Full Year 2022 Results

Thursday, 2nd March 2023
Introduction
Anna Engvall
Head of Investor Relations, SoftwareOne

Introduction
Good morning and thank you to everyone for joining SoftwareOne's full-year 2022 results. My name is Anna Engvall, Head of Investor Relations at SoftwareOne and joining me today are Dieter Schlosser, our CEO, and Rodolfo Savitzky, CFO.

Disclaimer
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.

FY 2022 Summary
Dieter Schlosser
Chief Executive Officer, SoftwareOne

Key Highlights of 2022
Good morning, I am pleased to welcome everyone to our full-year 2022 results. 2022 was yet another year of achievements to be proud of. Firstly, we delivered a record year, reaching CHF 1 billion in revenues for the first time. In addition, our service business hit the CHF 500 million revenue run-rate in Q4. Importantly, we are also ahead of schedule on our 2025 target of 15% adjusted EBITDA margin for services.

We continue to attract challenge, reaching over 9,000 FTEs, and make great strides improving gender diversity at all levels, including at the Executive Board with the appointment of Julia Braun as Chief HR Officer.

Lastly, I am very proud of our successful re-brand, which reflects our transformation into a global software and cloud solutions provider supporting clients over their entire cloud journeys.

Solid performance in 2022 with 14% growth and margin above 25%

Moving on to the numbers, gross profit for the Group was up 14% to CHF 940 million in 2022. Adjusted EBITDA was CHF 240 million with a margin of 25.6%, broadly stable compared to prior year.

Looking at Q4, growth was 7%, due to a weak December. We saw clients taking a more cautious approach to spending their budget. This was particularly evident in EMEA, especially in our Microsoft business.

On the demand side, we are seeing that organisations continue to push forward with cloud-first digital transformation to drive agility and efficiencies. They want to move to the cloud, but in an optimised way, with control over their spend from the beginning. We are in the best
position to help them do so, being a leader in FinOps and application modernisation. At the same time, we are taking measuring to accelerate our growth momentum and optimise our cost structure. Rodolfo will take you through this initiative later in his presentation.

**Broad-based Growth Across Regions**

On regional performance, all four regions are now at scale. Also, our growth markets generate revenue around or above CHF 100 million. Each region also delivered double-digit growth in the year.

EMEA grew by nearly 13%, including the acquisition of Predica. In Q4, growth was 4%, driven by weaker results in our Microsoft business, as mentioned earlier.

NORAM delivered a strong performance with gross profit up 15% and momentum continued into Q4.

APAC delivered growth of nearly 14% in 2022. Q4 growth was driven by China, as well as Australia and Hong Kong. Also, for a smaller size today, we see that China has the potential to become a growth engine for the region.

LATAM grew by 12%, but Q4 was impacted by slowdowns in key markets Brazil and Colombia, due to political environment.

In summary, it is great to see continued momentum across many of our key strategic and high-growth markets, including NORAM and Asia-Pacific.

**Business Lines**

*Growth in Software & Cloud Services driven by xSimples, Cloud and Application Services*

Diving into our business lines, Software & Cloud Services delivered over 27% growth. Cloud Services, Application Services, and SAP Services delivered high-double-digit growth in the year, although, growth in Q4 was impacted by a lower contribution from our acquisitions.

xSimples grew by 56% in 2022 and over 40% in Q4. As mentioned, last year growth in xSimples has come down from over 80% in 2021, as we are reaching the end of the shift to pay-as-you-go from existing multi-year agreements.

In terms of profitability, adjusted EBITDA margin was 9.6% in Q4, up from 3.3% last year, driven by a very competitive contribution margin and operating leverage. This confirms that we are ahead of schedule in terms of meeting our 2025 adjusted EBITDA margin target of 15% of revenue.

