# DGM Separability Overview

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# What is Digital Grid Management?

OSI | An AspenTech® Business

## Management and Optimization of Complex Utilities Networks

Generation Management (GMS)

Transmission Management (EMS)

Advanced Distribution and Outage Management (ADMS and OMS)

Distributed Energy Management (DERMS, Microgrid and Virtual Power Plant)

Electric Utilities

Water Utilities

Midstream and Gas Utilities

### Benefits

Improve Safety, Reliability and Efficiency

Enhance Cybersecurity

Reduce Carbon Footprint

Respond to Dynamic Requirements

# Digital Grid Management (DGM) Separability

## What happened?

- We achieved separability between professional services and software licenses in DGM under Topic 606 at the beginning of Q3-FY23

## What were the main changes necessary to achieve separability?

- Enabled third-party implementation service providers (ISPs) to operate autonomously and directly with DGM customers
- Streamlined tools and processes for DGM implementation services
- Created separation between software licenses, hardware, professional services and maintenance in DGM commercial contracts

## Why is achieving separability important?

- Allows us to recognize DGM bookings, revenue, ACV and collections in line with the rest of our business[1]
- Important milestone for OSI integration and broader transformation of OSI business into a term and token licensing model

### Financial Outcomes

- DGM to contribute more meaningfully to ACV in 2H23[2]
- General acceleration of revenue and free cash flow generation[2]
- Use of third-party ISPs supports transition to higher software, lower services revenue mix in DGM

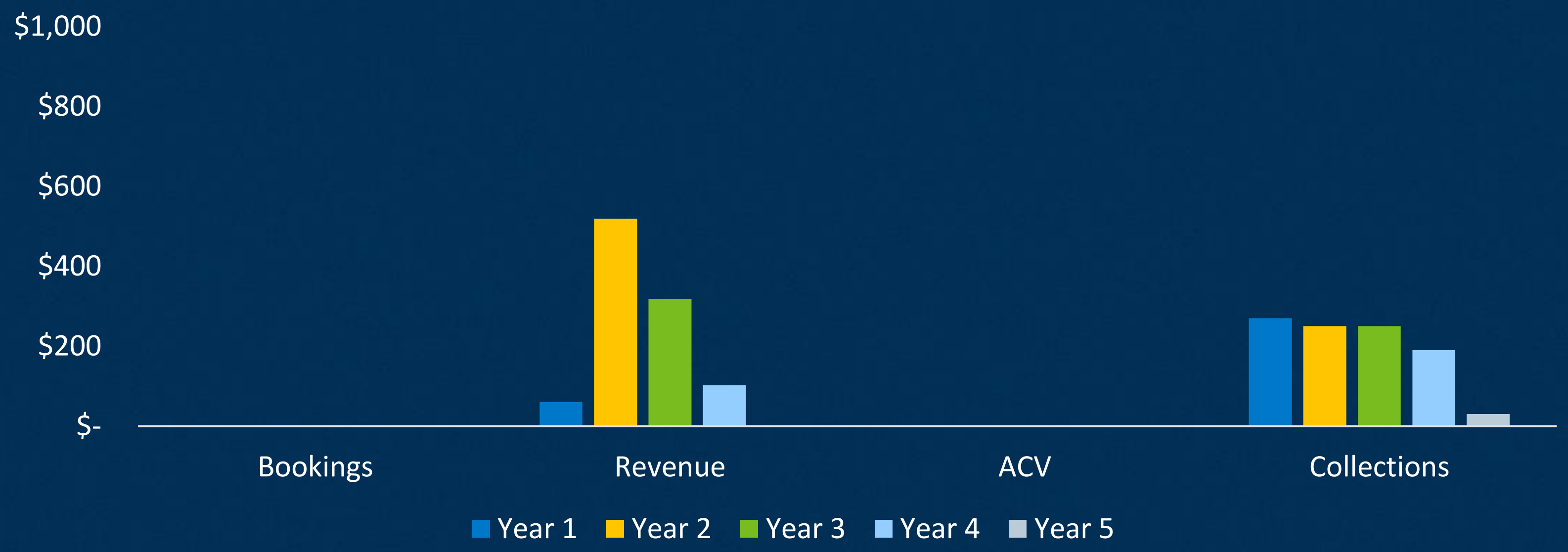
1. *We still have a certain number of active and pipeline DGM projects that were bid or contracted under pre-separability terms. We expect these projects to be resolved by FY28. For those projects that were contracted under pre-separability terms on or after January 1, 2023, we are able to separate professional services revenue from software revenue.*
2. *DGM separability was assumed in AZPN financial guidance for the full year of fiscal 2023, initially issued on August 8, 2022, and updated on January 25, 2023.*

