SoftwareOne Q3 2023 Trading Update

Wednesday, 15th November 2023
Introduction
Anna Engvall
Head of Investor Relations, SoftwareOne

Welcome
Good morning and thank you to everyone for joining SoftwareOne’s Q3 2023 Trading Update. I am Anna Engvall, Head of Investor Relations at SoftwareOne. Joining me today are Brian Duffy, our CEO, and Rodolfo Savitzky, CFO.

Agenda
In terms of agenda, we will kick off with a summary of our Q3 2023 trading update presented by Brian. Rodolfo will then take us through our financial performance. We will finish the session with Q&A as usual.

Disclaimer
Before handing over to Brian, please let me draw your attention to the disclaimer regarding forward-looking statements and non-IFRS measures on slide two.

With that, I will hand over to Brian.

Q3 2023 Highlights
Brian Duffy
CEO, SoftwareOne

Solid Q3 performance with 8.4% revenue growth
Good morning. I am pleased to welcome everyone to our Q3 2023 trading update. We continue to deliver solid results in the third quarter against a backdrop of volatile geopolitical and macroeconomic conditions.

Revenue for SoftwareOne was up over 8% year-on-year, and this was driven by solid demand for digital transformation. The breadth of our portfolio and our focus on mission-critical fast ROI offerings continue to address our clients' current priorities around software and cloud.

The adjusted EBITDA margin was 20.5%, up 0.6 percentage points compared to prior year. This improvement was driven by strong progress on operational excellence. Year-to-date cost savings amounted to CHF27 million, and that significantly exceeds our full year target of CHF15 million.

With the mixed outlook for Q4 and caution around the year-end budget plus, we have revised our full year 2023 revenue guidance for the year from double digits to high single digits. At the same time, we have maintained our adjusted EBITDA margin target of 24% to 25% for the full year, thanks to the operational excellence programme and strict cost control.

As we navigate this challenging environment, we continue to believe in the massive market opportunity in software, cloud, data and AI and the fundamental strength of our business model. As such, our mid-term guidance of mid-teens growth and an adjusted EBITDA margin of over 25% continues to be maintained.
Before moving on, I would also like to comment on the strategic review, which was announced by the Board of Directors on 24th July. The strategic review is proceeding as planned. The Board continues to make significant progress in evaluating various options for value creation, including continuing to operate as a public company, a merger or sale of the company, as well as other possible strategic transactions.

The Board remains focused on driving shareholder value and acting in the best interest of the company and all stakeholders. The Board expects to share a further update on the strategic review in due course.

**Positive momentum driven by EMEA and APAC**

Now coming back to our Q3 results and regional performance. Our largest region, EMEA, grew by nearly 10%, driven by strong performance in several important markets, including the UK, the Netherlands and Spain and a solid performance by DACH. The UK clearly stood out this quarter with stellar performance, strong growth around 30% and a number of key wins across the portfolio, which illustrates the headway that we are making in this key market.

APAC delivered another outstanding quarter with growth of 20%. This was driven by strong results across almost all markets, including China, Hong Kong, India, Singapore, Indonesia just to name a couple of them.

Meanwhile, North America was up 5% as a tentative recovery we saw in Q2 stalled. This was driven by an overall softer macroeconomic environment we saw more cautious purchasing behaviour and longer sales cycles in Q3. As we progress toward the yearend, we consequently do not anticipate much of a budget flush in North America.

Latin America declined at approximately 4%, and this was driven by certain key markets, including Brazil and Mexico.

Now we announced earlier that we appointed a regional president on 1st October. Sonia has already implemented a number of specific measures to drive results and ensure that we capture the huge potential we have in this region. These initiatives include organisational changes in Mexico, expanding our AWS practice and leveraging our services capabilities across the region, while also making sure that we are ready to hit the ground running with Copilots.

**Broad-based growth in S&C Services; Momentum in S&C Marketplace maintained**

Moving on to our business lines. Software & Cloud Services delivered over 11% revenue growth in Q3. Growth was driven by our core service lines, supported by great momentum in software sourcing and portfolio management, including the Beniva acquisition and Digital Workplace as well.

As highlighted in earlier quarters, we continue to phase out legacy services, although the impact was smaller in Q3 compared to previous quarters.

