

Model **N**

# Investor Supplemental

Second Quarter of Fiscal Year 2019 Financial Results

May 7, 2019



# Financial Results

| Model N, Inc.  |            |            |             |            |             |            |            |
|--|------------|------------|-------------|------------|-------------|------------|------------|
| Condensed Consolidated Statements of Operations - GAAP   |            |            |             |            |             |            |            |
| (Unaudited, in thousands)  |            |            |             |            |             |            |            |
|  | Q1'18      | Q2'18      | Q3'18       | Q4'18      | FY'18       | Q1'19      | Q2'19      |
| <b>Revenues:</b>   |            |            |             |            |             |            |            |
| Subscription   | \$ 23,847  | \$ 24,004  | \$ 24,944   | \$ 25,513  | \$ 98,308   | \$ 25,202  | \$ 25,940  |
| Professional Services  | 15,220     | 15,230     | 14,673      | 11,201     | 56,324      | 9,875      | 8,903      |
| Total revenues   | 39,067     | 39,234     | 39,617      | 36,714     | 154,632     | 35,077     | 34,843     |
| <b>Cost of Revenues:</b>   |            |            |             |            |             |            |            |
| Subscription   | 9,615      | 9,440      | 9,564       | 9,201      | 37,820      | 8,738      | 8,852      |
| Professional Services  | 7,194      | 7,813      | 6,881       | 5,626      | 27,514      | 7,829      | 7,894      |
| Total cost of revenues   | 16,809     | 17,253     | 16,445      | 14,827     | 65,334      | 16,567     | 16,746     |
| Gross profit   | 22,258     | 21,981     | 23,172      | 21,887     | 89,298      | 18,510     | 18,097     |
| <b>Operating Expenses:</b>   |            |            |             |            |             |            |            |
| Research and development   | 9,068      | 8,047      | 7,746       | 7,555      | 32,416      | 7,412      | 7,415      |
| Sales and marketing  | 8,492      | 9,015      | 9,338       | 8,637      | 35,482      | 8,052      | 8,598      |
| General and administrative   | 8,731      | 7,324      | 17,044      | 9,079      | 42,178      | 6,156      | 6,833      |
| Total operating expenses   | 26,291     | 24,386     | 34,128      | 25,271     | 110,076     | 21,620     | 22,846     |
| Loss from operations   | (4,033)    | (2,405)    | (10,956)    | (3,384)    | (20,778)    | (3,110)    | (4,749)    |
| Interest (income) expense, net   | 1,423      | 1,449      | 4,478       | 828        | 8,178       | 733        | 891        |
| Other (income) expenses, net   | 125        | (87)       | (344)       | (416)      | (722)       | 285        | 127        |
| Loss before income taxes   | (5,581)    | (3,767)    | (15,090)    | (3,796)    | (28,234)    | (4,128)    | (5,767)    |
| Provision (benefit) for income   | (324)      | 129        | 345         | (177)      | (27)        | 598        | 141        |
| Net loss   | \$ (5,257) | \$ (3,896) | \$ (15,435) | \$ (3,619) | \$ (28,207) | \$ (4,726) | \$ (5,908) |
| These schedules have been derived from, and should be read in conjunction with, our financial statements in our reports on Forms 10-Q and 10-K which are filed with the SEC. |            |            |             |            |             |            |            |