*Robust growth in Software & Cloud Marketplace*

Now, turning to Software & Cloud Marketplace. Microsoft billings reached CHF 17 billing in 2022, growing 13%, which translated into gross profit growth of nearly 6%. In Q4, Microsoft billings slowed to 2%. This was driven by weakness in EMEA, the public sector in particular, although, the enterprise segment was also impacted. Meanwhile, other ISVs continued to show strong momentum, growing double-digit through Q4.

As for margin, you see that Marketplace was at a sector-leading level of 53%, with a slight improvement over last year. This is a testament to the scale and the high level of efficiency that we have reached in this business. Whilst we see some softness in growth in Q4 related to
current environment, the drivers remain fundamentally robust, and we are confident in the long-term growth.

**Partnerships**

*Winning partnerships with customers and vendors*

Now, let us look at some examples of how we win business by helping customers on their cloud journeys across our portfolio, across the hyperscalers and across the regions.

A US-based global manufacturing company choose SoftwareOne to achieve operational efficiencies and reduce compliance risk with our ITAM and with our DAC services. A large Asian insurer selected us to assess, to migrate, and centralise their IT estate more than over 800 workloads on AWS. Finally, we won a framework agreement for 10,000 universities and educational institutes across 42 European countries.

On the right, you also see recognitions from some of our partners. After signing a strategic collaboration agreement with AWS last year, we also achieved premier-tiered services partner status. We are one of a handful of their most strategic partners and have so far overachieved our commitments with them. We were also recognised by ServiceNow as partner of the year and Fresco for expanding the opportunity around ServiceNow in 2023.

**Sustainability**

*Progressing our environmental, social & governance strategy*

I would like to provide a short update on our sustainability journey.

Our ESG strategy was created with a passion for our people, our communities, and our planet at its core. We want to build on the success of ongoing local initiatives to create a strategy and vision to be embedded across SoftwareOne's businesses. To that end, last year we conducted an in-depth maturity assessment and developed five ambitions in alignment with specific sustainable development goals adopted by the United Nations.

In our ESG report, to be published in H2 this year, we will share our progress and 2030 target in relation to each of these ambitions, including our carbon footprint and reduction measures.

Finally, it's our people that deliver our technology solutions. For that reason, we continued to talent base last year, with some excellent results. We grew to over 9,000 FTEs worldwide with over 300 hires to capture the right talent and replace key customer-facing roles. As shared before, we look for different ways of closing the talent gap, while also making a meaningful contribution to society. It was therefore great to have 300 academy apprentices transitioning to full-time hires over the year.

We made progress in terms of improving gender diversity at all levels. Senior female leaders now represent 27%, up five percentage points compared to 2021. We also developed our employees by supporting them in gaining certifications alone in Microsoft and AWS more than 1,000 new certifications were achieved. In addition to ensuring that our employees are empowered, well-trained, and given the right career opportunities, we also want them to be properly incentivised. In 2022, we made certain key changes to compensation plans to increase growth and profitability.

With that, I would like to hand over to Rodolfo to take you through our financial performance in 2022 and Q4.
Financial Performance

Rodolfo Savitzky
Chief Financial Officer, SoftwareOne

Key Achievements in 2022

Thank you, Dieter. A warm welcome from my side as well.

Let me summarise what I see as key achievements for 2022. We delivered on guidance, and we continue to scale Software & Cloud Services. We launched our operational excellence initiatives, which I will cover in more detail later on. We also maintained tight cost and working capital controls. Finally, we continue to execute on our balanced capital allocation strategy with growth investment and bolt-on M&A, while also returning funds to our shareholders in the form of a proposed CHF 0.35 dividend for this year and a CHF 70 million share buyback.

Solid performance in line with guidance

Let us move on to the numbers. I will refer to the new metrics which we will focus on in 2023, revenue contribution margin and EBITDA margin now as percentage of revenue.

Starting with the full-year results, revenue grew by 14%, in line with gross profit. Contribution margin, the difference between revenue and internal and external delivery cost, increased by only 11% in constant currency due to the impact of business lines. Finally, our SG&A expenses grew by 10%, mainly reflecting tight cost control, with quarterly cost flagged since quarter four 2021.

