SoftwareONE Half Year Results

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Welcome
Anna Engvall
Head of Investor Relations, SoftwareOne

Opening remarks
Good morning and thank you to everyone for joining SoftwareOne’s H1 2022 results webcast. My name is Anna Engvall, Head of Investor Relations at SoftwareOne, and joining me today are Dieter Schlosser, our CEO, and Rodolfo Savitzky, CFO. Before handing over to Dieter, let me draw your attention to the usual disclaimer, regarding forward looking statements, and non-IFRS measures on slide two. With that, I will hand over to Dieter.

H1 2022 Results
Dieter Schlosser
CEO, SoftwareOne

Opening remarks
Good morning, I am pleased to welcome everyone to our H1 2022 results. We had a strong first half of the year, as our integrated model of software, cloud and services, continuing to deliver across all our markets. Gross profit for the group was up 16% year on year in constant currencies to 470 million in H1. After a strong start to the year, Q2 was again very healthy with growth above 17%. Both business lines contributed to this growth. This performance is a clear indication that we are well positioned and are meeting the needs of our customers, as they continue to privatise cloud-first digital transformation and navigate today’s challenges. Adjusted EBITDA was 118 million, implying a margin above 25%, this was driven by both gross profit growth and an increased focus on the operational excellence and specific cost control measures that have been put in place since early this year. Our clear focus is on profitable growth, and adjusted EBITDA was up 13% in Q2, which is a very positive development. But I also believe there is scope to do even better, as we implement specific initiatives to optimise our cost base, while we continue to grow.

On track to meet targets
Finally, with this set of results, we are fully on track to meeting our targets for the full year, which are mid-teens gross profit growth, and an adjusted EBITDA margin, above 25%.

Before diving into the specifics by business line, I would like to put these results in the context of the overall macroeconomic environment, and what we are seeing in terms of demand. As emphasised before, the market opportunity in front of us is massive, a total addressable market of over 600 billion. The software and cloud market is expected to grow at 14%, and our addressable service market at over 30% per annum, at least until ’25. This outlook has not changed, and while we closely watch the environment, we continue to see demand develop in a very robust way, with minimal delays in customer decision making. As also emphasised by industry experts, during these challenging times, organisations will prioritise certain IT investments to accelerate their digital transformation and increase
efficiency. And as pointed out by [inaudible], the cloud will be beneficiary, given the flexibility that it offers.

Regional results

Now, let us look at our results from a regional perspective; they are strong across the board, again solid double-digit growth in all four regions, and our growth markets, LatAm and APAC are now also at scale with 100 million plus gross profits run rate. EMEA delivered a strong performance led by services, and all round posted excellent growth, with impressive results with Microsoft. APAC was strong across both business lines, with several key markets posting 25% plus growth rates. [Inaudible] delivered strong growth in Microsoft as well as services, driven by larger markets, such as Brazil and Columbia. We believe our global business model with a presence in 90 markets, is a powerful competitive differentiator for us, in today’s environment, where customers are demanding more and more local delivery, paired with global best practices.

Performance

Driving into the performance of each of our two business lines, starting with solution and services, which delivered 36.5% gross profit growth in H1 this year, overall the performance was broad based across service lines, customers and geographies. Our service portfolio is fully geared towards our customer needs and pain points, in particular xSimple[?], our pay as you go offering, for our SME customer base, continued to deliver a phenomenal level of growth, of over 70% year on year, based on Office 365 and AzureSimple combined. As a result, we now support 7.7 million managed cloud users, up from 6.9 million six months ago, and from 1.7 million, at the time of our IPO. This is clear evidence of how we want to drive scalability in the business and create stickier revenue streams. I would also like to highlight our cloud services, in particular Azure, which is up 43% year on year, due to accelerating demands from our customers. As well as AWS and Google, where we have made great progress in building out our capabilities, supported by acquisitions such as HeleCloud and the strategic collaboration agreement, signed as AWS, earlier this year.

Cross selling statistics

Our cross-selling statistics, a key measure of the strength of our synergistic portfolio and customer relationship, continue to improve. Cross profits 16,400 customers purchasing both software and services, increased to 73% up from 67% a year ago. A key development for this reporting period is of course that exposure of profitability by business line. Today’s solution and services is breakeven at the adjusted EBITDA level, and we see significant upside here, as the business has achieved critical mass, leading to SG&A growing below gross profit in the future.