Looking at Software & Cloud Marketplace, this was up nearly 6% in Q3, which is broadly in line with H1 this year. Microsoft billings continued to grow, reaching US$3.9 billion, up 9% year-on-year. Revenue grew broadly in line with Q2 2023.
In other ISVs, revenue growth improved slightly compared to Q2 and returned to a satisfactory level in EMEA. But it still does not reflect the massive opportunity that we see in this particular space.

Led by our new Chief Strategy and Partner Officer, we will execute on our go-to-market strategy, drive pricing discipline and wallet share growth with clients.

**Selected Q3 2023 wins: delivering value-adding solutions to meet customer needs**

Now moving on, I am delighted to present a couple of examples of how SoftwareOne continued to add value and drive business outcomes for our clients this quarter.

Our leading public sector team secured a multiyear framework contract in Switzerland to drive digital transformation for Canton of Basel-Landschaft. We also leveraged our wide partner network and centralized IT procurement services to help AIA and AIA is Asia’s largest insurer with the renegotiation of Microsoft and other ISV licenses in 14 countries in total across Asia.

And finally, in the US, we helped agency systems, a provider of proprietary software for insurance agencies modernise its application delivery through managed virtual desktops with Amazon Workspace.

**Significant progress on ‘Ignite, Focus, Accelerate’**

When we were together back in August, I introduced to all of you, Ignite, Focus, Accelerate, an approach to drive sharpened execution. Since then, we have made significant progress in implementing these initiatives.

I am very pleased to announce today a number of key hires, including a Chief Strategy and Partner Officer, Chief Information Officer as well as a new DACH leader. These hires are critical for executing on our partner and alliance strategy and driving sales execution in the region as well.

In addition, we have further integrated our two business lines: Marketplace and Services under Bernd Schlotter, previously President of Services and now President of Software and Cloud, to ensure a seamless and outcome-based customer experience. At the same time, we have also upgraded the management dashboards to scrutinise and again, improve execution.

On Copilots, we are having lots of customers engagement, see the demand already and expect to quickly move down to mid-market following the official launch on 1st November of this year. In the meantime, we have also enabled resources across the world to drive customer readiness and implementation at scale.

More broadly, we continue to see a huge opportunity to help clients embrace artificial intelligence and have been working very hard at developing our advisory offering further. As a reminder, we have impressive capabilities and experience in this particular space already. We have 250 data and AI experts. We have 800 clients already using data and AI services, and over 230 projects delivered from seven different locations around the world.

Very importantly, we also have relationships with leading data and AI partners. And while the contribution of data and AI to our results is still small, the projects are becoming larger, the appetite is becoming larger, and the pipeline is exponentially growing in this space.
Productivity Line
And if any of you happen to be on the tube in London last week, you all have seen this ad campaign, which illustrates our approach to helping customers get on the productivity line to Copilot, helping them understand use cases and hope Copilot can add value, quantifying the investment and ROI, addressing data security and compliance concerns, and finally and very importantly, creating an effective training and adoption programme for the enterprise.

On that note, Rodolfo will take us through our financial performance.

Financial Performance
Rodolfo Savitzky
CFO, SoftwareOne

Revenue growth of 8.4% with adj. EBITDA up 14.1%
Thank you, Brian. A warm welcome from me as well. Revenue growth in Q3 was solid at 8.4%, driven by both business lines and consistent with our performance in H1.

Contribution margin was 63.4% in Q3, roughly in line with prior year, with operational excellence savings in delivery costs, fully compensating for portfolio mix. SG&A expenses grew by 6.7% in Q3 slower than top line growth, also as a result of operational excellence and strict cost control. This drove adjusted EBITDA growth of over 14%.

With the strong Swiss franc, forex headwinds had a significant impact of around 4.5 percentage points on revenue growth for the quarter. However, given our natural hedge with similar exposures on OpEx, the forex impact on adjusted EBITDA continued to be small.

Adj. EBITDA growth impacted by post-Covid normalisation of commercial activities
The year-on-year development of adjusted EBITDA over the first nine months is shown in the bridge. The overall picture is similar to what we described for H1. The incremental revenue was almost fully reflected in incremental contribution margin, given the limited increase in delivery costs.