# Key DGM Separability Topics

| Topic | Pre Separability | Post Separability |
|---|---|---|
| **Go-To-Market** | OSI primarily implemented DGM software solutions directly with customers through its own workforce | Delivery of DGM software licenses has been separated from delivery of professional services; either OSI or third-party implementation service partners can now implement DGM software licenses |
| **Implementation Process** | Implementation process for DGM software licenses was interconnected with other solution areas | Tools and processes have been streamlined to significantly reduce complexity and interdependency throughout DGM software license implementation |
| **Contract Separation** | OSI bundled DGM software licenses, hardware, professional services and maintenance into a single contract | OSI has separation in DGM contracts for software licenses, hardware, professional services and maintenance |
| **Revenue Recognition** | DGM software license and professional services revenues were combined and recognized on percent-of-completion basis | DGM software license and professional services revenues are now separated, with software license revenues being recognized up front upon delivery and professional services revenues being recognized on percent-of-completion basis, in line with overall business |
| **ACV Recognition** | Contribution of DGM term software contract to ACV balance was limited due to “bundled” status | Contribution of DGM term software contract fully recognized in ACV balance, in line with overall business |
| **SMS Component of Perp License** | SMS component of perpetual software license contract only began after perpetual software license had been fully implemented | SMS component of perpetual software license contract begins after license has been deemed delivered, which results in earlier SMS start time |

# DGM Perpetual Contract Illustrations:
## Pre- and Post-Separability

# DGM Perp Software License – Pre Separability




*Dollar amounts in thousands.*

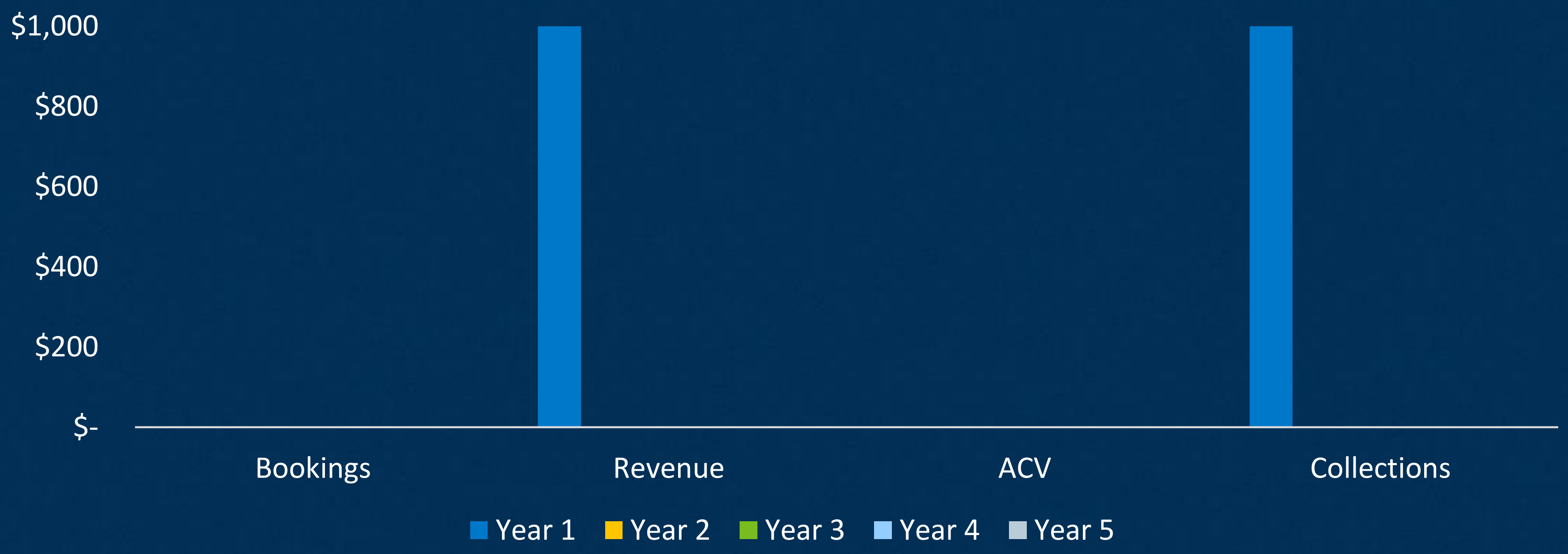
- Revenue recognition based on percent-of-completion
- Collections based on completion of project milestones
- Perpetual software contracts are not recognized in ACV or bookings as they do not represent recurring revenue

