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SoftwareOne Holding AG

SoftwareOne Q1 2024 Trading Update

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COMPANY REPRESENTATIVES

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Rodolfo J. Savitzky, Chief Financial Officer

Anna Engvall, Head of Investor Relations

PRESENTATION

Engvall Anna

Good morning, and thank you to everyone for joining SoftwareOne's Q1 2024 trading update. I'm Anna Engvall, Head of Investor Relations at SoftwareOne. Joining me today are Brian Duffy, our CEO, and Rodolfo Savitzky, CFO.

In terms of the agenda, we will kick off with a summary of our Q1 2024 trading update presented by Brian. Rodolfo will then take us through our financial performance. We will finish the session with Q&A, as usual. Before handing over to Brian, please let me draw your attention to the disclaimer regarding forward looking statements and non-IFRS measures on slide three. With that, I will hand over to Brian.

Duffy Brian

Good morning. I'm pleased to welcome everyone to our Q1 2024 trading update. Before diving into our Q1 numbers, I would like to recap on our updated strategy, Vision 2026, which we presented three months ago at our Capital Markets Day. With Vision 2026, we will drive accelerated growth, margin expansion, by leveraging our value proposition, pursuing strategic growth opportunities, and sharpening execution. On today's call, I'll detail the significant progress that we've already made in Q1, including laying the foundations for our cutting edge go-to-market transformation.

Coming back to Q1 results, we delivered solid results in the first quarter against the backdrop of uncertainty in the macroeconomic environment. Revenue for the group was up over 7%, driven by demand for digital transformation. The breadth of our portfolio and our focus on mission-critical, fast ROI offerings continue to address our clients' priorities around software, cloud, data, and AI.

The adjusted EBITDA margin was 18.4% off 1.8 percentage points, which is a material improvement compared to last year, supported by a continued focus on operational excellence. Looking ahead, and based on year-to-date performance, we reiterate our guidance for the year of 8 to 10% revenue growth in constant currency and an adjusted EBITDA margin of 24.5 to 25.5%.

Now, taking a look at the regional performance. EMEA grew by 3%, driven by good momentum in southern Europe, Benelux and CE, particularly within our services. APAC delivered a strong quarter with growth over 14%. Meanwhile, North America, under new leadership, was up by an outstanding 26%, supported by several large customer wins in the region.

And as we emphasised in February, North America is a priority market for us, and we intend to continue strengthening our organisation in the region to ensure we have the right capabilities to succeed there. LatAm grew 4%, delivering a second quarter of positive growth on the back of leadership changes in 2023.

Turning to our business lens, software and cloud services delivered over 10% revenue growth in Q1. Growth was driven by strong momentum in AWS and Azure Cloud services, as well as software sourcing and portfolio management. Legacy services continue to impact growth in Q1, but have now reached single digit in absolute revenue terms. Software and cloud marketplace was up nearly 5% in Q1. Microsoft billings reach US \$4.3 billion, up 6% year-on-year, which translated into revenue growth at a similar level. In other ISVs, momentum improved slightly in Q1 compared to Q4 2023.

We continue to believe there is a significant opportunity to cross and upsell our broader portfolio across our unsold client base. In Q1 we prioritised a set of ISVs and began assigning global partner managers to work with these partners to build joint business plans, go-to-market programs, and share targets as a means of driving profitable growth through improved portfolio penetration.

Now, as you know, in January this year, Copilot availability was expanded to all customers. Based on our early client engagements last year and our first-to-market offering, we've been able to hit the ground running with great results so far. As of the end of Q1, we have over 325,000 Copilot users and have delivered over 325 services engagements, helping clients understand use cases, quantifying their investment and ROI, addressing data security and compliance concerns, and finally, creating effective training and adoption programs for our customers. Now, it's still early days, but we are on track in terms of becoming Microsoft's number one Copilot partner, and achieving our \$100 million revenue targets.

