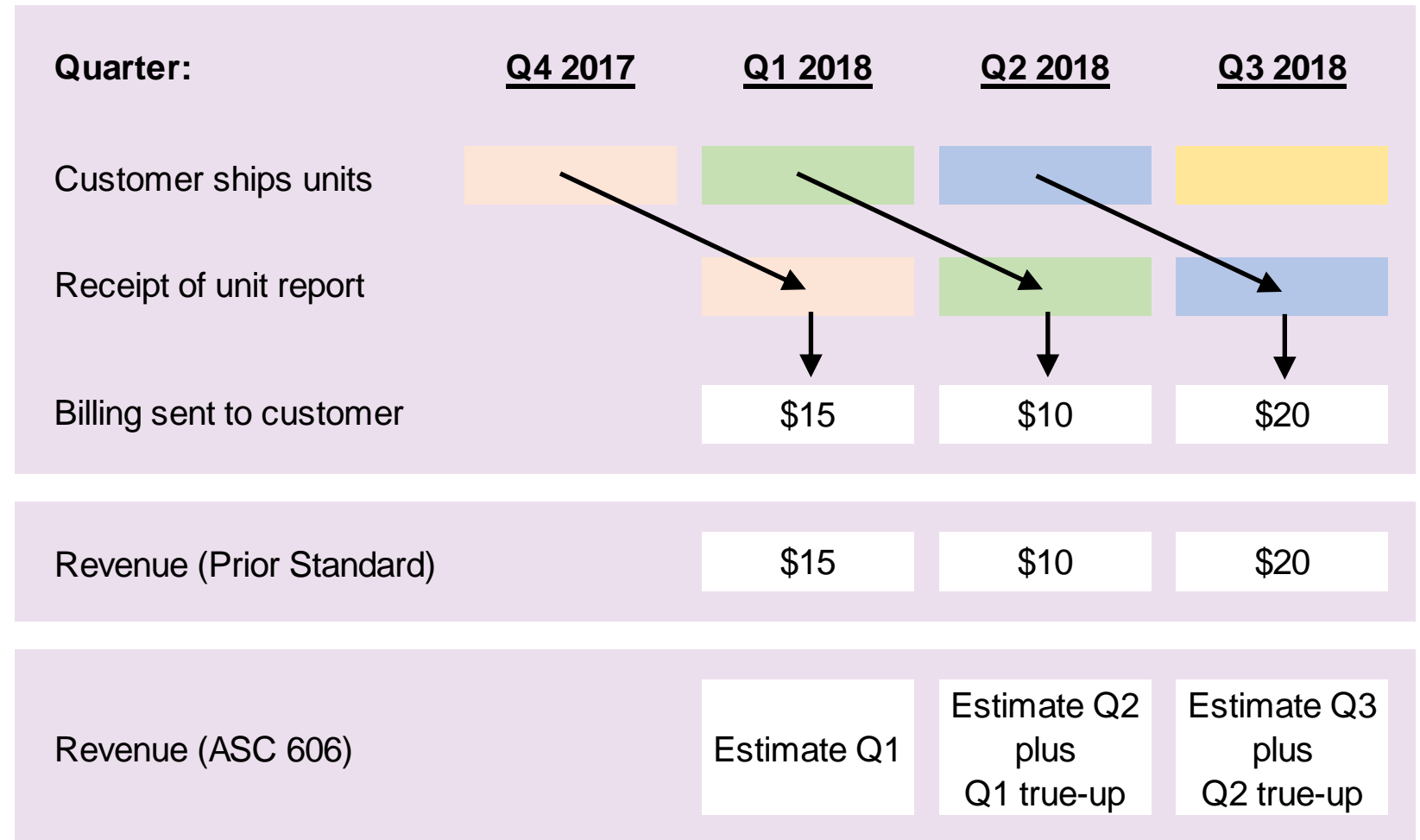
- Timing of royalty reports
- Billings and cash collection

What changes?

- Revenue is estimated for a quarter and true'd up in the following quarter when the royalty report is received

What is the impact?

- Minimal impact to annual revenue



Business Metrics and Guidance Approach

Billings

Highly correlated with underlying business activity

Not impacted by purchase accounting

Comparable between year-over-year accounting periods

Difference in 2017 between billings and revenue plus purchase accounting is <1%

Prior Method

Fiscal Year 2017	
Revenue	\$373M
Purchase Accounting Impact	\$52M

New Metric

Fiscal Year 2017	
Billings	\$422M

The difference between 2017 revenue plus the purchase accounting impact, compared to billings, was less than 1%

Billings Reporting

Beginning with Q1 2018 earnings, Xperi will start reporting billings information for the quarter, along with the comparable quarter of 2017, as follows:

- Product Licensing: Mobile, Home and Auto
- Semiconductor & IP Licensing

Xperi's Approach to Guidance

The company will provide the following guidance ranges for **fiscal year 2018** at the Q4 2017 earnings announcement:

- Billings
- Operating expense line items
- Tax expense
- Operating cash flow
- Number of shares outstanding

The company will provide a **quarterly** guidance range on billings

Summary

- The new accounting standard has a significant impact to Xperi's revenue reporting
- The company structures customer deals to provide the best business value
- Customer billings and operating cash flow become key metrics for measuring the business
- The company will begin guiding on billings and cease revenue guidance

Thank You