Full Regular Transcription

SoftwareOne

Q1 2025 Trading Update

2025-05-21 at 09:30 am CEST

Duration: 38 minutes

COMPANY REPRESENTATIVES

Raphael Erb, Chief Executive Officer
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 2025 Trading Update. I'm Anna Engvall, head of Investor Relations at SoftwareOne. Joining me today, Raphael Erb, our CEO, and Rodolfo Savitzky, CFO. In terms of agenda, we will kick off with an update on the Crayon combination, followed by a summary of Q1 2025 presented by Raphael. Rodolfo will then take us through our financial performance. We will finish the session with Q&A, as usual. Before handing over, please let me draw your attention to the disclaimer regarding forward-looking statements and non-IFRS measures on slides two to three. With that, I'll hand over to Raphael.

Erb Raphael

Good morning, everyone, and thank you for joining the call. Before diving into the Q1 numbers, let me start with an update on our combination with Crayon. The tender offer was successful, with SoftwareOne controlling over 90% of Crayon's shares capital earlier in May. The transaction was approved by a large majority of SoftwareOne's shareholders at our EGM. The level of support from both sides represents a strong vote of confidence in our future as a combined company. With expected closing in June 2025, integration planning is well underway to ensure day-one readiness. We have also been admitted to the Euronext Oslo Børs with the first day of trading post-completion.

To recap, the strategic rationale for joining forces is compelling. Our businesses are highly complementary in terms of geography, customer base, and offering. And importantly, we share the same culture and values. Together, we will offer partners global access across the full customer spectrum, from enterprises to SMEs.

Our GTM models are fully aligned, and Crayon's highly successful channel business can be further leveraged together with SoftwareOne's digital sales hubs. Customers will benefit from our large marketplace and enhanced services portfolio. Furthermore, our global delivery and transactional platforms will support integration and scalable growth. Along with substantial synergy potential, there is clearly a significant value-creation opportunity.

Let me now take a look at the financial profile of the combined business based on 2024 results. These numbers are indicative and exclude the synergy potential. Together, we generated CHF 16.1 billion in billing, reflecting our combined scale. Revenue was 1.6 billion, with growth in constant currency of nearly 5%. Adjusted EBITDA totalled CHF 317 million, implying a healthy margin of around 20%.

Driven by significant revenue and cost synergies, we see strong potential for accelerated growth together with improved profitability. Our expanded geographic reach and capabilities will allow us to serve a broader customer base. Our enhanced services offering will support cross and upselling, while Crayon’s tier two platform can be further leveraged.

As a reminder, we have identified CHF 80 million to CHF 100 million in cost synergies, incremental to our implemented cost reduction programme, by achieving scale in many local operations and integrating premises and functions. We expect to realise 30% of cost synergies within six months, post-closing, and the remainder within 18 months, with one-off costs matching the run rate synergies. We will, of course, be reporting on progress against these targets in the coming quarters.

With expected closing only weeks away, our teams have made excellent progress on integration planning to ensure day-one readiness. Our integration ambition is clear, to drive growth from day one by delivering a superior customer and partner experience, by building a unified, high performing organisation. And as mentioned, we are committed to capturing full run rate synergies by the end of 2026.

To get there, key decisions and frameworks are currently being addressed, such as post-closing governance, detailed integration roadmap, and synergy targets at the functional level. We look forward to keeping you informed of key milestones ahead.

Let's now look at SoftwareOne’s standalone performance in the first quarter. Revenue declined by 5.7% in Q1, while adjusted EBITDA grew 2.3%, reflecting a margin improvement of 1.4 percentage points to 19.8%. This was thanks to the impact of our cost reduction programme, which is becoming clearly visible.

Although we had anticipated a revenue decline for the quarter, growth at the group level was slightly below expectations. This was due to weaker-than-anticipated results in North America, while all other regions are on track. NorAm underwent significant change as part of the GTM transformation. Macroeconomic uncertainty also became a factor in March, leading to delayed decision-making by a customer. In addition, large transactions in the prior year distort year-on-year growth. Further action has been taken in NorAm, and with another quarter of hard work and focus, I'm confident we can drive a turnaround.

The GTM is working in other regions, even where the implementation initially failed. In Mexico, for example, we have now delivered two quarters of double-digit growth.

The UK has stabilised with strong services-led growth. We are also navigating vendor incentive changes this year, as flagged back in October. Two-thirds of our total negative exposure on Microsoft Enterprise Agreements falls in H1. We are managing these changes effectively through CSP transition initiatives and focus on pre and post sales-related funding programmes. This will help accelerate growth in the second half of 2025.