Software and cloud

Now, turning to software and cloud; gross profit grew nearly 5% in H1 2022, to 275 million. In Q1, we reported 1% growth, on the back of a high comparative quarter last year, while in Q2, the growth rate was 8%. Total Microsoft billing reached 9.6 billion in H1 2022, growing in line with the overall Microsoft market. Momentum was positive across all customer segments, also public SME showed low growth in Q2. We also continue to see strong momentum in our IC portfolio, on the back of [inaudible] Goatpath adoption and demand for the digital supply
chain. As for margin, you will see that software and cloud is currently at over 50% adjusted EBITDA margin. Stable compared to prior year, and at the high end for the sector.

*Our people*

Moving on to the most critical part of our business, that is our people. Over the past six months, we continued to expand our talent base, hiring over a thousand people globally, bringing our current workforce to around 9,000. This illustrates our continued ability to attract talent, even in a very challenging market, where qualified people are scarce. Attracting talent is not something we take for granted. To remain an employer of choice, we continuously invest in employee certification, as well as specific learning and development initiatives, to upskill employees, and offer them more structured career paths.

*Culture, values and purpose*

Culture, values and purpose also play critical roles, and always have at SoftwareOne. We take every opportunity to bring our people together, for community services and to celebrate key moments. We also prioritise staying close to them, listening to their opinions on a daily basis, as well as through our annual employee service. A few key examples include our hugely successful [inaudible] collection, [inaudible], and our monthly cultural days. Lastly, I also want to highlight the progress we are making on SoftwareOne academy; the academy is an important initiative, where we combine business and purpose, by bringing in people from all walks of life, into a career in technology. We now have more than 200 apprentices across 11 countries, and we are seeing great progress with transitioning these learners into our teams at SoftwareOne.

*ESG Journey*

And last, but certainly not least, I would like to give an update on where we stand in terms of our ESG journey. As planned, we have now conducted an in-depth stakeholder analysis, and materiality assessment to identify the priorities and pillars of our sustainability framework. These areas relate to specific sustainable development goals adopted by the United Nations, which you see on slide 10. Firstly, we intend to take steps to further reduce our CO2 emissions, as well as support our customers with their sustainability journeys. We do this by enabling their digital transformations to the cloud, which results in less energy used, and emissions compared to [inaudible] environment. Particular with data centres are run on renewable energy. Our collaboration with RIB software on M2 is a great example of how we can make a difference in the construction industry, a sector which today has the highest carbon footprint. In addition, we would prioritise fostering an environment which promotes diversity and equal opportunity and continue to work with non-profit industry customers, through one impact, as well as built on our already best in class ethics and compliance organisation. As a next step, we are working with our board, and subject matter experts, to develop specific conditions, and set competitive targets, and importantly, our first sustainability report will be published in 2023.

With that, I would like to hand over to Rodolfo, to take you through our financial performance in the first half.
Financial Performance

Rodolfo Savitzky
CFO, SoftwareONE

Thank you, Dieter. A warm welcome from my side as well. As Dieter already mentioned, our results are strong, with gross profit growth of 60% on a constant currency basis, in an adjusted EBITDA margin, above 25%. The margin reflects both the growth momentum and cost control measures in place since early this year. While our operating expenses increased by 80% versus prior year, the sequential growth has been limited for two quarters in a row now. Our revenue and gross profit were impacted by ForEx headwind of approximately 2.5 percentage points, mainly reflecting the strengthening of the Swiss Franc against the Euro. Nonetheless, our operating model provides a natural hedge, with similar exposures at the revenue in OpEx levels, so the ForEx impact on adjusted EBITDA was minimal.

Promised transparency

Slide 13 provides the promised transparency by Business Line for you to better understand the dynamics of our business. As the table highlights, we have split our business into two business lines, and corporate. With corporate, including all central functions such as COO, CFO and treasury. With this year reporting, we have also included a new alternative performance called contribution margin, which equals revenue less external and internal delivery cost. Our [inaudible] gross profit measure, captures the difference between the revenue and the external delivery costs. Mainly the cost of software and cloud licences in outsourced costs for service deliver. While gross profit was well suited for a classical resale or business model. The new contribution margin measure is more appropriate now, that solutions and services has reached scale.

Moving down the P&L, certain SG&A such as dedicated marketing for commercial teams are fully reflected in the respective business lines, while some shared resources are allocated based on percentage of contribution margin. In terms of margin, solutions and services move from being loss making in 2021, to breakeven in the first half of 2022, and was already at 7% in quarter 2. Its profitability will continue to increase, over the coming quarters, although seasonality needs to be taken into account. As already mentioned by Dieter, our software and cloud margin is at the high end of the sector, which we see as being both health and sustainable.