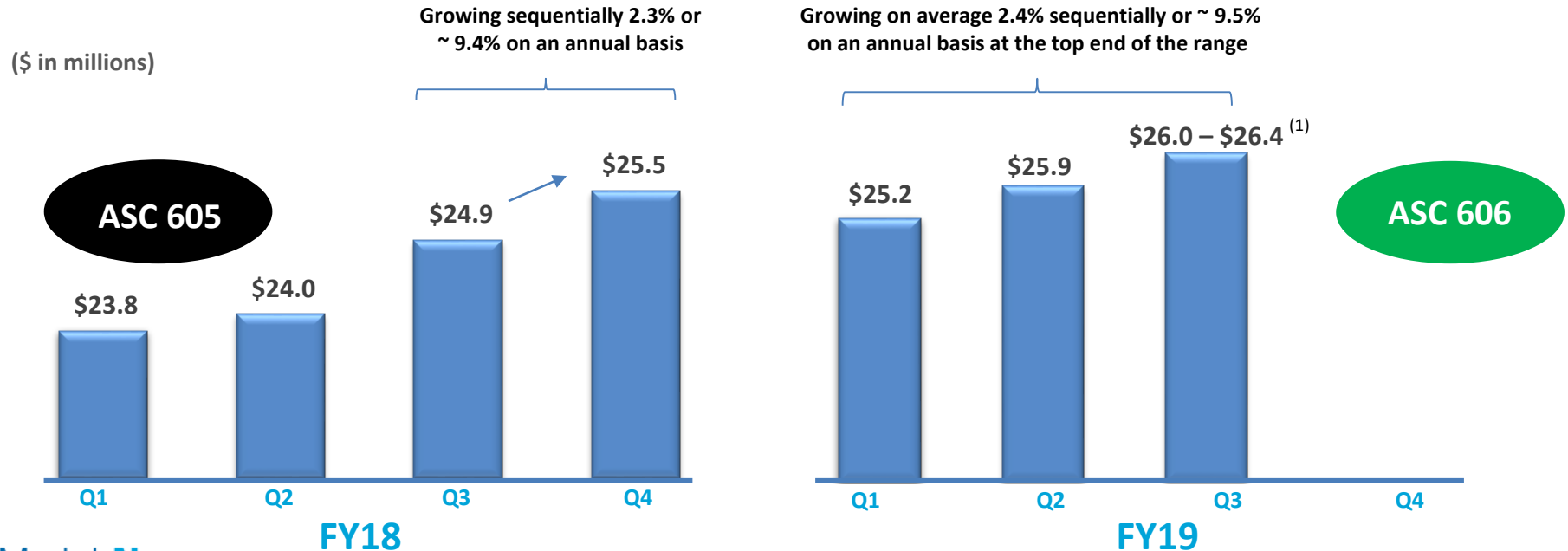
# Intangibles Amortization & SBC

| Model N, Inc.  |                 |                 |                 |                 |                  |                 |                 |
|--|-----------------|-----------------|-----------------|-----------------|------------------|-----------------|-----------------|
| Condensed Consolidated Statements of Operations --- Non GAAP Adjustments |                 |                 |                 |                 |                  |                 |                 |
| (Unaudited, in thousands)  |                 |                 |                 |                 |                  |                 |                 |
|  | Q1'18           | Q2'18           | Q3'18           | Q4'18           | FY18             | Q1'19           | Q2'19           |
| Amortization   | \$ 476          | \$ 476          | \$ 476          | \$ 476          | \$ 1,904         | \$ 476          | \$ 476          |
| Stock-based compensation   | 251             | 346             | 375             | 428             | 1,400            | 460             | 469             |
| <b>Total adjustment to cost of revenue - subscription</b>                | <b>727</b>      | <b>822</b>      | <b>851</b>      | <b>904</b>      | <b>3,304</b>     | <b>936</b>      | <b>945</b>      |
| Stock-based compensation   | 319             | 357             | 324             | 256             | 1,256            | 479             | 561             |
| <b>Total adjustment to cost of revenue - professional services</b>       | <b>319</b>      | <b>357</b>      | <b>324</b>      | <b>256</b>      | <b>1,256</b>     | <b>479</b>      | <b>561</b>      |
| Stock-based compensation   | 657             | 743             | 744             | 839             | 2,983            | 764             | 861             |
| <b>Total adjustment to cost of revenue - research and development</b>    | <b>657</b>      | <b>743</b>      | <b>744</b>      | <b>839</b>      | <b>2,983</b>     | <b>764</b>      | <b>861</b>      |
| Amortization   | 942             | 906             | 905             | 905             | 3,658            | 895             | 889             |
| Stock-based compensation   | 871             | 660             | 986             | 1,007           | 3,524            | 1,145           | 1,239           |
| <b>Total adjustment to cost of revenue - sales and marketing</b>         | <b>1,813</b>    | <b>1,566</b>    | <b>1,891</b>    | <b>1,912</b>    | <b>7,182</b>     | <b>2,040</b>    | <b>2,128</b>    |
| Stock-based compensation   | 1,938           | 1,140           | 9,601           | 1,482           | 14,161           | 1,355           | 1,766           |
| <b>Total adjustment to cost of revenue - general and administrative</b>  | <b>\$ 1,938</b> | <b>\$ 1,140</b> | <b>\$ 9,601</b> | <b>\$ 1,482</b> | <b>\$ 14,161</b> | <b>\$ 1,355</b> | <b>\$ 1,766</b> |