Adjusted EBITDA margin as percentage of revenue was 23.8%, which is equivalent to 25.6% margin as percentage of gross profit, fully in line with our guidance. As Dieter already mentioned, a business slowdown in December, customers took a more cautious approach to spend, particularly in Microsoft in EMEA.

Revenue growth was up nearly 8% in quarter four, with a high adjusted EBITDA margin of 28% of revenue, in line with seasonality. As a result of the strong Swiss franc, forex headwinds had a significant impact of approximately four percentage points on our revenue and gross profit growth. However, given our natural hedge with similar exposures on OPEX, the forex impact on adjusted EBITDA was again minimal.

Margin improvement across both business lines

The next slide shows the business lines view.

Services revenue grew 26% for the year, reaching a CHF 500 million run-rate by quarter four. The contribution margin in Services was 35.5% of revenue in 2022, comparing favourably to peers, and up by half a percentage point versus prior year. SG&A grew at a materially lower rate than the top line, translating into an adjusted EBITDA margin of 2.9%. The margin in Q4 was 7.8%, driven partially by seasonality, of course, but we expect this to continue increasing over coming quarters towards our 15% target.

In Marketplace, we saw solid growth of 5.7%, as stable contribution margin and a strong adjust EBITDA margin of 53% – a level which we see as being both healthy and sustainable.
Driving operational excellence to optimise growth and efficiency

We have now launched a wide-ranging programme to embed operational excellence across our organisation to optimise both growth and efficiency. This programme will touch three key areas – commercial effectiveness, our service delivery model, and support functions such as HR and Finance.

As indicated on this slide, the planned measures will have different degrees of impact on both growth and productivity.

Let us start with commercial effectiveness. Here, the majority of the impact will be on growth. Leveraging our data insight, we want to target the right customers with the right offering to gain share growth. To achieve this, we need to optimise our mix of business development executives and account managers. We will also right-shore non-customer-facing roles to improve efficiency.

On service delivery, we will capitalise on standardised and volume offering for SMEs to scale profitability. We have had great success with our xSimples, which we will seek to further enhance and standardise globally. We are also really progressive towards a shoring mix for optimal utilisation rates across local, regional and global delivery channels.

Finally, we will improve productivity across our support functions by transferring transactional activity to our shared service centres and leveraging functional centre of excellence at global or regional levels.

With these measures, we aim to reduce fragmentation of resources across country organisations and improve functional impact. These initiatives will allow us to drive mid-teens revenue growth in the midterm, while generating annual cost savings of CHF 50 million. We then plan to reinvest a maximum of 50% of the savings in strategic growth areas, while the other 50% or more will fall directly to our bottom line.

Roadmap to deliver operational efficiencies

Turning the page, we plan for one-third or CHF 50 million of the cost savings to materialise this year, with a full run-rate of CHF 50 million already next year. We are moving fast in implementing the plan and expect to see progress in H1. We will communicate a restructuring provision in the region of CHF 25 million to be confirmed in quarter one.

Five strategic reinvestment areas

As part of enhancing our competitiveness, we will reinvest some of the operational excellence saving in five strategic areas. We will invest in leveraging external and internal data to further enhance lead generation and conversion, as well as improving account-base marketing to increase share of wallet. We are also using AI propensity models to predict buying behaviours to facilitate cross-sell and up-sell. We will continue to simplify and digitise our processes. We are also enhancing our training provision to strengthen capabilities, such as consultative solution selling as well as remote delivery at scale. Finally, we will invest more in IP, to improve both our high-volume SME service offerings as well as our core service line end-to-end digital solutions.
**Effective working capital management**

Working capital ended the year at a favourable negative position of CHF 158 million after factoring. This was driven by particularly effective working capital management in the second half, which reversed the first-half negative outflows from it. Our base sales outstanding have increased due to growth of consumption-based offerings where customers are invoiced later compared pre-paid enterprise agreements. Importantly, the overdue ratio has not changed. On accounts payable, we optimised our payment cycle and ended up with a similar payable as in 2021.