Operational excellence

Moving on to the next slide. While our priority remains investing in growth and increasing our share of wallet with customers, we fully recognise the need to focus on operational excellence. The timing is right. Over the past few years, the focus was on rapid growth. Now that our business has reached a meaningful scale, we need to make sure it operates efficiently. As already mentioned in quarter one, we have launched a wide-ranging efficiency programme, to ensure a best-in-class cost structure. This programme aims to improve our commercial model, as well as optimise our operational delivery and right size key support functions such as finance and HR. To provide a few examples, on the commercial side, we will take a more systematic approach to value-based customer segmentation and targeting, supported by key account management, to maximise cross selling of services to our software
and cloud customers. By benchmarking our sales forces across countries, we will ensure optimal sizing according to business opportunity.

**Delivery**

In terms of delivery, our priority is to better leverage our network of global, regional and local delivery centres. We are also standardising our service solutions to scale them out [inaudible]. For the support functions we are accelerating the transition of transactional activity to shared service centres, to leverage – process standardisation automation, as well as lower cost of offshore locations. Some of the initiatives are already underway, while other elements of the programme are still being finalised. We expect to have the full project blueprint, including productivity target, by the end of this year, with benefits materially accruing from 2023.

**Working capital**

Now, let me take a minute to explain the dynamics around working capital for this period, and how it is likely to play out until year end. Working capital has a disproportionately large effect on our results, that is our software and cloud [inaudible] and payables, reflect gross billings to our customers, and the corresponding license costs paid to our vendors. Looking at the average [inaudible] outstanding over the last 18 months, these results have been relatively stable, while DPOs have come down compared to H1 and H2 last year. This was related to timing of specific vendor payments in the period. It is very important to emphasise that we do not see any macro trends or changes in collection dynamics, impacting our [inaudible], neither customer nor vendor payment terms have changed. As such, we expect the level of networking capital to reverse over the course of the second half of this year, in line with typical seasonality. We still ended the first half with a net cash position, and we expect it will be significantly high again by year end.

I would like to remind you of our capital allocation strategy. Our first priority is to support our operations into drive organic growth. Regarding M&A we have been executing a string of [inaudible] strategy to enhance capabilities across our service lines, particularly SAP services and cloud services. We expect to continue to do so. Our dividend is very important; we will continue to pay out between 30% and 50% of adjusted net profit each year. Overall, we use our balance capital allocation strategy to optimise returns. As such, we will also look at using excess cash for share buybacks to make sure we remain capital efficient, in maximised returns to shareholders.

**Guidance for the year**

Moving on, I want to strongly reiterate our guidance for the year and for the mid-term. We will deliver mid-teens growth in 2022 and our adjusted EBITDA margin for the year will be above 25%. As already mentioned, we are targeted to pay as dividend, 30% to 50% of our adjusted profit for the year. The 2022 guidance is fully consistent with the mid-term guidance.

**Changes to our report**

Let me now move to my final slide, regarding changes to our report. As promised, we have already implemented the business line P&L and have introduced [inaudible] adjusted performance measure contribution [inaudible]. To better capture the profit contribution, after deducting from revenue of the internal and external delivery costs. With the introduction of
this metric, gross profit becomes a less relevant measure for our business, therefore as of 2023, we will start guiding for growth, based on revenue and EBITDA margin will be calculated as percentage of revenue and not gross profit. These KPIs are more in line with market prices. We will of course continue to provide visibility between all new metrics to ensure full apples to apples comparison.

Let me now hand over to Dieter, for his closing remarks.

**Dieter Schlosser:** Thank you Rodolfo. As we reach the end of our presentation, there are three messages that we would like you to take away today. Firstly, our H1 results confirm that we are fully on track to meet our 2022 guidance of mid-teens growth, and an EBITDA margin of above 25%. Secondly, we remain fully committed to our growth strategy and investing in our people, supported by operational efficiencies, to deliver profitable growth. And thirdly, we are improving the level of transparency, in our financial disclosure, to provide an optimal understanding of our business model. This includes setting ESG targets and publishing our first sustainability report next year. Thank you, and now we will take your questions.

**Q&A**

**Operator:** Thank you, as a reminder to ask a question, you will need to press star, one and one on your telephone and wait for your name to be announced. Once again, please press star, one, and one, if you would like to ask a question. We will take our first question. Please stand by.

And your first question today comes from the line of Kathinka De Kuyper from JP Morgan. Please go ahead, your line is open.

**Kathinka De Kuyper (JP Morgan):** Good morning, thank you for taking my questions. A couple for me please. Just quickly on the macro environment, given the uncertainty that we are seeing in the market, can you comment on the visibility you have into the remainder of the year? And then just to confirm, you were saying that you have not started to see any signs of sale cycles getting longer, and decisions being [inaudible].