Despite these changes, fundamentals in our industry remain strong, which is evident from 10% growth at the billings level in our Microsoft business in Q1. Customers continue to prioritise investments in software and cloud, and increasingly in data and AI. And our value-added services resonate well with customers.

Looking ahead, revenue growth in Q2 is expected to remain negative at a similar level to Q1 2025, due to the Microsoft incentive changes weighting particularly on June. For the second half of the year, we expect a turnaround in NorAm and strong, positive momentum across the group, driven by lower impact from the Microsoft incentive changes in H2, and acceleration in services-led offerings such as CSP, benefits from the GTM transformation coming through, as well as a more favourable comparable period.

The significantly improved top line performance in April gives us additional confidence in a strong recovery in H2. In terms of profitability, we have now fixed our cost base. So I'm very confident in reaching our adjusted EBITDA margin target of 24% to 26%.

Moving on to the regional performance. Overall, we are on track in the regions, with the exception of North America. We have a new leadership DACH and the rest of EMEA, and a highly experienced successor in APAC, who have my full confidence in leading our teams on the ground.

APAC delivered revenue growth of 16%, with strong results across the region. We saw excellent growth in services, over 50% year on year, as we expand our AWS practice and drive growth in application services.

DACH revenue declined 4%, driven by the Microsoft transactional business. Our largest exposure on EA incentives is in DACH, so this was expected. The rest of EMEA was down 1%, a clear improvement compared to Q4, which was down over 6%. Based on current pipeline and backlog, I'm very confident in a return to growth, possibly already in Q2.

Disappointingly, NorAm was down 31%, driven by persistent GTM-related sales execution issues impacting both business lines. Revenue in LatAm decreased by nearly 3%, with Colombia down for one final quarter due to the lost public sector contract. Mexico performed well, as did Central America and the Caribbean.

Now, turning to our business lines, software and cloud marketplace revenue declined 11%, driven by the Microsoft transactional business. Microsoft gross billings grew 10%, so we continue to see momentum at that level, while revenue declined due to the incentive changes. This impact was anticipated, and we have mitigated initiatives in place. We have accelerated efforts to transition customers to CSP, collaborating with Microsoft, who has also announced more options around subscription terms for customers.

We are also focusing on Microsoft funded pre and post-sales activities, with revenue more than doubling, quarter to quarter, which will increasingly help to compensate for a sizeable part of the EA incentive impact in H2. In the meantime, services was flat, with mainly NorAm and large deals in prior year weighing on growth. Excluding NorAm, services revenue growth was over 6%. Going into Q2, we are confident in seeing our services business returning to solid growth.

Driving a turnaround in NorAm is critical, and we have taken further action in April and May to ensure the region is back on track for H2. Specifically, we have deployed our President of Software and Cloud, Oliver Berchtold, to the region, for the rest of Q2. We have rehired key salespeople in the other ISV space and build dedicated tiger teams for priority sales motions, EA to CSP, other ISVs, and IT asset management. We also have global and local subject matter experts, coaching and enabling new joiners to ensure they ramp up quickly. As our NorAm business merges with Crayon's, we also look forward to benefiting from further scale, talent and services capabilities.

Given top line headwinds, the cost reduction programme that we initiated with my CEO Announcement in November last year has proved critical. By the end of Q1, we had achieved CHF 88 million annual savings against an original target of over 50 million, by removing unnecessary management layers and unproductive costs. This meant we were able to increase profitability for the quarter and re-establish a sustainable cost structure going forward. The programme is now completed, but cost control remains a high priority for me. We are also now in a strong starting position for the integration with Crayon, with an additional CHF 80 million to CHF 100 million of synergies. Lastly, on the next two slides, I would like to highlight two key growth opportunities, public sector and AI, and how we leverage our capabilities and hyperscaler relationships to drive digital transformation and business outcomes for our customers.

This quarter, we secured a DKK 1.5 billion cloud consumption spend framework agreement over four years with the Danish government. Going forward, we will be supporting them with all cloud-related projects across the hyperscalers, which also create services-related opportunities to drive and grow their cloud consumption.

Another customer, called Oxygen Finance, specialises in public sector insights. They are a great example of how we help clients harness the power of AI to better serve customers and drive efficiencies. Faced with the challenge of manually reviewing thousands of public sector records every month, we collaborated with Microsoft and Oxygen Finance to develop an AI-powered solution that would streamline data extraction and analyses, implementing an advanced web crawler that extracts relevant data from public sector sources and, using Microsoft Azure and OpenAI, automatically categorises and summarises the information. This solution significantly reduce processing time, while data coverage and accuracy improved.