And a great example is the work that we're doing with QNET. This illustrates how we are supporting clients on our GenAI journey and the approach many organisations are taking in their adoption of Microsoft 365 Copilot. QNET is a great company, a global wellness and lifestyle company based out of Hong Kong. We have been their trusted partner for over ten years, and we've helped them implement 365 and other Microsoft solutions in the past. They wanted to explore with us the potential of Copilot to drive productivity and innovation, but they were also acutely aware of the regulatory and ethical considerations.

As part of our SoftwareOne Copilot Advisory service, we delivered workshops to help key individuals gain a better understanding of the capabilities of Copilot and address their concerns. A decision ultimately was taken to start with a small group of early adopters from different departments prior to an organisation-wide rollout. This allowed for hands-on experience with multiple use cases and tailored solutions, before making a larger investment. And in the meantime, we continue to support QNET on their AI journey.

Transforming our go-to-market model is key to our ambition to build a world-class organisation, which leverages our existing scale and reach to expand market and wallet share in every segment that we operate in. And in Q1 we make significant progress towards a transformed GTM approach based on our new client segmentation and coverage model, with key markets, including DACH, North America, UKI, and India up and running by 1 July. Those markets represent 65% of our revenue.

This includes the launch of a new digital sales hub in Nashville for North American mid-market segments. This is a digital-first approach, aimed at the significant and growing small and medium enterprise segments. Our major partners are absolutely thrilled with this new structure and the opportunity that it presents. We are transforming our approach also in our enterprise and corporate segments, offering them a more personalised, high-touch service to match their significant IT spending and the potential that they represent for us. This is reflected in the large wins that we've seen in North America in Q1.

We have also taken measures across the portfolio to improve commercial excellence, for instance, driving better and faster renewals and pricing adjustments. Our marketplace platform is, of course, key to our transformed GTM, allowing us to drive growth in a scalable way. We continue to see the platform gaining traction, and in Q1, we saw improved KPIs with the number of cloud subscriptions growing to over 34,000 and LTM gross sales increasing to CHF 668 million. In 2024 we plan to expand our platform by launching a self-service vendor portal, introducing new self-service transactions for clients, and streamlining SoftwareOne operations for increased efficiency and growth.

Additionally, with the release of version two of the Marketplace Platform in May 2024, we've enhanced subscription management and ordering modules, supporting the latest Microsoft and Adobe models, and laying the foundation for further improvements later this year.

To conclude, I'll say that it's great to see how much we have been able to progress even in the short three months since our Capital Markets Day. There is a lot of work to do, but this progress gives us the confidence that we will deliver on our Vision 2026. And on that note, I will now hand it over to Rodolfo, to take us through our financial performance.

Savitzky Rodolfo J.

Thank you, Brian. A warm welcome from me as well. Let me start by taking you through our financial performance at group level. Revenue growth in Q1 was solid at 7.4%, with all four regions in both business lines contributing to this result. We continue to see the positive impact of the Operational Excellence program on our costs.

While revenue increased significantly, delivery costs decreased by 1% in constant currency, as we successfully continued to optimise our delivery network. This resulted in a 2.7 percentage point improvement in contribution margin, more than compensating for the impact of portfolio. SG&A expenses grew by 10.3% as a result of investments in our sales force and marketing, in particular in the US, to reignite revenue growth momentum. It was really great to see that this is already translating into improved performance in North America.

Adjusted EBITDA margin was 18.4%, up 1.8 percentage points. A strong development, particularly as Q1 2023 already reflected a normalised cost base. With a strong Swiss franc, foreign exchange headwinds had a significant impact of around 4.3 percentage points on revenue growth for the quarter. However, given our natural hedge with similar exposures on OpEx, the impact on adjusted EBITDA margin was negligible. The year-on-year development of adjusted EBITDA is shown in the bridge, illustrating how we drove margin expansion through revenue growth, productivity improvements, and reinvestments in the right areas.

Starting with delivery costs. We continue to improve productivity by reducing higher cost external resources and bringing capabilities in-house. In sales and marketing, the increase in cost predominantly reflects the investments we've made in North America in an increase in our marketing activity. We kept headcount flat while continuing to transition resources to our lower cost shared service centres and investing in IT systems.