Secondly, on the margin, obviously finally we have the divisional margins, and the growth is really being driven by solutions and services; what is your expectation for the second half for that decision, and longer term, where do you expect that the margin could go? And then similarly for software and cloud, is that expectation there, that the margin would stay broadly stable?

And then finally, on additional cost savings just identified, can you just comment on the magnitude that you are expecting there? Thank you.

**Dieter Schlosser:** Thanks Kathinka, and let me answer the first two, and then I will hand over to Rodolfo. You are right, on the macro environment, we have seen robust demand continuing, our pipeline reflects that, our book of orders reflects it as well. We do not see currently any headwinds, and the reason is, as I initiated also, and alluded to in my presentation; our portfolio which we are offering is well suited now to the needs of the customers, particularly in an environment with uncertainty and where they need flexibility. So, cloud is really the answer, digital transformation is really the answer, and we are able to
give this. I think you also mentioned sale cycles, do we see a change over there? We do not, but of course we have all these different sales cycles, depending on the portfolio, which varies, but we do not see an overall trend which would go in a different direction.

On the second point, which is the margin, thanks for acknowledging that; yes, we believe that the software and cloud margins are healthy and stable. They are at the top end of the industry and they are stable; we will not see a situation on software and cloud margins. On solutions and services, as you have seen, we are now profitable, and in Q2 we also had 7% adjusted EBITDA. There is a certain seasonality, which Rodolfo has also mentioned, but overall we see the trend absolutely going in the right direction. The reason for that is very simple, when you incubate services and you have to make a reputation and name in the market, in the first years you always have higher overheads; you have higher SG&A. Now, since we have reached scale and since we have reached the critical mass, we can actually grow with limited growth on the OpEx side. In terms of target, we would say our ambition would be to have an EBITDA margin of mid-teens, by 2025, and that is how we see it currently.

In terms of the cost savings, let me hand over to Rodolfo.

Rodolfo Savitzky: Thanks Dieter, so on the magnitude of the cost, let me, before I get there, just remind ourselves a little bit of the context. The [inaudible] has invested behind scaling up over the past few years, this [inaudible] in my view, absolutely the right strategy, and we have reached, as you have seen with the solutions and services, a point where generally the company has reached the right critical mass, and so it is the time now to step back, and not only continue to invest behind growth, which is the biggest value driver, but to also think about what is the most efficient operating model. So, as mentioned during my presentation, we will tackle areas like commercial excellence, the optimisation of delivery of services, and also to an extent, software and cloud. And benchmarking of our support functions, to again ensure we have best in class, in terms of delivery but also efficiency.

The advantage for a company like SoftwareOne, with the guidance of growth rate in the mid-teens, is that to right size the company, we do not need to go into big restructuring programmes, it is simply about making sure costs significantly grow below the GPO sales growth. So you can right size by maintaining a big lag or large lag between cost increases and sales growth.

The KPIs, the marketing tools, we will communicate, as I said, with the year end results, we will finalise the blueprint in the second half of this year. In terms of order magnitude, what we can say is, when a company approaches this new phase of really looking at efficiency across all the engines, it would be unlikely to – it would be disappointing not to achieve at least, you call it, mid-single digit level of savings of the cost base.

Anna Engvall: Thank you very much for the caller.

Operator: Thank you. We will now take our next question. Please stand by. And your next question comes from the line of Ross Jobber from Citi, please go ahead, your line is open.

Ross Jobber (Citi): Good morning, thank you very much. Two questions if I may. The first one is more clarification; you talked about your Microsoft business growing in line with the overall Microsoft market, is that not a bit disappointing, because my understanding was that
you were more exposed to the higher growth parts of the Microsoft offering, or maybe that is just the language used in the release? Maybe you are talking about the relevant Microsoft market. And then my second question is, obviously we have talked about macro uncertainty, you still hired quite a healthy clip, in terms of new people in H1; what are you thinking about in terms of H2, and where do you expect – where would you like headcount to be at the end of the year? Thank you.

**Dieter Schlosser:** Yes, hi Ross, good to speak to you. On the second question on the macroeconomic side, so from the hiring you have seen that we hired around a thousand people in H1, you also remember we had that initiative which we shared with you, which we completed a couple of months ago, which was Transformance, so there was of course also a replacement, in terms of the wrong capabilities which we had in certain areas. For the second half of the year, we see a slow growth of hiring; it also depends on how the current environment relates to. We have seen in the first half year wage inflation, as you all know as well. But recently, in the last couple of weeks, that dynamic has changed a bit, and big technology companies have started not only to go on headcount freezes, but also on restructuring and cutting of headcounts. So, that dynamic might give us a different opportunity to get the right skillset available in the market. But we are carefully watching that space.