I would now like to hand over to Rodolfo to take us through the Q1 financials. As this will be Rodolfo's last time, presenting results for us. I would like to thank him for his contribution over the last few years. At the same time, I would like to welcome Hanspeter Schraner, who will be joining as SoftwareOne's Group Chief Financial Officer as of 1st June. With more than 20 years of international senior financial leadership experience, we are pleased to have him joining us at this pivotal time. You will have the opportunity to meet him soon. Rodolfo, thanks again. And please, go ahead.

Savitzky Rodolfo

Thank you, Raphael. I'd like to start by extending a warm welcome to everyone joining us today. Let me provide an overview of our financial performance at the group level. Revenue declined by 5.7% year on year, on a constant currency basis. All regions are on track, with the exception of NorAm, which delivered weaker-than-expected results in March. This region continues to struggle with go-to-market-related execution issues, exacerbated by macroeconomic uncertainty towards the end of the quarter. Importantly, we were able to offset this decline with significant cost reductions initiated in Q4 last year.

Our contribution margin slightly declined by 0.8 percentage points, due to mix. And our adjusted EBITDA margin was 19.8% for the quarter, an improvement of 1.4 percentage points compared to the same period last year. I will go into further detail on the EBITDA building blocks on the next slide.

This slide provides a detailed view of the year-on-year changes in adjusted EBITDA. Marketplace delivery costs improved significantly compared to prior year, thanks to continued process optimisation, while services delivery costs remained flat. The significant reduction in sales, marketing, and administrative expenses again reflects the success of our cost reduction programme.

Moving on to the business line view. In marketplace, revenue declined by 11.3%. Revenue growth in other ISVs was flat, while Microsoft revenue fell, driven by the anticipated vendor incentive changes. Increased efficiency in our delivery operations contributed to an improvement in contribution margin, reaching 86.5% for Q1, up by 0.4 percentage points. The adjusted EBITDA margin for the quarter was 48.3%, up 2.2 percentage points from the prior year, reflecting the SG&A reductions

In services, Q1 growth was impacted by GTM-related execution issues in NorAm in certain large transactions in quarter one last year. Delivery costs decreased slightly, with the contribution margin increasing by 0.6 percentage points. SG&A decreased by 7.2, driving an improvement in the adjusted EBITDA margin by over three percentage points to 6.9%. I'll now hand back to Raphael for our full year outlook.

Erb Raphael
Thank you, Rodolfo. We confirm our 2025 outlook on a standalone basis, which is based on a recovery in NorAm. Revenue growth will continue to be negative in Q2, at a similar level to Q1 this year. We then expect a strong positive momentum in H2, with only one-third of the total impact from the Microsoft incentive changes hitting us in this period. That's very important in terms of explaining the growth dynamics between the two halves.

This outlook is also driven by an acceleration in services-led offerings, such as CSP, benefits of the GTM transformation, and the more favourable comparable period. Our improved performance in April gives us further confidence in the underlying momentum of the business and recovery in H2. At the same time, we are very confident in achieving our margin guidance of 24% to 26%, based on our already-achieved cost savings and continued strict cost control.

Along with adjustments below 30 million, reconfirm our target to more than double reported EBITDA in 2025 on a standalone basis. Finally, as mentioned previously, we will provide guidance for the combined company following completion of the transaction. With this, I'll now hand back to the operator for the Q&A session

QUESTION & ANSWER

Operator

Thank you. We will now begin the question-and-answer session. Anyone who wishes to ask a question may press star and one on their 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 disable the loudspeaker mode and eventually turn off the volume of the webcast while asking a question. Anyone who has a question may press star and one at this time. The first question is from Nejati Nooshin, Deutsche Bank. Please, go ahead.

Nooshin Nejati

Hi, good morning. Thanks for taking my question. A couple on my side. Can you please elaborate on the decline in North America? Is it mainly due to contract loss or churn, or any other reasons here? And the measures taken to regain some market share, are these to retain existing customers or regain the market share? Can you tell us, what are the measures exactly you are hoping for to achieve here?

And then, what is the overall exposure to public sector globally, especially in Europe? And I was wondering also, if you have taken any actions, specifically in DACH and Latin America, to restore growth. Thank you.