**Solid balance sheet**

Our net cash development is down. Operating net cash increased by around CHF 150 million, reflecting cash flow from operations, CAPEX investments mainly in our growth platform as well as increased long-term receivables. These are interest-bearing receivables related to multi-year contracts where customers have been granted extended credit terms. In return, we earn a high margin to finance these contracts.

On the non-operating outflows, we invested in two bolt-ons in our Services business line and paid out a dividend of CHF 51 million, equivalent to 46.5% of our 2021 adjusted profit for the year.

Finally, the net cash development was significantly impacted a decreasing value of Crayon shareholding. All in all, we ended the year with a strong net cash position of CHF 451 million.

**Balanced capital allocation driving long-term value creation**

Let me recap our capital allocation policy.

Reinvesting in growth will continue to be our number one priority. On the operational side, will focus on instituting our organic growth strategy, including the reinvestment opportunities I mentioned earlier. As for CAPEX, our main investment is our growth in Marketplace, to capitalise on the digital reselling opportunity. We will also continue to do bolt-on M&A to help capabilities and build geographic presence. Any potential acquisitions will be measured against high internal rate of return hurdles and benchmark transaction multiple. Finally, we will continue to return funds to shareholders in the form of attractive dividends. We will occasionally complement this with other forms of return, such as the share buyback already announced last year.

**2023 Outlook and Mid-term Guidance**

I will close my section with the outlook and midterm guidance.

We continue to execute on our well-defined strategy in order to capitalise on our attractive addressable market. While we deliver, our customers will continue to prioritise digital transformation in the coming years. We remain cautious in 2023 given the uncertain economic environment.

Based on the new reporting methodology with growth and margin based on revenue rather than gross profit, our 2023 outlook is double-digit revenue growth for the Group in constant currency, adjusted EBITDA margin of 24-25% of revenue, and a dividend payout ratio of 30-50% of adjusted profit for the year.
The improved adjusted EBITDA margin midpoint guidance reflects the positive impact of our operational excellence programme. The midterm guidance has also been adjusted to reflect the full impact of this programme, which together with operating leverage fully offsets the negative business line mix impact. The guidance also reflects our commitment to the company's profitable growth strategy and enhanced returns to shareholders.

Let me now hand over to Dieter for his closing remark.

**Closing Remarks**

Dieter Schlosser

Chief Executive Officer, SoftwareOne

**Key Takeaways**

Before we end the presentation, I would like to leave you with four key takeaways.

We operate in a large and attractive market, with the cloud opportunity offering long-term sustainable growth. Secondly, technology does not deliver impact on its own. It is our people who deliver solutions that work. We have built a 9,000-strong expert team at SoftwareOne and will continue to invest in our talent base.

Thirdly, we must also find ways to work smarter and reduce complexity in the organisation. Finally, continuing to innovate is critical. We cannot stand still. We must continuously reimagine how the world buys, builds and manages everything in the cloud.

Thank you, and we will now take your questions.

**Q&A**

**Kathinka de Kuyper (UBS):** Hi. Thanks for taking my question, a couple for me, please. First of all, on the macro, I think you mentioned that the weakness you saw started in December. Can you comment on how the current trading in January and February has evolved? Then, secondly, what gives you the confidence that you will get back to double-digit growth for the full year, especially with Microsoft and other vendors seeing deceleration? Then, how should we think of the growth between the two divisions of Software and Services? Then, finally, just a quick follow-up. Did you mention the restructuring expenses were CHF 25 million? Thank you.

**Dieter Schlosser:** Hi Kathinka, thank you for the questions. Yes, we mentioned the CHF 25 million of structuring cost – I start with the last question. On the first one, on the macro side, how we saw December and how we see January improved Q1. October-November was absolutely strong and in line with our previous months and our previous quarters. We always said that the landing on our guidance, whether it is on the low, on the mid or high-end of the guidance, will depend on the batch flush, which is the usual situation happening in December, and to be cautious, whether this year it will happen or not.
We have seen that batch flush did not occur, and we do not see that as anything else than a more cautious approach from our customers to retain some spend for the 2022 year.