On the first one, on the Microsoft dynamic, Rodolfo, you want to jump in?

**Rodolfo Savitzky:** Yes, so look, a couple of comments on the Microsoft. We look at several metrics, of course, in here, you know, communications require external rights, because we do not have access to the last granular data, neither from the Microsoft books. Let us say, when we see overall Microsoft growth, our growth billings are pretty much in line. And then, within the portfolio, I think we – as Dieter mentioned, in his presentation, we see a slide slowdown in the public SME, compensated by accelerated growth in other areas. So look, this is – when we look at, of course, also the forecast, what we see across the regions, we continue to see very positive momentum in the second half, which has been confirmed by our operations around the world. I mean, the first week of the second half, we continue to see the same momentum, so overall, I would say there is always a bit of a rebalance in the portfolio, but growth in line with the Microsoft market.

**Ross Jobber:** Thank you.

**Operator:** Thank you. We will take our next question, please stand by. And your next question comes from the line of Alistair Nolan from Morgan Stanley. Please go ahead, your line is open.

**Alistair Nolan (Morgan Stanley):** Great, thanks for taking my question. Maybe just again on the macro, I think the release did call out some weakness on the SME sides, I was not exactly sure what that was referring to, it said public SMEs, so maybe you could just clarify what you are seeing on that side. And then secondly, you flagged share buybacks as a possible capital allocation policy; I am just wondering if there is more detail you can provide on how you are thinking about that, and the framework there. And then just finally on the working capital outflow; I am just trying to understand why it was so much larger in the first half, maybe some more detail around that, and in particular what sort of improvement you are expecting in the second half, that would be great, thank you.
**Dieter Schlosser:** Hi Alistair. I will take the SME question. Sorry if that did not come across clearly. So, that is the public sector of SME; as you know, the public sector ratio in SoftwareOne overall is around 15%, and in the public sector, you also do have a split between enterprise segments, large segments and the SME segment. And where we have seen a slower growth was exactly in that SME segment. For the cash allocation and the working capital, Rodolfo, you want to jump in?

**Rodolfo Savitzky:** Thanks Dieter. So, Alistair, let me start with the share buyback, I mean I already outlined it in the presentation; we have clear prioritisation, but obviously share buyback is part of the options we are considering, and we have communicated that before, but we wanted to formalise it in this particular presentation. Then, in terms of the way the cycle works here internally, within SoftwareOne, we do our internal as [inaudible]; this is a regular event every year, right, it does not mean that all will change their strategy; we simply look at our strategy and validate the key metrics, right growth, how much we expect to invest organically, what are some of the inorganic opportunities that we foresee? And I think a good timing for providing a more concrete update would be after we do an update on an internal strategy plan, and that happens typically in the [inaudible].

Now, let me go to your third question, the working capital, again let me step back here. When I look at the fundamentals of networking capital, which are first the terms; customer payment terms, vendor payment terms, collection dynamics, nothing has changed fundamentally, you know, when you look at the monthly metrics, the averages are also quite stable. So, for example, when you look at DSOs, which have been hovering around 60, it was more or less the position we had at the end of the first half, a little bit over that three days. And then when it comes to the payables, which is what created the deviation here, in general, I would say when you look at monthly averages, the payables are around 70 days, but typically at, call it half year, there is an optimisation of payables, where what we do is we really try to make sure that the bigger payments, also the size of our different contracts has increased over time. So, that is a bigger contract; we will re-optimise the timing, of course within the terms that we have been granted, but that will be optimised in such a way to maximise the payable position.

This did not happen in June, but we are already seeing a reversal of that, and we expect that we will end the year with a working capital position, in terms of DSOs, DPOs, very similar to the one we had at the end of last year, and therefore the impact from net working capital for the year, which we are seeing now. So, the cash flow, with the usual seasonality, the cash flow effect will reverse in the second half.

**Alistair Nolan:** Great. Thanks.

**Operator:** Thank you. We will now take our next question. Please stand by. And your next question comes from the line of Knut Woller from Baader Bank. Please go ahead, your line is open.

**Knut Woller (Baader Bank):** Yes, thank you. Two questions actually, first one on the SME segment, you just cited slower spending in the public sector, so you do not see any signs of SME spending slowdown, outside of the public sector, and secondly, just trying to get together around your comments regarding the margins, and your mid-term target. So you expect a stable margin in software and cloud, and you expect mid-teens margins in solutions...
and service, so looking at your above 25% confirmed adjusted EBITDA margin target, should we rather think about that, and to move somewhere in a range to 25% to 30%, or will there be any further invest, and potentially limiting the upside, do you expect, in the solutions and services margin? Thank you.