Erb Raphael

Thank you, Nejati, for the questions. Let me quickly give an input on the public sector situation. So, our public sector exposure, or on the total revenue, is around 15% of the total revenue is public sector. This is just for your information.

In terms of North America and the decline, why has this happened? We have already mentioned some of the reasons. On one side, we have to be aware we implemented the GTM from Q2 to Q3 last year in a very rushed way. 90% of customer accounts switched hands. And I would say we are still struggling to recover as fast as we initially wanted on that.

What we see, though, is on billing levels that the Microsoft billing levels, as an example, are still growing, not double-digit but they are growing single-digit. We see a slight decline on the multi-vendor billing levels, so for other ISVs. And for sure, we need to make sure that we focus on our other ISV business.

Therefore, we also have put measures in place. Like I mentioned before, we have rehired some of our alumni back into the business. It's a handful of people who have very specialised experience on other ISV, and they are now already in place and fully focused on helping and improving the situation on the other ISV business.

Another topic which is important to emphasise, you might remember that last year in Q1 in North America, we had about 26% growth. So we had quite a big growth last year in Q1, and there are some significant one-timers and large deals which is affecting now on the growth in this quarter. These are some of the reasons in NorAm.

In DACH and Latin America, we are basically on track with our performance. It's in line with our expectations. DACH has the largest exposure on Microsoft Enterprise Agreements, hence they are impacted from the incentive changes. And that's why we see a negative 4%. As a reminder, in Q4, I think they had negative 6%, so the trajectory is improving. If we look into our other ISV business in DACH, it's growing around 20%. So we see nice growth there.

So I would say the underlying business, the billings, the momentum is there, and therefore, we are in line with expectations there. And LatAm is another quarter impacted by this large public sector deal in Colombia, but overall, going into H2, we are very positive that we will see solid growth numbers in LatAm again.

Nooshin Nejati
Thank you. If I can just follow up on North America, is there any contract loss that you would report to us? Or it's just purely on what is the switch of the accounts between your managers?

Erb Raphael
Yes, especially on the other ISV side, for sure we have some deals which we lost and which we couldn't repeat. For sure, we also see some customer churn. That's the impact. We also won some new customers and new deals, but at the moment, for sure, we have lost some business as well in North America.

Nooshin Nejati
Understood. Thank you.

Operator
The next question us from Knut Woller, Baader Bank. Please, go ahead.

Woller Knut

Good morning, and thank you for taking my questions. Also, trying to get back on North America and, Raphael, can you give us some colour here? Do you see already first impact from the rehiring? Did you see some stabilisation, particularly in terms of churn? And also, on the Microsoft incentive headwind, can you give us some numbers to the to the headwind?

And a final question for Rodolfo. First, to start with, all the best, Rodolfo, going forward. And looking at cash collection, I know that you're not disclosing cash collection and conversion for the quarter, but can you give us some insight whether the patterns of cash collection changed meaningfully in Q1 compared to prior years? Thank you.

Erb Raphael

Thank you very much for the questions. On NorAm, again, what makes us positive is that the services-related pipeline is growing. We are actually very confident there, also, going into the second half of the year, that we will see the fruits and that we can come back into growth territory in the second half of the year.

And again, I think what's important to understand also is that if you look into the Q1 last year, we had some large one-timers. We also have an exposure on that in Q2, also related to vendor incentives. And therefore, we see a recovery in Q2 as difficult. But we are positive that we can turn around things going into the second half of the year.

On Microsoft, on the incentives on Enterprise Agreements, I think what's very important to emphasise again is that two-thirds of the impact is in the first half of the year. One-third only in the second half. So that should help us significantly to drive better results and come back into growth territory in the second half of the year. Rodolfo, hand over to you.

Savitzky Rodolfo

Yes, thanks. And thanks, Knut, for your kind words. On the cash collection, we see a positive development on the net working capital. Compared to the prior year, it's at similar levels. And then compared to the developments in the second half of 2024, we see an improvement. Important to mention, we have an initiative across the different regions to accelerate collections. This is a clear priority for us. And so I'm also quite confident that when we report the second quarter, you will see a positive evolution on the net working capital.

Woller Knut

Thank you.

Operator

The next question from Christian Bader, ZKB. Please, go ahead.

Bader Christian

Good morning, Gentlemen. Three questions from me, please. I'd like to do them one after the other. And I'd like to start with something positive. And I wanted to ask you, could you maybe talk a little bit more about the strong development in Asia in the first quarter, and whether you see this to continue for the rest of the year? That's my first question.