Moving on to the business line view. Growth in services was driven by cloud services and software sourcing and portfolio management. We reported a materially higher contribution margin at 42.1% of revenue, up an impressive 5.8 percentage points compared to prior year.

SG&A increased by nearly 25%, driven by investments in business development executives to drive growth, translating into an adjusted EBITDA of 4.4 million and a margin of 3.6%. The marketplace revenue growth in Q1 was 4.6. Microsoft grew mid-single digit, while quarter on quarter momentum in other ISVs improved.

We expect higher growth in the coming quarters as our GTM or go-to-market transformation progresses. The marketplace contribution margin was 86.1%, improving by 1.2 percentage points, while SG&A expenses were broadly flat. Adjusted EBITDA margin was 46.1%, up 3.6 percentage points versus prior year. It is worth pointing out that the EBITA margin for the business lines may fluctuate quarter to quarter, as SG&A is allocated based on a combination of contribution margin and revenue. But, of course, group EBITDA margin is unaffected by these allocations.

It is now over a year since we initiated our organisation wide operational excellence programme to drive efficiency and effectiveness. Thanks to the outperformance of the programme, in 2023 we raised our target cost savings from 50 million to cumulative 70 million for 2024. We remain firmly on track on the initiatives we outlined, including, importantly, our go-to-market transformation.

For our services delivery, developing modular and standardised service packages continues to be a focus area. Meanwhile, in marketplace, we're ultimately aiming for end-to-end process automation. On the right-sizing of our support functions we have scaled up the HR service centres, leveraging Workday, which went live a few weeks ago, and are completing the transition of finance organisations to shared service centres with around 30 more countries transitioning this year.

In Q1 we achieved around 7 million of additional cost savings, implying that we are on track to reach our cumulative 70 million target this year. We plan to report the final savings and related costs with our half-year results in August. As Brian already mentioned, based on our Q1 results, in a stabilising market environment, we remain confident in achieving our guidance for the year, which is 8 to 10% revenue growth in constant currency and an adjusted EBITDA margin of 24.5 to 25.5%.

Given the implementation of the go-to-market transformation in Q2, we foresee similar growth in Q2 as in Q1, and an acceleration of growth once the new sales organisation is fully in place. Likewise, we expect savings associated with the go-to-market transformation and increase delivery, cost efficiency in the second half of the year, translating into a higher improvement in EBITDA margin in the second half.

I'll now hand back to Brian for his closing remarks.

Duffy Brian

Thanks, Rodolfo. As we progress through Q2, we continue to focus on executing on Vision 2026, and I'd like to conclude by highlighting three points. Firstly, we have delivered solid results in Q1 with revenues of 7.4% and a strong adjusted EBITDA margin of 18.4%. Implementation of Vision 2026 is progressing as planned, and we're successfully capitalising on strategic growth priorities, including Copilot. And finally, very importantly, we are sharpening execution through our go-to-market transformation and operational excellence initiatives. Now, with that, let's move on to Q&A.

QUESTION & ANSWER

Operator

We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Questioners on the phone are requested to use only handsets and eventually turn off the volume from the webcast. Anyone who has a question may press star and one at this time.

Our first question comes from Woller Knut from Baader Bank. Please go ahead.

Knut Woller

Good morning and thank you. Just a couple of questions to start with. When we look at the costs for the go-to-market restructuring, also the termination of the vertical cloud solution, can you give us some colour here what we expect in the coming quarters? The termination costs, are they now over with Q1? And also, what should we expect for the restructuring in the coming quarters?

Looking at North America, where you saw already first green shoots of your initiatives that you have taken to accelerate growth, are you confident to be able to maintain this growth? And can you give us some colour, which kind of solutions the new large customers adopted? Has it been mainly Microsoft or other solutions?

And then just a final one. I'm looking at the continuation of operational excellence. Is that required to achieve the target of achieving approximately an adjusted EBITDA margin of 28% in 2026?

Thank you.