Similarly, general admin stayed almost flat year-on-year. The major increase in expenses related to a normalisation of non-personnel expenses, specifically higher travel and sales and marketing costs as well as limited one-off co-marketing investments from strategic partners compared to last year.

Improved contribution margin across both business lines
Moving on to the business line view. Growth in services was driven by the core service lines, software sourcing and portfolio management in digital costs. The contribution margin in services was 39% of revenue in Q3, up 0.9 percentage points compared to prior year.

SG&A increased at a slightly lower rate than contribution margin, driven by investments in business development executives to drive growth, translating into an adjusted EBITDA of CHF1.3 million and a margin of 1.2%.

In Marketplace, revenue growth in Q3 was 5.7% and broadly in line with H1. The Q3 contribution margin was 86.1%, improving by 0.6 percentage points and SG&A benefited from some reallocation of sales resources to services.
Adjusted EBITDA margin was 52.2%, up 3.5 percentage points versus prior year.

**Operational excellence programme delivering ahead of plan**

Over the last nine months, we have diligently implemented an organisation-wide operational excellence programme and are now seeing the benefits.

Going through the key pillars. In the commercial work stream, we are implementing customer tiering in a new coverage model for sales. We have also scaled up our AI-driven cross-sell pilot in North America and a similar pilot is now up and running in Asia.

In services delivery, the majority of personnel transitions have been executed. The presales process has also been revamped and its organisation-wide rollout is underway.

Finally, in the support functions, most of the country’s finance transitions to shared service centres have now been completed. By end-September, with strong progress across the pillars, we have achieved CHF27 million of cost savings well ahead of our targeted savings of CHF15 million for this year.

**2023 revenue guidance revised; mid-term guidance maintained**

We have delivered solid results in Q3 and over the first nine months of the year. As we progress through Q4, our outlook across the regions is mixed. In Asia, we expect continued strong momentum with Q4 being in line with or even higher than year-to-date performance.

Europe remained resilient through Q3. But in light of the overall environment, we do not expect to see a normal budget flush in Q4. This is also the case for North America, where we will also be impacted by the loss of a large public sector contract this quarter.

Finally, we expect LATAM to start to rebound based on the turnaround plan being implemented. Based on this outlook, we no longer expect an acceleration through the year and have revised our revenue guidance from double-digit to high single-digit growth.

On the margin side, thanks to the positive momentum in our operational excellence programme with significantly higher savings than initially planned, we have maintained our margin guidance of between 24% to 25%. Of course, our dividend guidance also remains unchanged.

Our mid-term guidance is also maintained, given the strong market potential and our increased operational efficiency.

Thank you, and I will now hand back to Brian.

**Conclusion**

Brian Duffy

*CEO, SoftwareOne*

**Key takeaways**

Thanks, Rodolfo. To conclude, before we go to Q&A, I would like to highlight three key points. Firstly, we continued to deliver solid results in Q3 with revenues up 8.4% and strong EBITDA growth of 14.1% in the context of challenging market conditions.
Our operational excellence programme is delivering well ahead of expectations, supporting our margin improvement in the quarter and paving the way for a stronger, more resilient organisation.

And then finally, we continue to take decisive actions to build a strong foundation for sharpened execution through Ignite, Focus, Accelerate.

As highlighted by the key strategic hired announced today, we are pulling together the right and best leadership team. We are driving organisational improvements to drive business outcomes for our clients, and we are investing in our data and AI practice as the pipeline continues to grow.

I and the entire organization remain confident on the long-term growth opportunity in Software & Cloud. At SoftwareOne, we have made significant changes, but recognise that we still have work to do, and we will continue to execute on our plan to drive the next exciting chapter of sustainable growth and value creation.

Thank you. And now let us move on to the Q&A.

Q&A

Kathinka de Kuyper (UBS): A few for me, please. Maybe firstly, can you just comment on the linearity of the demand that you have seen throughout the quarter? And when you started to see a deterioration in demand, in particular in America? And then how has that trended further into October and November?

Secondly, you just mentioned a loss of a large public sector contract in North America. Can you just talk about the trends you have seen in your different customer segments in SMB versus enterprise and public sector?