## *Illustration Assumptions*

- *Includes perpetual software license portion of DGM contract only*
- *$1m signed contract, 5-year duration[1]*
- *Percent of completion from years 1-5 is 6%, 52%, 32%, 10%, and 0%, respectively[2]*
- *Milestone completion from years 1-5 is 27%, 25%, 25%, 19%, and 4%, respectively[3]*

1. *Contract duration fluctuates between 2-5 years based on specific customer needs. We use a 5-year duration in this illustration to show trends in bookings, revenue, ACV, and collections.*
2. *Percent of completion is based on percentage of project work completed. We calculate the average percent of completion here by analyzing a group of DGM software license contracts, chosen based on similarities in larger TCV size, duration, and completion status.*
3. *Milestone completion is tied to project activities and implementation. We calculate the average milestone completion percentages shown here by analyzing a group of DGM software license contracts, chosen based on similarities in larger TCV size, duration, and completion status.*

# DGM Perp Software License – Post Separability



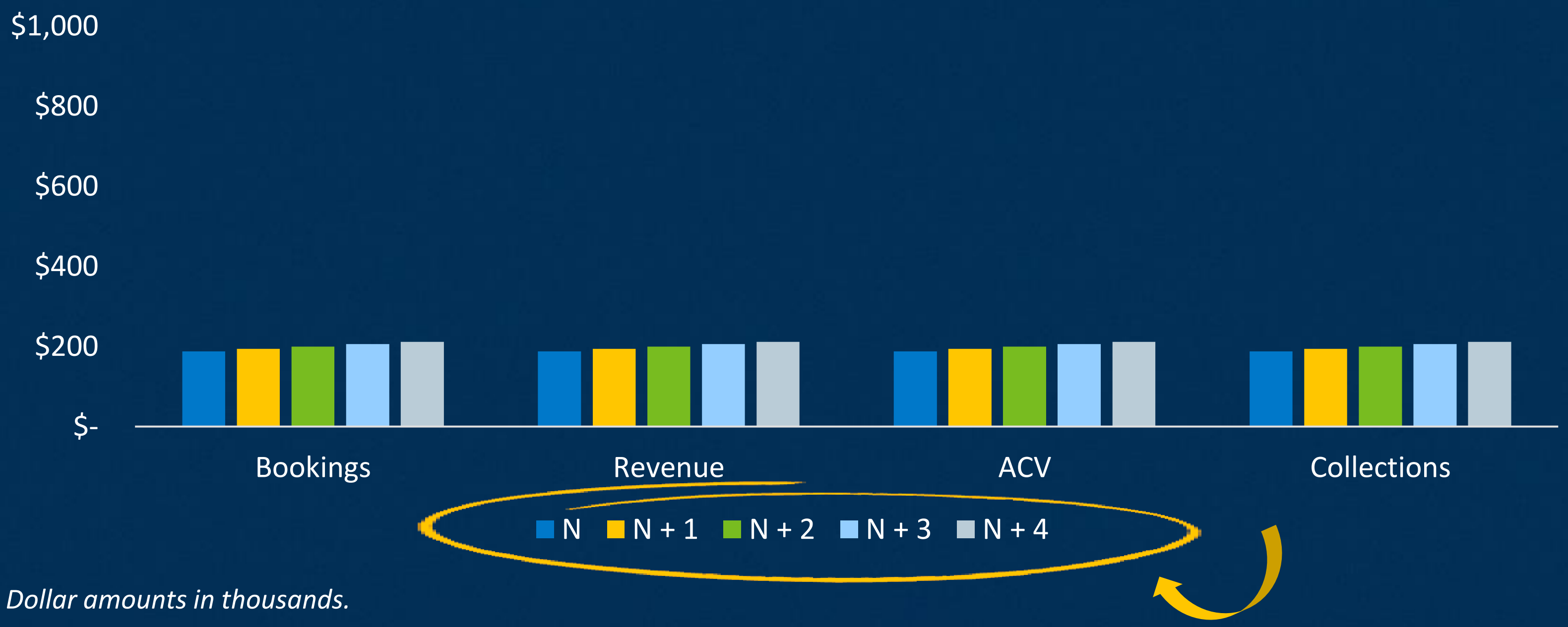

*Dollar amounts in thousands.*

## *Illustration Assumptions*

- *Includes DGM perpetual software license contract only*
- *$1m signed contract*
- *No milestone completion schedule*

- Revenue and collections are recognized up front upon license delivery
- Perpetual software contracts are not recognized in ACV or bookings as they do not represent recurring revenue

# DGM Perp Software License SMS – Pre Separability



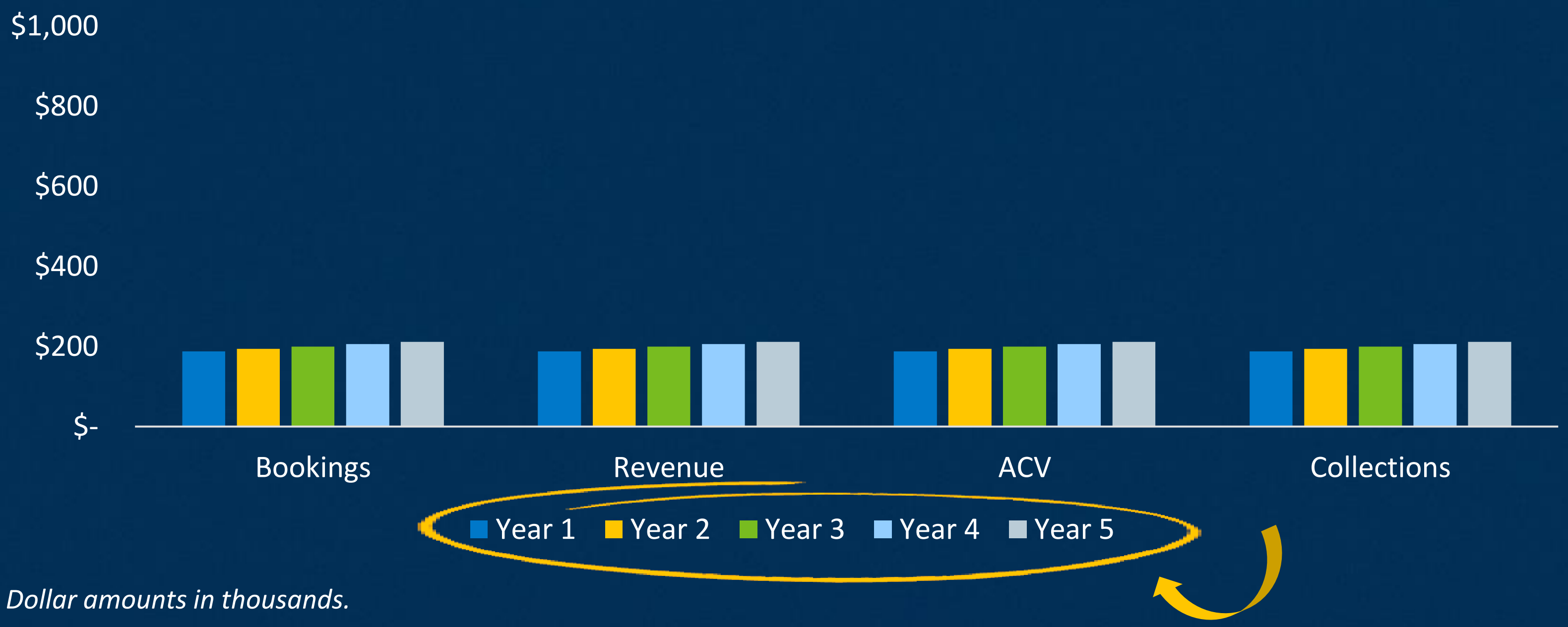

*Dollar amounts in thousands.*

*__Illustration Assumptions__*

- *Includes SMS portion of DGM perpetual software license contract only*
- *$1m signed contract, 3% escalation*
- *Full implementation of perpetual software license contract occurs in Year N*
- *Renews at end of Year 'N + 4'*