Duffy Brian

I will take the North American question, and then I'll turn it over to Rodolfo on the first and your last question are in operational excellence. And firstly, thank you for the question. Maybe before diving into North America, let's put this in context a little bit. And as part of the go-to-market changes that we have implemented since 2023, we have made a series of changes. We have had a CRO who had joined us in January of this year. We have had a chief partner and strategy officer that has joined us in January of this year, and we are seeing the impact that they are already having. We made a leadership change in Latin America last year, and we called that the positive momentum in Q4. And again, movement in the right direction in Q1.

In North America, as you know, we had a leadership change and obviously have delivered very impressive results, about 26% increase. This is on the back of numerous changes that we have made, both in terms of the segmentation model, our coverage model, and also the large deals that we secured in Q1. North America is the largest software market in the world. We are continuously focussed on how we can penetrate that market. As I called out, we are investing in Nashville because we have a large SME segment for us to go after, and we will continue to focus on making the right investments in North America to accelerate our growth.

Specifically on Q1, we had a large win, both on the marketplace side and also on the services side, not only related to Microsoft, but also related to other hyperscalers, as well. And we will continue to have that multi-cloud approach across the company, and especially in North America. While given that most of our customers are no longer one hyperscaler shop, instead they are multi-cloud. And with that, I'll turn it over to Rodolfo.

Savitzky Rodolfo J.

Thanks, Brian. Thanks for your questions. Let me start with the last one, because that provides a context for the first one. So, operational excellence, as you all know, we started the implementation of the program back in 2023. We outperformed in terms of delivering our savings target or savings results against the target. We achieved 47 million savings against an initial target of 50 million. The idea was to get to a level of savings of 50 million this year. With the outperformance, we increased the levels to 70 million. And already now in quarter one, we have achieved seven incremental over the 2023 base. If you analyse it, it's 28 million for the year.

And what we will do is report the numbers at the end of quarter two, so with the H1 result, see where we are in terms of savings.

In terms of restructuring, we have booked 4 million for this operational excellence program. We believe there will be some minor additional cost associated with this. And then we would like to close this program.

Now, your question was to get to the approaching 28% margin target, do we need to continue with operational excellence? And the answer is absolutely, yes. You saw it in the presentation at the Capital Markets Day. We need to continue to control cost, improve productivity, because operating leverage and operational excellence, meaning continuing to drive productivity, should be part of our business model. But as such, we will not necessarily have a program that we are specifically tracking year by year or quarter by quarter.

As it relates to what is coming up next, is the go-to-market transformation. This is a big initiative, Brian already went through it in detail. And here we expect the implementation in the key markets by Q2 and then a continued rollout, so that the implementation is fully in place at the beginning of 2025. And here you see some initial costs. We will confirm savings and costs associated with this program by quarter two, so again with the H1 results.

Maybe just one final comment on the restructuring. The other one you referred to, which is the discontinuation of the M2 line. This this is pretty much the last restructuring expense associated with that.

Knut Woller

Thank you, Brian and Rodolfo. And just a quick follow-up. I understand that you will disclose the detailed numbers on the restructuring in the coming quarters. Just from a tendency, do you expect them to move up from Q1 levels, or rather, to decline or remain the same? Thank you.

Savitzky Rodolfo J.

Well, as mentioned, we will provide the full picture of the go-to-market transformation with Q2. I don't want to anticipate that. Of course, the implementation will happen, it's happening as we speak, so these are the Q1 numbers. So, we will already see some of the additional restructuring costs happening during Q2, since we are covering over 60% of our revenue with the programs that will be ready by July. I think Q2 will give us a good indication of where we stand in terms of restructuring. I would say, I don't want to speculate too much, probably that the number would be a bit along the lines of what we're seeing in Q1.

But we will confirm in July or in August, when we report.

Knut Woller

Excellent. Thank you, guys.

Operator

Our next question comes from Michael Briest with UBS. Please go ahead.

Briest Michael

Good morning. Brian, I recall after the full year results, when we were talking about Copilot adoption, you said there's a lot of workshops going on, but it felt like it was going to be gradual. That 325,000, is that in line with what you were talking about then, or has there been an acceleration? Can you just remind us the timeline for delivering on the 100 million opportunity?