And then finally, just on Copilot. It seems that you have seen quite good initial demand from your enterprise customers. Can you just give us a sense on how fast you think you can get to the CHF100 million revenue opportunity now that the product has become general available?

Brian Duffy: Thanks, Kathinka, for the question. So firstly, in terms of the linearity, and when we started to see some challenges in North America, I would say that was after the Labour Day holiday in the US. So early September, we started to see some particular headwinds that they were facing.

In terms of our current trading, obviously, we do not comment on specific monthly trading. You do have our full year guidance. What I would say is that our October trading that we have seen has been in line with us meeting the guidance which we have now issued to the market.

In terms of public sector, this was one the outliers, specifically in North America. Our other markets continue, and industries continue to trend in the right direction. When you look geographically at Asia, we obviously see significant growth. When we look at our business in Europe, which is a significant part of the business, obviously, 61%, we continue to see significant growth across both enterprise and across our SMB market. And coincidentally, in Europe, we continue to see strong demand from the public sector as well.
And then finally, in terms of Copilot, we are obviously very happy to see the Microsoft pull forward the availability date for Copilots from early 2024 into 1st November. Now we have had a strong reaction from our customers in terms of the demand for it. We are waiting for Copilot to now make its way into the mid-market, which given the release cycles of Microsoft, it will take a little bit of time. However, that does not stop us from engaging with our customers around workshops to explore how they can best leverage Copilot and embrace generative AI for their organisation.

So even before full availability in that particular market, we have the opportunity to engage with customers around how they can benefit from Copilots. And it is really when we will start to see the CHF100 million opportunity that we walked you through before, will depend upon when it is going to hit mid-market, but my own personal belief is based on the proliferation of AI in all of our lives, employees when they come to the enterprise at all levels, from enterprise to lower enterprise to SMB, they are going to expect the same experience that they have in their private life within the enterprise, which will put the demand on Microsoft and other organisations to make these products available in early 2024.

**Balajee Tirupati (Citi):** Two questions from my side, if I may. Firstly, at this point, could you share your initial view on demand and pipeline going into 2024? While macro at this point is still uncertain, other factors like lower legacy services headwind upside for Microsoft and base comp should be more supportive. So would it be fair to think that there is a case for growth acceleration in 2024, if macro stays stable where it is at present?

And the second question is on cost saving programme. It would appear the Group has accelerated the programme, pulling in some of the savings from 2024. Could you comment on factors driving that decision?

**Brian Duffy:** Sure. So I will take the first part, and then I will let Rodolfo take the operational excellence and savings piece.

So firstly, in terms of the demand that we see, we continue to see demand across the key pillars of cloud software. Certainly, AI is fuelling a lot of this demand. SoftwareOne is very well-positioned to help our customers in terms of answering the question of how are they going to transform? Clearly, why to transform has been answered by many of our customers already.

In terms of the pipeline progression, again, we continue to see strong robust pipeline in Asia, where, as you heard me say, we are growing at 20%. We continue to see strong pipeline in EMEA. Americas have been a challenging market for us.

However, with the new hire of Sonia in Latin America, and the focus and acceleration that we are going to place around our ISVs in North America, we are expecting to see an uptick in terms of demand moving forward.

In addition and very much connected with this, is the organisational changes that we are driving in terms of our Chief Partner Officer, who will be joining us in January and also the dashboards that I explained during the overview. This is providing more insight for our sales leaders in terms of execution, which obviously is critically important, and then I will let Rodolfo take the piece around cost savings.
Rodolfo Savitzky: Yes. So on the operational excellence programme, as you remember, we started implementation in 2023. As you can imagine, it is a phased implementation. So we have seen momentum on the level of savings increasing over the quarters. And when you look at the graph in terms of the, let us say, pillar related to service delivery and the support functions is almost there. Commercial effectiveness. We still have a little bit of a way to go, and that will continue into 2024.

And so as it relates to the service delivery, you remember, we reported CHF8 million in the first half. Now year-to-date, it is CHF27 million. So CHF19 million in quarter three. And while it is not linear, we do expect a similar number in quarter four, maybe a little bit less than the CHF19 million, but more or less that order of magnitude. So we will definitely well exceed the target for the year.