In terms of trading, for Q1, we are ramping up to double-digit growth. That is also supported by a few changes, particularly also on the Marketplace. We will be seeing a change in Microsoft which will come in March where they will remove the price lock which they have initiated last year; and with that, we can accelerate on the Microsoft side to move the customers to the new commerce platform which will accelerate the growth as well.

That is one part of the answer as well for the confidence on the second question. We see fundamentally and structurally no headwinds in the market. In fact, our ISV segment is very, very strong. Also, in Q4 it was strong, and it is continuing to be strong in Q1. Also, on the Services side, our portfolio absolutely supports the current pain points of the customers and will continue to utilise that.

In terms of growth between the two lines of businesses, we have said we always want to grow along the market on the Services side. Our growth is always between 20-30% which we intend on the Services side. On the Marketplace side, it is mid-to-high-single-digit.

You want to add something, Rodolfo?

**Rodolfo Savitzky:** No, I think you covered everything, Dieter.

**Kathinka de Kuyper:** Thank you. Maybe a quick follow-up. How should we think of the seasonality between H1 and H2 this year?

**Dieter Schlosser:** Here, we see a stronger second half compared to the first half. While we guide for double-digit growth for the year, we do see a ramp up throughout the year.

**Kathinka de Kuyper:** Thank you very much.

**Knut Woller (Baader Bank):** Yes, thank you. Some aspects have already been touched, and you also touched already a bit on the price lock, Dieter. When I listen to conference calls of competitors of yours, they were highlighting that particularly price increases on the software side should help in 2023. Can you shed some light, also looking beyond the Microsoft price lock that you cited on your expectations, to which extent price increases can be a tailwind, helping you to grow in 2023?

Also, on the xSimples side, what should we expect with you mentioning that it should be phasing out in terms of growth from xSimples in 2023? Thank you.

**Dieter Schlosser:** Yes. Hi, Knut. Absolutely clear. There is a move after the price lock of Microsoft which will accelerate post-March, and then generally, across the board we see price increases from most of the ISVs. As you know, our margin is a percentage against this price or against discounted price; hence, of course, when they increase the price, we would have to take them in the Marketplace as well.

Secondly, in that space, if you talk about price increase, it is always like a private person as well, right, if somebody increases the price, you want to research whether there are other options, and often means we can help and we can support the customer to evaluate their entire cloud spend or their entire application on technology landscape. It is also a trigger point to also up-sell and cross-sell services, so we welcome such a scenario.
On the xSimples side, yes, after the price lock that will increase again, of course. However, we are hitting the end of our existing book of business. Remember, we went from the old commercial model to the new commercial model. Of course, once you go to the tail end of it, it is slowing down. However, the xSimples as such, has such a success that, of course, we are now broadening the customer base and growing instead of farming rather to net new hunting, and that is what Rodolfo also mentioned in the presentation, that we will reinvest in xSimples to further standardise and grow penetration.

**Knut Woller:** Great. Thank you. Just some more colour on the growth rate if possible, Dieter. What for xSimples, I think it should be substantially lower, but what kind of growth do you still expect from the farming momentum that you are expecting going into 2023?

**Dieter Schlosser:** Yes. I would say it will be around 30-40% growth on xSimples. You have seen, on one hand, looking on xSimples, if you look at our numbers, you can always link it back to the users which we are supporting. You have seen now it is 8.8 million users where we have 24/7 support. They are reaching also over there now slowly, 10 million in the next 12-18 months, which is great. It will definitely continue to grow.

Overall, on Services you remember we always said we want to be with the market, which is 20-30% on growth.

**Knut Woller:** Thank you very much.

**Andreas Müller (ZKB):** Yes. Good morning, gentlemen. Thanks for taking my question. I was wondering why with the Microsoft business, there was such a huge difference between EMEA and the US. Are we here in other cycles? That is the first question.