**Dieter Schlosser:** Hi Knut, thanks for the questions. You are absolutely right, we do not see any customer segment at the moment slowing down, and in the second half of the year, actually we are cautiously positive on software and cloud. As you know, from our business model on solutions and services, the majority of what will be booked now is basically already sold, so there is of course a very good visibility on this. In terms of margin, given the [inaudible] mood, we said that we have a target of solutions and services, by 2025, to reach the 15%, as of now, we stick with our guidance, above 25% for the margin. We remember our discussion which we had in the beginning of the year, also after the Q1 presentation, that gives us the flexibility to react to market opportunities and capture opportunities in the right way, [inaudible] the company needs to be, to be successful in the future. So, for the current environment, we would not change our guidance on this.

**Knut Woller:** Got it. Thank you.

**Dieter Schlosser:** Thanks, Knut.

**Operator:** Thank you. We will now take our next question. Please stand by. Your next question comes from the line of Andreas Müller, ZKB. Please go ahead, your line is open.

**Andreas Müller (ZKB):** Yes, thank you very much for taking my questions. I ask one on the solutions and service market that grows certainly this year, above the 30%, but how do you see the momentum, going into 2023, given that you have a good visibility already? Maybe you see there you have also a visibility into 2023, and how dependent is this growth, also from acquisition? That is the first question.

**Dieter Schlosser:** Yes, thank you Andreas. Let me elaborate on this one too, Andreas. The first one would be on acquisitions; you know that our strategy at the moment is to really do bolt on acquisitions, that means we add capabilities, which you can also classify as talent acquisition, in other words, 20 people to 150 people in that range, right. So, it is not something which has a huge impact in terms of our cost structure.

In terms of the long-term, the growth, you remember we always said we are growing either aligned or above the market, when it comes to solutions and services. I alluded to that, with the market is growing at 30%; we want to grow above 30%. You are absolutely right, the baseline has come now quite big, we are talking about a run rate business which is going towards half a billion in the next year, and that is of course when you continue with high growth, like 36% to 40%, that is a different challenge than doing this on a lower baseline. For the time being, we are positive for 2023 as well. I think we will have this high growth in this, and maybe there is a kind of a deceleration in the 30s around, but at the moment, we have not really cleared that out.

**Andreas Müller:** Okay, thank you. That is clear. And within solution and services, I think you mentioned in the past that managed services is kind of the sweet spot you wanted to go in, and professional services [inaudible] to bring in the client, can you give us a sense of the split between the two business lines, and also the margin differential of the two?
**Dieter Schlosser:** Yes, so we do not disclose that, but it is very – as you know, right, professional service varies dramatically, you can tell an advisory engagement with a gain share, which has a very, very high margin, and then you take a broad check, just as an entry point, to get to the managed service, and you dilute the margin a bit, to get the managed service, right, so it is a big variant. So, we do not differentiate between those, but for us, the recurring revenue and the TCV of course, is very much important on the managed service side; it is stickier, and the relationship is completely different. At the moment, we are around 60%, on that, and initially we said, you know, we want to drive this as high as possible, but if you have incubated service lines, you will always start with professional services, because you have to make a name for yourself. So, I think that range of 60/65, this may be an optimal range, maybe maximum you can go up to 70, but I believe, technology is always fast changing, and you need to always bring some new things to the market, so you will not go beyond that.

**Andreas Müller:** Okay, thanks, and then the last one, if I may. Can you give us an update on the pilot you run in North America on the new technology platform, and when is it ready to be rolled out, globally?

**Dieter Schlosser:** Yes, good point. So, our Goatpath platform, which we piloted with the marketplace function in North America, the pilot is going according to plan; we expanded it to Canada, and we are now in the second half of the year, bringing it further to English speaking countries, and then from next year onwards, we are going beyond. We are very hopeful on this, that by the end of the year, so when we bring our results in February next year, to you, that we can give you complete numbers on how the commercial model behind Goatpath looks like. But, at the moment, we are cautious on this, because we want to have the proof point. We believe this can be highly disruptive, not only for the software supply chain, but also in the way we get customer attraction, and customer attainment, but we want to share the proof point with you, and not simply a strategy.

**Andreas Müller:** Okay, thank you very much.

**Operator:** Thank you. Once again, as a reminder, if you would like to ask a question, please press star one, and one, on your telephone keypad. We will now take our next question. Please stand by. And your question comes from the line of Michael Briest, UBS. Please go ahead; your line is open.