And then this is not that we are borrowing savings from the following year, right? I mean once we achieve the right cost structure and organisational structure, this is something that we plan to maintain into 2024, right? So it means we have now the right organisation in place for finance, HR, delivery, sales. And this is a foundation that will help us with the plan of 2024.

Knut Woller (Baader Bank): Just an update on the other non-recurring items, which you adjusted for in the third quarter of CHF8.4 million. Can you provide here some colour, what kind of cost these were? Have they been related to severance payments or other things?

And then also getting back on the restructuring where you booked CHF22 million in the first nine months. Are you in line with the budget for the savings for the full year? Or should we expect here a further or higher restructuring charges than initially thought?

And then lastly, on LATAM, to Brian. How fast do you think that we will see a turnaround in growth in LATAM? Is it too early to call already for Q4 to be the case rather 2024 then? Or do you expect already to see a positive impact in the fourth quarter?

Rodolfo Savitzky: Let us take the questions in order. So I will address the first two questions. So we do expect still some additional restructuring costs in quarter four, but order of magnitude should be much lower than quarter three. And so I think we will end up around the CHF25-plus million range.

And then as it relates to the other non-recurring items, this is mainly related to spending in the strategic review programme.

Brian Duffy: And then specifically to Latin America. Firstly, I would say that we have a massive potential in Latin America. This market is most similar to Asia in terms of the dynamics with the publishers and partners as Sonia, as I said, has been in the role since 1st October. She previously ran our Spain business, which I just point out, I call that as one of the shining stars in Europe based on her leadership and delivery in Q3.

She and the team are executing on the various changes that are needed and in terms of moving forward with our partners. I do expect, under Sonia's leadership, to see an uptake in our business as we roll into 2024. And so far, I will say that we are already getting the clarity and the guidance and the uptake in terms of customer conversations and relationships with partners already under her leadership. So I expect to continue to see a lot of progress in Q4 and into 2024 as well.
**Joe George (JP Morgan):** I have a couple, please. Just firstly, on the exit rates into Q4, specifically within EMEA. I remember the UK being called out softer earlier in the year, but it seems to have been more resilient through Q3. So can you just talk about how this has trended into Q4? And if there was an acceleration in growth, where did you see that specifically?

And then second question, just on the Services division. The legacy decline looks to have moderated this quarter. Can we just get a bit of colour on whether we think this will be fully flushed out by Q4 and then going into FY 2024, please?

**Brian Duffy:** Sure. Thanks, Joe. I will take the first one and then I will let Rodolfo take the second one. So specifically in the UK, and you are right, I had called out for some time, obviously, macroeconomic in the UK with Brexit and have various challenges that they have seen there have been some headwinds.

However, specifically under the leadership of Chris and Una in the UK in that part of the world, we continue to see strong growth in our Software and Cloud marketplace. In addition, in our ISVs, we also had a very strong results, specifically in Q3 really built around a few key partners in the UK and globally now as an organisation that we are focusing in on the relevant ISVs that are driving our revenue.

So as you know, we have 7,500 partners. However, pretty much across the world, we actually have 15 partners who are driving the majority of MR revenue. The UK team, specifically, and myself at a global level, have been focused on building the relationships with those ISVs, meaningfully building go-to-market, whereby we can execute around those 15 partners.

The UK team has done this particularly well for some time now. In addition, in the UK, they saw strong growth around the SAP practice, which is very, very promising. And then as we roll into October, again, similar to what I said to Kathinka, we do not provide the specific monthly updates. However, our trading in October is in line with the guidance that we have received, and the UK continues to move in the right direction. And then I will pass it to Rodolfo.

**Rodolfo Savitzky:** Joe, just to clarify the question, it was around services and the progression on revenue growth, if I understood it correctly.

**Joe George:** Yes, that is correct. And just to understand the mechanics of the legacy services, obviously declining within the mix and to what extent we can expect that through Q4 and into FY 2024.

**Rodolfo Savitzky:** Yes. So look, when we look at the growth in services throughout the year, again, the level is quite consistent in the, call it, double-digit, right? And then when you exclude this legacy and call it, unusual effects, the overall level of growth is somewhere between, let us say, upper teens and 20%.