And then a question on the bid situation. Can you give an indication of how many bidders, potentially, if any of these names have been involved previously? And are they at the due diligence stage? Are there any strategics, or are they all financial bidders? Thanks.

Duffy Brian

Thanks, Michael, for the question. So, firstly, as I said, we have had 325 services engagements with our customers and 325,000 Copilot users we have sold. And as a reminder, Copilot, as you know, was made available mid-January. So those numbers are from 15 January through 31 March, so obviously 75 days effectively of trading. We made our first sale in terms of a Copilot customer within 72 hours of availability of Copilot.

And we are very happy with the traction that we are seeing, especially on the services side. And it is still very early to tell, given that we have had 75 days of trading with Copilot. But the level of interest from our customers, it's high. The level of engagement that we have with our customers and from a services perspective, is high as well. And we expect to see continued traction towards reaching our 100 million targets.

On your second question, as you saw in the press release, the board has established a transaction committee, which is chaired by Phil Spillman, and all board members are members of that transaction committee. This has been set up to ensure that we will have an orderly follow up to any inquiries which are going to be made. At this point, we can't disclose how many bidders there are, and if some of them are parties from the past either, as you can imagine. But when we have any updates, we certainly will be providing those updates to the market.

And as a reminder, this committee is made up of all board members, including the new independent board members, as well.

Briest Michael

Thank you. Just to follow-up on Europe, I think you called out Southern Europe as being strong. So, by implication, is DACH and Northern Europe weak? Was it growing or negative growth?

Duffy Brian

In Southern Europe we had strong traction, specifically around our services business, as well. This is related to Microsoft and the other hyperscalers, as well. Specifically in DACH we had a tough year-on-year compare. There was no negative growth specifically in DACH. We don't disclose the DACH numbers per region, but we did have, as I said, a tough year-on-year compare, but nothing which is a red flag for us for full-year guidance at this stage.

Briest Michael

Okay. Thank you.

Operator

Our next question comes from Balajee Tirupeti with Citi. Please go ahead.

Tirupeti Balajee

Good morning. Thanks a lot for taking my questions. Two from my side, if I may. Firstly, could you elaborate the board's engagement on the business side, and how should we see the comment on view of accelerating the transformation and growth plan?

And the second question on the ISV. While the momentum has improved versus fourth quarter, it is still under-growing the double-digit growth rate we have seen in the past. Should we expect the momentum to continue to increase towards double-digit growth in the second half of this year? Thank you.

Duffy Brian

Thanks, Balajee for the questions. I'll take your second one first, specific to the ISVs. In Q1, under the leadership of Brad Berry, our Chief Partner and Strategy Officer, we prioritised a set of ISVs. We began assigning global partner managers to work with these specific partners, to build a joint business plans and go-to-market programs. We have shared targets between ourselves and those key ISVs to ensure that we're going to be driving profitable growth for both sides.

We are making considerable progress in that. And again, we have prioritised a set of partners out of the 7,500 partners.

And to give you a little bit of context, that is approximately 15 partners in total globally that we have prioritised. We expect to see an uptake and an impact, given the focus and drive that we have there, specifically in the second half of the year.

To your first question, and we are, as an executive board very happy with the engagement that we have with the board. Obviously we have some founding board members who have returned and who know the business very well. We have been spending time with the new independent board members, to onboard them and to give them a better understanding of the business as well. But, again, the conversations and the dialogues have been very productive, and we look forward to working in partnership with the board, to accelerate the transformation and growth of the company, as well.

Tirupeti Balajee

Thank you.

Operator

Our next question comes from Martin Jungfleisch with BNP Paribas. Please go ahead.

Jungfleisch Martin

Good morning. Two questions, please, for my side. First one is just a follow-up on the growth in Europe. It was quite soft, 3% in Q1, and it's a bit decelerating. Your peer, Crayon, has reported quite solid quarter in Q1 and also talks about market share gains. Is the softer Q1 mainly relating to market weakness and higher comp base in certain markets? Or do you have a sense that you are also losing some market share there to smaller competitors? That's the first one.