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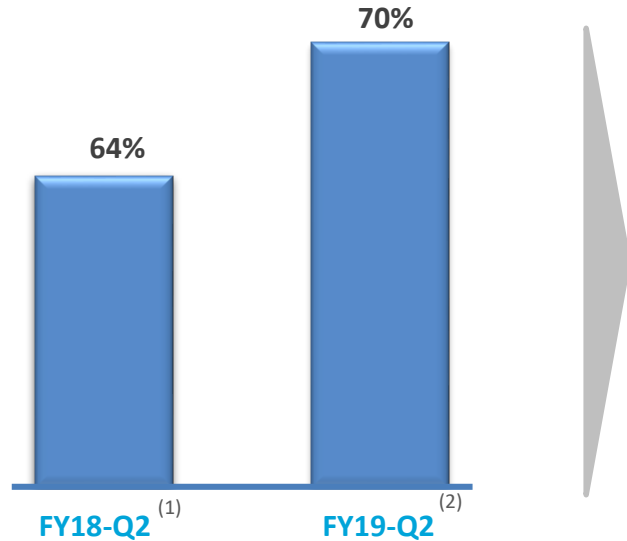
# Subscription Revenues

- ASC 606 adoption combined with a SaaS Transition makes it challenging to compare fiscal 2018 and 2019 results.
- FY19 subscription growing in line with FY18 based on sequential trends.



# Subscription Gross Margin

Non-GAAP



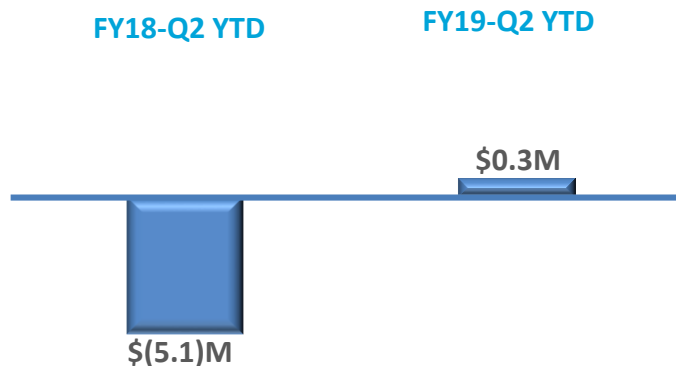
- Margin improvement reflective of the improved operational leverage

(1) Non-GAAP adjustments include: intangible amortization \$0.5M and stock-based compensation \$0.3M.

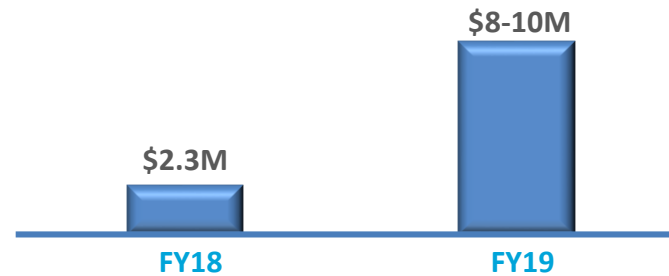
(2) Non-GAAP adjustments include: intangible amortization \$0.5M and stock-based compensation \$0.5M.

# Free Cash Flow

Free Cash Flow improved by over \$5.4M in the first half of fiscal 2019



Tracking to full year guidance which implies a 4x increase in Free Cash Flow



# ASC 606 Adoption

- ASC 606 adopted on October 1, 2018 at the start of Model N's 2019 fiscal year
- Adopted using the modified retrospective method which requires a one-time cumulative effect adjustment
- The one-time adjustment reduces FY19 revenue, profitability and deferred revenue

## 1. FY19 Revenues will be reduced by \$(7.2) million

- Subscription revenues impacted by \$(3.1) million, and
- Professional Services revenues impacted by \$(4.1) million

## 2. Adoption of ASC 606 led to a new commission accounting policy

- In FY19, the Company will commence capitalizing commissions and amortizing over 5 years
- ASC 606 adoption required Model N to capitalize prior years' commission expense of \$(3.3) million
- Despite the capitalization and amortization of prior year commission expense, the Company expects commission expense to be lower by approximately \$1.0 million in fiscal year 2019