Of course, the effect of legacy will wane over time. I mean as this solution or service line is reducing, of course, the impact becomes much smaller. And so as we look into 2024, we expect the impact to be quite small.

Now for the balance of the year, we also see a reduction of the, let us call it, negative drag of legacy in quarter four. So hopefully, we see more, let us say, normalised picture of the core services portfolio performance in the quarter.
Joe George: Perfect. And if you would not mind, just one very quick follow-up. The CHF8.4 million non-recurring charge, I am not sure if I heard that correctly, was that all relating to the strategic review? And if so, what is expected through Q4 and the rest of the year in terms of the trajectory of that spend, please?

Rodolfo Savitzky: Yes. So the answer is yes. That is all related to the strategic review. And there is a certain linearity on some of these provisions. So I would expect to see not too dissimilar number in quarter four.

Florian Treisch (Kepler Cheuvreux): I have three. The first one is again on the efficiency targets of programme as they are progressing probably a bit faster than expected. You are still shy to upgrade your overall target, if I am not mistaken. The second part is on the segment margin. So I have seen this very strong marketplace margin, where services were probably falling a bit behind. You mentioned around some shifts of cost allocation, but can you maybe shed some light on how to think or how to look into coming quarters around, in particular, a very strong marketplace margin, how sustainable this is? From my point, it was a record Q3 for many years on your numbers. And the third one is around Copilot. So you mentioned initial feedback from clients, but maybe to add some colour from your experience, as I understood, you were part of these early look programme participants and my understanding was that you are not able to share too much insight due to these NDAs, but this is probably now behind us. So can you maybe shed some light on your experience how much of a value Copilot is really adding? And if that is really supporting your CHF100 million target you have highlighted?

Rodolfo Savitzky: So I will take the first couple of questions, Florian, and then Brian will address Copilot. So look, on the efficiency programme, I provided already some high-level guidance on what we expect for the year. For 2024 for the time being, we stick to our savings target of CHF50 million. And as we get closer to actually provide guidance for 2024, which will be with the year-end results, will appropriately adjust that number. But for the moment, we do not change it.

But as you can see, let us say, the run rate of our savings is projecting to a higher number than what we have for the, call it, going right target, the CHF50 million. Also to be kept in mind, we have said that the idea is to create also flexibility for reinvestment of some of these savings behind growth acceleration, innovation and so forth. To an extent, there has been less of that in 2023, but we may want to really leverage opportunities to drive growth and innovation with some spending programmes. And so that we will also communicate with the guidance in 2024.

Now as it relates to Marketplace and Services, look, I make tow observations here. First, we have seen good solid consistent growth throughout the year in both business lines and we have made strong progress in each of them on the contribution margin. For me, this is a very important metric because it gives you the core profitability of the portfolio.

Then as it relates to the SG&A or selling expenses, in particular, you have heard us talk a lot about commercial excellence, the fact that we are changing the sales mix, we are adding business development executives and to support our services portfolio. And so these shifts in
resources have had some, call it, effects in the, let us call it, line growth of this SG&A expense.

So you see, for example, in services for the quarter is quite a high level of growth, 14%. And on the other hand, the marketplace, it is a reduction, which talks about this reallocation of resources. I think this will normalise over time, right? It is just that now as, I would call it, rightsizing our sales teams, you see this, let us say, amplified effect in the allocation to the P&L.

But then on the services, again, we see this very positive contribution margin progression. I think we will definitely end the year with, I would say, an improved margin versus what we are seeing year-to-date. And then we will provide more colour as we get into 2024.

**Brian Duffy:** And Florian, before I get your Copilot question, you did call out our marketplace performance from a margin perspective and being our best to-date, which you are correct on. And specifically, in that space, we are continuing to invest as well with a new supply chain leader to look at how we can actually deliver even more efficiently and drive that margin in the right direction. And he has joined us in the past couple of weeks as well.

Specifically to Copilots, we have been spending, obviously, a lot of time with Microsoft. As you know, we have 12.5 million users that we support on the Microsoft various platforms throughout the entire world. There is a lot of excitement with our customers around Copilots, and there is a lot that they can benefit from it.