**Michael Briest (UBS):** Yes, thank you. Good morning. Just coming back on headcount, I think in the half, you added 118 people, net, and I know the Predica acquisition was quite sizeable by your standards, 80 million Francs, so can you talk about how many people that brought and organic headcount growth and attrition obviously the same, but things may be getting easier now, but was attrition an issue in H1?

And then secondly, on the exceptional costs of 24 million, could you break that down a bit more between M&A and restructuring, and also what you expect for the second half? And then finally, Dieter, just coming back on the services margin, I think, you know, at the capital markets day, you were highlighting companies at 20% plus EBITDA margins as being a benchmark you aspire to, and that is obviously after central cost, so the mid-teens margin seems a bit low to me, can you maybe talk about whether there is something holding that
back in the next couple of years? Whether you think longer term, it could be over 20% perhaps? Thank you.

**Dieter Schlosser:** Yes, hi Michael, good to talk to you. See you later. On the three questions, let me bring the headcount, let me bring the margin, and then I refer to Rodolfo. So yes, you are absolutely right, we had of course an impact in terms of attrition, in the first half of the year, because of our Transformance programme, which was absolutely what we committed, and what was also needed in the space. Predica, that you referred to was around 300 people, which we brought on, in that period of time. And, we watched the space very carefully for H2; we really do selective hiring and selective OpEx increase, to make sure that we get the growth before we bring the OpEx. So you will not see dramatic variances in that segment.

On the margin, I was waiting for you to ask this question. If you look at the pure service players, right, the pure service players, not the symbiotic and synergistic business model which we bring to the table as a real competitive differentiator. They have margins which range, as you know, from five to 30 plus, but the majority is in the 10 to 20s range, depending on which one you look at, and outliers like TCS, with 27, and then you might have here and there, a digital service provider who has cracked the code above 30. We believe that in the ramp up period, the 15% adjusted EBITDA margin is a good target to have by 2025. We shared with you that we also have adjusted the delivery model, so we go, what we call ex-DCs, regional delivery centres, to make sure that we bring all our delivery capabilities closer to the customers, closer to the time zone, closer also to the trend, which we see from a geological side, as well, and that offers further opportunity. Of course, we also have automation in our programme, which offers also further opportunities. But we want to be conservative on this, and we believe this is a good target for us right now.

**Rodolfo Savitzky:** Yes, so Michael on the adjustment, which you referenced, before I get there, let me again reiterate a couple of points. One of the integral parts of our business model is bolt on acquisitions particularly in solutions and services, as Dieter said, to mainly bring capabilities. So, this is related of course to talents. And therefore, many of our bolt-ons have a kind of mixed investment, so we have an upfront that we pay to the owners, to the sellers, and then there is an out component to ensure attainment of business plan, to ensure very importantly, retention, because at the end it is critical we buy capabilities and the leaders of course need to ensure capabilities remain for several years. So, when we look at the famous 24 million, which you referenced, the lion share, as you can imagine, is [inaudible], there is a couple of chunky ones of course we do not disclose [inaudible] there are a lot of smaller ones, right. And then you have the typical M&A expenses associated with due diligence, legal costs and so forth, right. Then Transformance, as we said, right, the programme ended up split between two years, so we have eight million also spent out there. And I would say the major adjustment was related to the closure of our Russia entity, with 35 million.

**Michael Briest:** Okay, thank you. And then Dieter, I mean you obviously prepared this full interim statement before sales force reported last night, but they are obviously guiding down and it is a company of very strong execution; are you at all concerned or changing your hiring behaviours, or what are you looking out for, which might be a sign that conditions are getting
more difficult and that might lead you to change your expectations, either for next year or for this year?

Rodolfo Savitzky: Yes, as mentioned earlier, I saw this also, in Snowflake etc. From our angle, we do not see a slowdown on the services side at all; there is actually – we are on capacity over there, and on the software and cloud side, we are also quite optimistic that this will continue; we do not see any slowdown either on this side. What we are looking at is, of course, you know, in our key markets and in our key customer base, do we see a different trend, compared to previous years, knowing that is slightly skewed with COVID, from 2021 and 2020, but that is one angle. What we also look at is our renewal ratio, which at the moment is also not declining, it is very stable; it was also very high and is very stable, you know that usually on software and cloud you have either three years’ contract, or in first time you have whatever, one- and two-years’ contract. And then most of them are actually going to auto renewal, and the bigger ones, they are renewed as per negotiation. But also over there, from conversion ratio, we do not see any difference at the moment. But these would be the indicators, right, if the portfolio ask on the services side would be different, and if the renewal ratio on the software and cloud would be an indicator for us to see that there is a change. But, at the moment, it looks positive.

