

Extract from the Annual Report 2020 of Bechtle AG

In the context of the **revenue recognition and the assessment whether Bechtle is the principal or agent** when selling standard software licences without customising in the indirect business, the following classification has been performed.

Part of our business involves the sale of standard software licences in a bundle with consulting services (sale of standard software without customising in the indirect business). In this context, Bechtle is embedded in a number of requirements as a partner of the software vendor. With regard to this indirect business, the question whether Bechtle acts as the principal or agent represents a substantial discretionary decision and requires the individual factors to be weighted in order to come to an appropriate conclusion. Following an in-depth review of the situation and the criteria pursuant to IFRS 15, Bechtle regards itself as principal in these transactions. In the context of the indirect business, the complex and comprehensive pre-sales consulting services play a key role in the classification as principal or agent. For the customer, the purchase of software licences raises various questions concerning the scope of the rights of use of the licences. This includes aspects of strategic and operational software procurement and consulting services with respect to the contract and compliance. Consulting services are closely linked to the sale of the software products and are considered to be a material component of the performance obligation towards the customer. These pre-sales consulting services may only be performed by duly trained and certified employees (licence consultants). The certifications of the licence consultants must regularly be renewed. The required training measures involve high indirect costs.

Due to the implicit and, in certain cases, explicit obligation to provide such comprehensive consulting services, Bechtle comes to the conclusion that pre-sales consulting represents a (significant) promise to the customer. The performance consists, not only of the sale of the standard software licence, but of a combined performance bundle comprising the standard software licence and Bechtle's qualified consulting services. The result is a customer-specific licensing concept that is fully aligned with the customer's needs and for which Bechtle alone is responsible.

Against this backdrop, Bechtle considers the criteria for the classification as a significant integration service (IFRS 15.B35A (c)) to be fulfilled, which Bechtle controls before transferring the performance bundle to the customer. The classification as principal is supported by the other indicators of IFRS 15.B37:

- Bechtle is mainly responsible for fulfilling its obligation towards the customer, as Bechtle ensures the compatibility of the standard software license and the customer requirements.
- Moreover, Bechtle is free to determine the price for the combined performance obligation at its own discretion.
- Furthermore, Bechtle is exposed to a special form of inventory risk with regard to the standard software licence, since in the event of non-acceptance by the customer, Bechtle cannot return it to the software vendor or sell it to another customer.

Under certain contract models, the software vendor pays additional remuneration for the sale of licences. In these contract models, the customer usually requests comprehensive consulting within the scope of the tender process. Here too, a customer-specific licensing concept is on hand, in which all above-mentioned indicators for classification as principal are met. Bechtle is of the opinion that an additional remuneration by the vendor does not change the assessment of whether Bechtle acts as principal or agent.

Bechtle's opinion is in accordance with the accounting and measurement practice of the software reseller industry, with which the company engages in intensive interchange with regard to this discretionary judgement.

However, the software reseller industry is confronted with a conflicting interpretation of IFRS 15, which would change the accounting approach. This interpretation does not assume the existence of a significant integration service (at the request of the customer) in the indirect business if the main purpose of the consulting service is to fulfil the licensing requirements of the software vendors. According to this interpretation, Bechtle acts as agent when selling standard software licences in the indirect business. This view is supported by the fact that in the context of the sale of standard software licences in the indirect business, a direct contractual relationship is instituted between the customer and the software vendor in addition to the contractual relationship between the customer and Bechtle and until then, Bechtle does not control the software licence. Accordingly, the pre-sales consulting constitutes a pure sales service on the part of Bechtle. This view is supported by the following factors:

- The pre-sales consulting does not involve any customising of the standard software licence.
- Compared to the value of the standard software licence, pre-sales consulting represents an insignificant expense.
- For certain contract models of standard software licences, the software vendor grants remuneration for the sale of licences.
- Pre-sales consulting is provided even in cases in which the sale does not materialise. Thus, pre-sales consulting services are offered even without remuneration.

A customer who knows which contract model would be suitable and how many standard software licences he or she needs would not gain any added value from the pre-sales consulting.

To verify the interpretation of IFRS 15 by Bechtle (and by the entire software reseller industry), Bechtle will submit a request for clarification of the above-mentioned issue to the International Financial Reporting Interpretations Committee (IFRS IC). In particular, it will be asked whether in this context, pre-sales consulting is to be regarded as a significant integration service for the customer-specific licensing.

If the IFRS IC is to come to the conclusion that in this scenario, Bechtle acts as an agent, Bechtle would reduce the revenue from the sale of standard software without customising in the indirect business by the cost of the standard software without customising in the indirect business. As the revenue and the cost of sales would be reduced by the same amount, the gross earnings would not change in the consolidated income statement. However, in the event of accounting as an agent, the reduction of the revenue in combination with the same gross earnings would result in a higher EBT margin.