However, I would also say there is a fair amount of confusion in the market as to how a customer is actually going to benefit from Copilots. That is a huge opportunity for us to hold the hand of our customers and to guide them in terms of not only how are they going to buy the licenses for Copilots, but how are they actually going to receive the outcome that they expect from these licenses. And it is for that reason that we brought our two business lines, Services and Marketplace together so we can actually focus on delivering an outcome for a customer, which is connected with both a license sale and a services engagement.

There will be and there has been a lot of conversations with our customers, specifically around third-party integration and various APIs that are needed on the integration side. That obviously is going to drive a lot of demand for us from a services engagement as well. We are continuing to invest in this space around AI and in terms of the consultants that we need, and we are hiring ahead of the curve, given the strong demand that we see already and the strong customer engagement that we already have.

And as I said, I think it was to Kathinka, once we see Copilot drop into mid-market, we are expecting to see that marketplace number specifically on the Copilot side move quite dramatically and the hopes are that that will happen in early 2024, now given the pull forward into November and of Copilot in general for the enterprise by Microsoft.

**Andreas Müller (ZKB):** I have a few and probably I will do it one by one. First one is on the service margin target of 15% for next year. I mean, currently, you are running clearly below, but I understand also there is some one-off nature with this executive change here. But can you maybe say something about this 15%, if that is still within reach?

**Rodolfo Savitzky:** Yes. So on the 15% recall, here on the services we said, look, the model is we continue to improve on the contribution margin. And then with accelerated growth, we
will have a strong operating leverage. That is what takes us from, let us call it, current 3% margin to the 15% margin. It was a number that we were initially planning for 2025, and then we said we can pull it forward for 2024.

So I would say from a financial and business model point of view, everything remains in place, right? We are seeing very strong progress on the contribution margin. You could even say a little bit ahead of the plan. And where we have seen a bit of headwinds in the model, of course, is in the level of growth, I mean, compared to the initial expectations and that we have flagged.

So I would say, Andreas, I will come back to this question when we announce the guidance for 2024. I think the 15% is doable, right? It will depend on what is our final guidance for growth for the services, right? I think we have the portfolio; we have the contribution margin. We are redeploying the right sales resources. We are confident in the acceleration of growth.

And then this margin in growth number goes hand in hand. So we will come back to that in 2024. The concrete answer for now is definitely achievable, right? And it relies on the level of growth.

Andreas Müller: Then a further question. Can you say something about the expected profitability of the Copilot opportunity also in the light of possible co-investments of Microsoft? And can you give a bit of colour here, what Microsoft is going to contribute to basically upgrade yourself and also your people to the Copilot opportunity?

Brian Duffy: Sure. I can take that one, Andreas. Good to talk to you again. So firstly, we have spent a lot of time with Microsoft. Since I have joined, and we have certainly spent a lot of time specifically talking about Copilots. Microsoft has clearly been listening to us and listening to our customers in terms of what they need, both from SoftwareOne and from Microsoft, which is great to see as we have a very open and transparent dialogue with them.

As we roll into 2024, firstly, we are building a success winning plan together, whereby we are focused on what does success looks like for both parties and ensuring that we have the right KPIs in place, and then in addition, ensuring that we have the right incentives for us as an organisation and for our sellers on the street.

And then finally, Microsoft, as you would imagine, is very much focused on the strategic investments that we, as an organisation, will need and our customers will need in order to benefit from Copilots. So we are in active discussions with them and expect to finalise an agreement specifically around those strategic investments in December of this year, is our current plan.

Andreas Müller: Okay. Good. Then maybe last question on the strategic review. Can you give some colour at least where in the process SoftwareOne is?

Rodolfo Savitzky: Sure. I can take that. So firstly, I would say that thanks to our Chairman and our Board for the great collaboration that we have specifically with them. We are continuing to make significant progress in terms of the strategic review. And we are very happy with where we currently are.

As you can imagine, we would not say much more than that, Andreas. And as soon as we have a specific update, the capital markets will be notified in due course. But as I said, we are very happy with the significant progress that we are making around the strategic review.
Brian Duffy: Great. Thank you. Well, I just want to thank everybody for joining. We look forward to spending time with you over the coming weeks and sharing more about our 2024 plan and other leadership changes that we will be making in due course. Thanks, everybody.

Rodolfo Savitzky: Thank you.

[END OF TRANSCRIPT]