Michael Briest: Okay, that is helpful. Thanks very much.

Operator: Thank you. We will now take our next question. Please stand by. And your next question comes from the line of Christoph Grau from AWP, please go ahead your line is open.

Christoph Grau (AWP): Hello, thank you very much for taking my questions. You already answered most of them, but maybe you can help me to clarify some points on your programme to increase your efficiency. I want to know why there is a need for further programme [inaudible] just finished one, this Transformance programme in the beginning of this year? And did I get a drive that you are expecting a mid-single digit saving of costs in this programme? And can you further say something about possible job cuts, maybe? Thank you.

Dieter Schlosser: Yes, thanks Christoph, good speaking again. Rodolfo, do you want to allude on this?

Rodolfo Savitzky: Yes. I can take you step by step, Christoph. I will take one step back, as I said also in my remarks. So, if we look at the history, we have invested in SoftwareOne significantly [inaudible], that has meant hiring people, scaling up operations, and so forth. Now, at this point, we have reached a certain critical mass, you can see it in the solutions and services business, so it is the opportunity to continue to invest behind [inaudible], it is super important, but also to take a look at efficiency, and also the capabilities of our group. These things are very important. The first step happened, it was about making sure we have the right people in the right place in the bus, right, and that was Transformance, it was not a restructuring, it was not an efficiency programme, just making sure we did not keep the C players, so to speak, and that we keep the A players in the team. So, that programme is closed.

Now there is a second element, how can we operate more efficiently? And this touches every engine of the company; commercial, finance, support functions, delivery operations. Of course, during the years, the team has looked into productivity, but as I said, the emphasis
was 80% on investment behind growth[?] which was the right thing to do at the time. And now we need to step back and take a deeper look; how can we have the efficiency of a best in-class company for our side[?] This is what we are trying to do.

Now, the restructuring part, we are in the very fortunate situation to be a company growing mid-teens, and when you are growing at this level, and take services again, we are growing ahead of market, around 30%, to right size your cost structure, because you do not need to do restructuring, you just need to make sure you slow down your cost increases, right, and that the delta between your growth and your cost increases is quite high.

So, you know, I think the timing is right to look into, how do we become more efficient? This is not about restructuring, but about operational excellence in different areas, to have the best practices. In many areas we already have the best practices, but in others, we need to improve. And then finally, I am speculating here a little bit, but what I said is based on my own experience, based on my colleagues. In general, when you are launching a programme like this, in terms of efficiency, the expectation is that you need to get somewhere in the mid-single digit savings, right. I mean that would be the expectation. Now, in many cases, this would be more of a cost avoidance, right, in the sense that we have been growing our cost structure in a certain way, and then we will not need to grow that much. That is an important point to keep in mind. But look, I think here we should just wait until the end of the year, then we will provide more concrete KPIs, and I think in the meantime, the point we want to drive across, this is now an important priority area for us.

**Christoph Grau:** Thank you very much.

**Operator:** Thank you. There are currently no further questions. I will hand the call back to yourself, Dieter, for closing remarks.

**Dieter Schlosser:** Maybe we have one addition to it, Christoph, if you are still on the line.

**Rodolfo Savitzky:** Yes, Christoph.

**Operator:** Oh sorry, Christoph, if you can press star one and one again, then I can open your line again. I am just opening his line again.

**Rodolfo Savitzky:** The clarification, Dieter and I briefly exchanged notes here, it is just when we say mid-single digit percentage, we mean percentage of the cost base, but again, I let us say link you to what we talked about, restructuring and cost cuts, we say, if costs were growing at a certain rate, right, in a company like ours, I am going to just make an example, if in the past we were growing 10%, if you can implement certain efficiency measures, the impact would be mid-single digit, that means you grow your cost by 5% instead of 10%, just to make it very clear. And this of course is what I would call the ongoing level, so maybe in the first year you can achieve 3.5, instead of growing 10, you grow 6.5, but it probably is worth the clarification. And again, we will confirm numbers at the end of the year.

**Christoph Grau:** Thank you very much.

**Dieter Schlosser:** Thanks Christoph.

**Operator:** Thank you. There are no further questions at this time. I will hand the call back to yourself, Dieter.
Dieter Schlosser: Yes, thanks. So thanks to everyone listening to our H1 Earnings Results Presentation, thanks also for raising very good questions, and speak to you individually, I guess, in the next two weeks. Thank you very much and have a great day.

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