- SMS component of perpetual software license contract begins only after license has been fully implemented
- Resulted in longer time periods before the start of SMS component

# DGM Perp Software License SMS – Post Separability




*Dollar amounts in thousands.*

*__Illustration Assumptions__*

- *Includes SMS portion of DGM perpetual software license contract only*
- *$1m signed contract, 3% escalation*
- *Perpetual software license is deemed delivered in Year 1*
- *Renews at end of Year 5*

- SMS component of perpetual software license contract begins after license has been deemed delivered
- Results in earlier start of SMS component

# DGM Term Contract Illustrations:
## Pre- and Post-Separability

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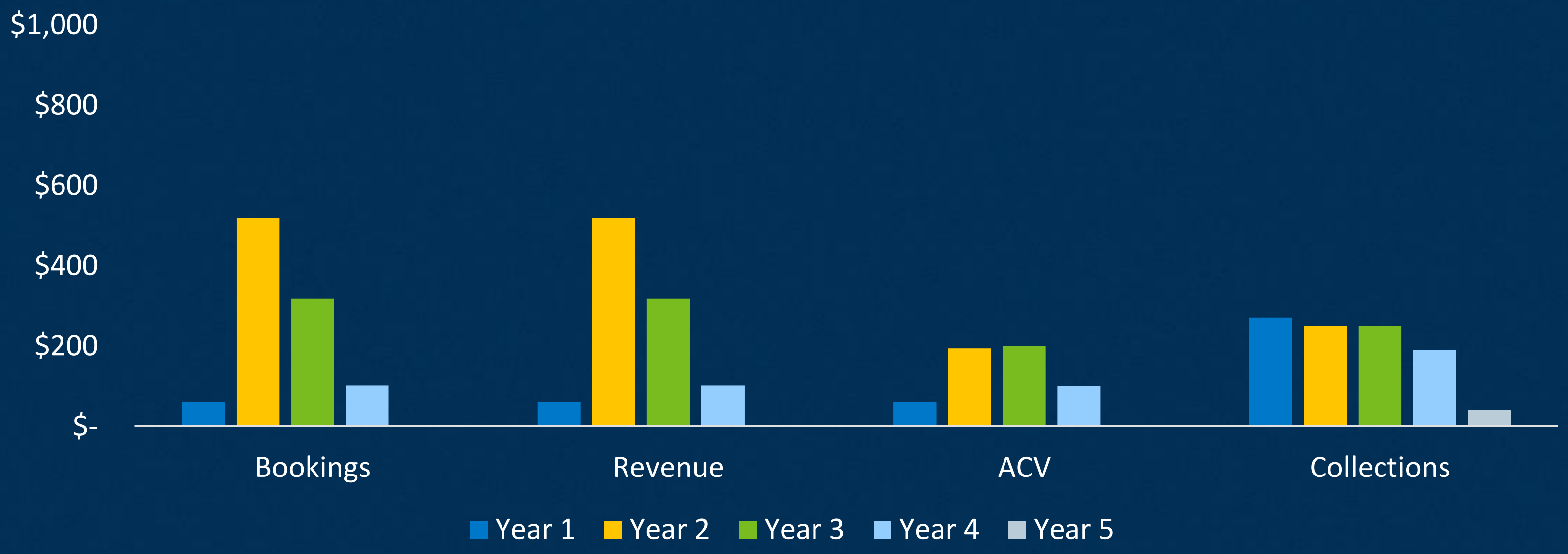
# DGM Term Software – Pre Separability[1]