And then just to follow up on Copilot, the 325,000 that you're talking about, is that sold licenses, or is that users you're managing? And then you mentioned that you're on track to become the number one Copilot partner. Is that already the case that you're number one, or is it your aspiration? Thank you.

Duffy Brian

Thanks for the question. I'll take the Copilot one first. You had mentioned our peers, I'll call it, though I believe we're the only player here who's actually calling out our numbers.

You can read into that specifically around Copilot, if you like. But 325,000 licenses and what has been sold at 325 services engagements is what we have. We are well on track and, given the traction that we see with our customers, next week we will be in Seattle meeting with the Microsoft executive management team, specifically underscoring our commitment and our plans to accelerate around Copilot. So, very happy with the traction that we have and very much on track.

And then specifically to your question around Europe. There is nothing, per se, showing pressure from other peers in the market, specifically. As I called out, we did have a tough year-over-year compare in DACH. DACH is at the larger part of our European business. DACH is now currently under new leadership as well, since the beginning of this year. But nothing which is a red flag to us in terms of, one, competition and secondly, overall market sentiment.

Operator

Any other comments, Mr Jungfleisch?

Jungfleisch Martin

No, that's it from my side. Thank you.

Operator

As a reminder, if you wish to register for a question, you may press star and one. Our next one comes from George Jo with JP Morgan. Please go ahead.

Jo George

Morning, guys, and thank you for taking my questions. I've got two from my side. Firstly, Brian, could you please give us more of a top-down view with regards to what you're seeing on the discretionary side of client demand? A number of IT service peers have reported still muted demand here, and just keen to get your view on what you're seeing and also expectations as we move towards H2.

And then secondly, Rodolfo, just noting the CHF 8.4 million spent on sales and marketing through Q1. Could you just please help us with how this investment will continue throughout FY24 and how this will be phased through the remaining quarters of the year? Thank you.

Duffy Brian

Hi, George. Good to hear from you again and thanks for the question.

Specifically regarding discretionary spend, my view is there are the solutions which are the must-haves, and there are the solutions which are the nice-to-haves. We are fortunate that we're in a position where the solutions which make up the majority of our business are the must-haves for our customers, so we are in a very fortunate position compared to other players. So, I would say that, given the breadth of our portfolio, we're well positioned to navigate through some of the uncertainty.

And then specifically for us as a team, where we are focusing our energies is around our portfolio, our go-to-market, our segmentation, and the execution specifically around that, to ensure that we will deliver for our customers and partners. And then I'll turn it over to Rodolfo.

Savitzky Rodolfo J.

Thanks, Brian. Hi, Jo. On the sales and marketing, year-on-year increase that you see in the waterfall. First of all, the key program for the year is the go-to-market transformation. And we expect to have implementation in place, as I said in one of the prior questions, by the end of Q2 for roughly over 60% of the market or 60% of our revenue. And, therefore, we will start seeing the impact in terms of growth, most importantly, but also in terms of sales force productivity. And that will translate also when we do the bridge in quarter three, you will see the impact of that. And as I said, we expect some productivity out of the program.

Now more concretely here, as I as I mentioned, the number reflects some increases in sales force, particularly in North America, so some of that will remain, it's probably roughly 40% of the number. And then the rest is combination of increases in other markets that may adjust over time and some one-time marketing expenses that we typically see at the beginning of the year. Among others we have our sales conference, but other marketing investments as well.

Now, while I mentioned that some of these costs will be recurrent, what you will start seeing, particularly quarter three and forward, is the productivity measures, and I'll provide more colour on that with the H1 results.

Jo George

Great. Thank you very much, both.

Savitzky Rodolfo J.

Thank you.

Operator

Our next question comes from Rolf Arpagaus with AWP. Please go ahead.

Arpagaus Rolf

Good morning, gentlemen. Thank you for taking my question. I'd like to come back to the approaches received by several parties and the update you're willing to give us later. My question would be, when do you think will the transaction committee have this job done? So, within what timeframe are we expected to get an update by your side? Is it something with weeks, months, before end of year? Just get some more colour on that.