Then, I was wondering what do you expect for wage inflation this year, and also the development of the FTE, can you stabilise the OPEX also throughout the quarters this year?

Then the last question is tax rate, what you expect for next year, or for this year, actually?

**Dieter Schlosser:** Tax rate, Andreas?

**Andreas Müller:** Yes.

**Dieter Schlosser:** Okay. Let me take the first one. Wage inflation and tax rate, I will hand over to Rodolfo.

**Dieter Schlosser:** From a customer segmentation, you look at different geographies. We have the largest customers in EMEA. Then, of course, if you talk about bluebirds, which are basically the batch flush, then of course it would also be a factor in EMEA. That is where our public sector is, it is mainly focused on EMEA as well. That is the explanation on Microsoft, why it was geographically different.

I hand over to Rodolfo, for wage inflation and tax rate.

**Rodolfo Savitzky:** There was also the comment on FTEs, maybe I tackle that as well. Andreas, thanks for the questions. Let me take one at a time.

On the FTE front, with the operational excellence programme, as I explained, it is a combination of growth and efficiency to improve both effectiveness and then productivity in the organisation. As such, we are investing in certain areas. We are expecting in the sales side, to maintain, slightly increase resources, but do more with the resources. Then, of
course, in certain areas like Finance and HR, we will be shifting transactional activities to shared services. All in all, we expect FTEs to remain stable, maybe a net increase – small net increase, like we saw this year.

Then, on the tax rate, we basically expect a similar tax rate that we have seen in 2022.

**Andreas Müller:** Okay. Thanks.

**Dieter Schlosser:** Thanks, Andreas.

**Ben Castillo-Bernaus (Exane BNP Paribas):** Good morning. Thanks for taking my question. Just on the Cloud Solutions & Services business, growth slowed quite materially in Q4. Can you just remind us about how much of that segment is recurring in nature and how much is project-based, one-off? What drove that slowdown, and what did you see there? Was there a cut in projects, or was there pushing out to a later date? Was this reducing scope of existing projects? Just help us to account for that slowdown from Q3 and Q4, please.

Then you comment on that Services segment, you are ahead of schedule in terms of your 2025 margin target. Can we get you to comment perhaps on when you think that might be within reach if it is slightly sooner than 2025? Thank you.

**Dieter Schlosser:** Hi Ben, thanks for the questions.

On the growth on Services, which you rightfully saw in Q4, there are mainly three reasons. First, of course, there is always a number of factors, and if the Microsoft business is also slowing down, then there is up-selling and cross-selling and knock-on effect. Second, we had some legacy services slowing off, which is also intentional to a certain extent as we want to focus on our core Services business. Then towards the year-end, of course, you know, you can't really put those people on a different project. And third, you saw that we have not really done any acquisition in 2022, except in the beginning of the year, which was Predica. Then, of course, you compare to 2021 in Q4, where we had actually two acquisitions with Centiq and HeleCloud. We do not see that as something which continues. It is now for us, we see in the pipeline and backdrop that are very stable growth for the upcoming quarters.

Now, ahead of schedule, and this is very exciting for us, that we can share this with you because we always believed that our strategy is the right one, and it is also the right time for the strategy. You see now the proof points are really being realised, and Q4 is an indication on the margin of 9.6% even though there is a certain seasonality, but the data point is absolutely going in that right direction. We believe we are up to one year ahead of schedule on that 15% margin. This is really, as I said, an exciting situation for us. Because if you look at our exit run-rate of CHF 500 million revenue, and if you look at our growth rate, and then if you look at our target of 15% and the GP earlier, you talk about the Services business of CHF 100 million EBITDA in due time.

**Ben Castillo-Bernaus:** Great. Thank you very much.

**Dieter Schlosser:** Thank you for spending time with us today, and I'm looking forward to meeting you individually, of course, over the next couple of days and look forward to our one-on-one conversations. Thank you very much.

**Rodolfo Savitzky:** Thank you.

[END OF TRANSCRIPT]