*Dollar amounts in thousands.*

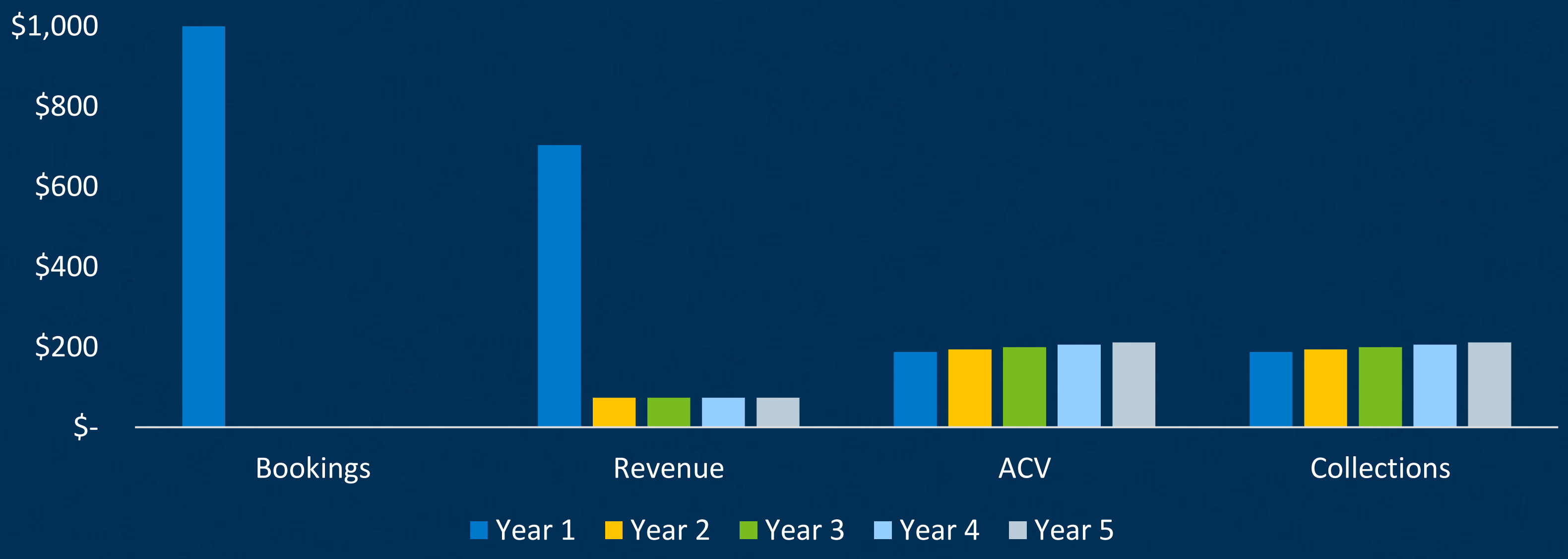
- Revenue and bookings recognized based on percent-of-completion
- Collections based on completion of project milestones
- Term contract contribution to ACV balance was limited due to "bundled status"

## *Illustration Assumptions*

- *Standard DGM term contract including license and SMS component*
- *$1m signed contract, 5-year duration[2], 3% escalation, renews at end of Year 5*
- *Percent of completion from years 1-5 is 6%, 52%, 32%, 10%, and 0%, respectively[3]*
- *Milestone completion from years 1-5 is 27%, 25%, 25%, 19%, and 4%, respectively[4]*

1. *DGM's contract mix has been primarily composed of perpetual software licenses historically. This illustration is for comparative purposes only.*
2. *Contract duration fluctuates between 2-5 years based on specific customer needs. We use a 5-year duration in this illustration to show trends in bookings, revenue, ACV, and collections.*
3. *Percent of completion is based on percentage of project work completed. We calculate the average percent of completion here by analyzing a group of DGM software license contracts, chosen based on similarities in larger TCV size, duration, and completion status.*
4. *Milestone completion is tied to project activities and implementation. We calculate the average milestone completion percentages shown here by analyzing a group of DGM software license contracts, chosen based on similarities in larger TCV size, duration, and completion status.*

# DGM Term Software – Post Separability




*Dollar amounts in thousands.*

## *Illustration Assumptions*

- *Standard DGM term contract including license and SMS component*
- *$1m signed contract, 5-year duration[1], 3% escalation, renews at end of Year 5*
- *No milestone completion schedule*

- License revenue and bookings recognized up front upon delivery
- ACV, collections and SMS component aligned with overall business
- Term contract value fully represented in ACV

1. *Contract duration fluctuates between 2-5 years based on specific customer needs. We use a 5-year duration in this illustration to show trends in bookings, revenue, ACV, and collections.*

# Thank You