Duffy Brian

Sure, thanks for the question, Rolf. Obviously this transaction committee has just recently been established, and I'll just clarify my earlier comments. This is under the chair of Phil Spillman and then the transaction committee is made up of only the independent board members. So, excluding the founder, just a clarification on my earlier comments. It's established to follow up on any inquiries that are received. And they will handle those, and they will handle everything in a timely manner. And when we have a material update, we will provide that update to the market.

Arpagaus Rolf

A timely manner, months?

Duffy Brian

We can't comment on how long that will take, other than it will be completed in a timely manner.

Arpagaus Rolf

Okay. Thank you.

Operator

Our next question comes from Reto Huber with Research Partners. Please go ahead.

Huber Reto

Good morning, and thank you for taking my question. Just one for the housekeeping list. The 16.6 million one-off or, let's say, adjustments between the IFRS and non-IFRS profit figure.

How are those 16.6 million distributed among your IFRS accounts?

Savitzky Rodolfo J.

Thanks, Reto, for the question. I think we will need to go one by one. When we think about the IFRS accounts, we divide them in personnel expenses and non-personnel expenses, broadly speaking. When we go to topics like integration, M&A, and earnout expenses, the majority really is associated with earnouts. And because the earnouts typically have a retention component, and under IFRS they are classified as personnel expenses, so that's one.

Operational excellence restructuring, again this is the vast majority is separations. So that will also be two-thirds would be under personnel expenses. Of course, in some of these programs, we are working with advisors, who are helping us manage the program. So, a small portion of that would probably be non-personnel expenses. And then as it relates to go-to-market restructuring, it would be the same, the same as operational expense.

Then the discontinuation of the M2 vertical at this stage is, again, we were pretty much separating the team who was working in this particular unit. So, the vast majority is that and then a few are write-offs of some customer contracts that we will not continue anymore, but this is really minor. I would say if I had to summarise the 80 for the 20, 80% will be in personnel expenses.

Huber Reto

Okay. Very good. Thank you.

Operator

Our last question is a follow-up from the line of Michael Briest with UBS. Please go ahead, sir.

Briest Michael

Just on North America. Brian, I know you were talking about M&A opportunities there, if there's anything you can add. Also, presumably, given the situation today, where you're saying that there's, again, bidders involved, how can you reassure us that that doesn't stall your M&A ambitions in North America? If I was the owner of a business, I'd perhaps be reticent about selling it to a company if I don't know who's going to ultimately own that.

And then, Rodolfo, just on free cash flow, I know there's a lot to be done in the last month of the quarter, but is there any indication you can give us yet on where free cash flow might come out for the first half?

Thank you.

Duffy Brian

Michael, firstly, I just reiterate that, again, we're very excited about the opportunity in North America, because as it currently stands, we're underpenetrated in North America, which is why we're prioritising our investments in North America in the right areas, like I called out around inside sales, which is going to be a game changer for us. And already with a couple of months under our belts, we already see, let's face it, a massive impact already.

We are obviously, as we had said before, looking at M&A, we are prioritising North America again, given the market potential that exists there. And this is where we need to balance doing the right thing for the company and positioning it in a good position and collaborating with our board as well. And while we go through the process that we're going through and we navigate through these waters together with the board. Rodolfo.

Savitzky Rodolfo J.

Michael, during these quarterly updates we don't discuss cash flow. I will nonetheless give just an indication. As you know, the main driver of our cash flow evolution is net working capital, which continues to be a key focus area for us. I would say that the terms that we grant customers and vendors remain pretty much unchanged.

And then, of course, as the business is growing, as you have seen and you have our guidance for the year, there's some marginal increase in working capital associated with the higher revenue volume. So, the expectation would be that the working capital terms broadly remain unchanged. And most importantly, essentially between payables and receivables, and then there will be some variation associated with the volume of the business. But we'll discuss that for sure with our half-year results.

Briest Michael

Thank you.

Duffy Brian

Thanks, Michael.

Operator

Ladies and gentlemen, this was our last question.

Duffy Brian

Great. Thank you. Thank you, everybody, for your time. We appreciate it.

Savitzky Rodolfo J.

Thank you. Bye-bye.

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