Erb Raphael

Thank you, Christian. I would say in APAC, we have just continued the trend, basically. It's a similar growth rate to previous quarters, so we are very happy, as I mentioned, especially on the services side, we improved a lot with 50% growth.

For sure, I'm looking forward. I think we're also seeing we are also affected in APAC, like in every other market, by the Microsoft EA incentive changes. So this affects us and can have a little bit an impact also in the following quarters on the overall growth rate. But we are very confident that we continue to see solid, positive growth in that region for the remainder of the year.

Bader Christian

Okay. My next question is on this Enterprise Agreement, can you tell us whether you do expect another headwind for your results next year?

Erb Raphael

No, we actually expect this to bottom out by the end of 2025. We've mentioned it a few times already, and I think that's very important. The EA incentives headwinds are done by then. And this will actually kind of give us the opportunity to start into next year with a balanced baseline, and it should help us to even accelerate growth. Because, again, important is also our billings. I mentioned Q4-Q1 our billings grew 10% overall. So as long as these billings are growing, these are the fundamentals. And they are trending in the right direction. And so, once the EA incentive hits are done, it should have a positive impact on growth.

Bader Christian

Okay. And my last question is, you gave an example with the Danish government that they want a framework agreement worth DKK 1.5 billion. What does this mean for your turnover numbers for this year? Or what does it mean in general?

Erb Raphael

This is a cloud spent commitment from the Danish government, basically, which have based on contracts with the hyperscalers, and we are the transactional partner for this. We are going to be the partner who is helping them to consume this cloud consumption. And as in general with these cloud-based agreements, you get then some incentives related to that, also from the hyperscaler itself. So it should have an impact, especially as the consumption is growing. It should have a positive impact on our overall revenue growth. And as well, I think, in addition, it will trigger opportunities on the services side, helping driving consumption into the cloud.

Bader Christian

Okay. So in terms of modelling for us, we should then make an assumption about the incentive on the overall value of the contract, is that…?

Erb Raphael

Exactly. Exactly.

Bader Christian

Okay. And when does this contract begin? Or has it begun already?

Erb Raphael

It has begun already. And we will see, this is a four-year agreement, so the total spend is over four years, the maximum spend. And as the spend and the consumption is growing, the more impact we will see from a revenue perspective.

Bader Christian

Okay. And a 10% incentive, is this a good assumption?

Erb Raphael

Sorry?

Bader Christian

Is a 10% incentive on the overall framework, is that a good assumption?

Erb Raphael

That's a too-high assumption.

Bader Christian

All right. Many thanks. That's clear.

Operator

The next question is from Florian Treisch, Kepler Cheuvreux. Please, go ahead.

Treisch Florian

Thank you. Good morning, Gentlemen. I have a question on your cost savings. The feedback you gave on reaching 88 instead of initially this 50 million targeted, so my first question would be how can you explain this kind of overachievement, where's the biggest gap?

And then in the second round, and this is why I'm probably asking it, I think, what are your lessons learned from it? As I believe smooth execution on cost-cutting measures will really be a key to generate the cost synergies you're targeting with the merger of Crayon. So really trying to get a feeling of how your confidence has developed since executing your own cost-cutting measure, that you can do the same, or duplicate these kinds of efforts as a combined entity going forward. Thank you.

Savitzky Rodolfo

Florian, thanks for the question. On the cost savings, when you have followed the trajectory of SoftwareOne, I think we have had two phases here. One was operational excellence, which was a transformation of our operating model to make it more scalable. And then, this second phase, when Raphi joined, it has been about making sure we reduce layers, we reduce less productive resources in the organisation, so we go back to a lean, agile organisation.

So I think it's two programmes that have helped both change the operating model, as well as make it leaner and more agile. And I think these are great learnings, as you say, as we go forward. When we think about integrating the two companies, we have these learnings from SoftwareOne that we will apply to the combination, and that gives us very high confidence in achieving the synergies of 80 million to 100 million going forward, which will come on top.

Erb Raphael

Yes, maybe to emphasise a little bit also from my side, I think we have now established a new cost base in our company, which is also much more aligned, again, to our income streams. And I would say this is really paving the way now for a future with ongoing profitable growth. So it's fundamentally important, and I would say it's a key milestone achieved.

Treisch Florian

Thank you very much. I'm looking forward for a combined SoftwareOne and Crayon. Thank you.

Erb Raphael

Thank you.

Operator

As a reminder, if you wish to register for questions, please press star and one on your telephone. Ladies and Gentlemen, this was the last question. I would like to turn the conference back over to Anna Engvall for any closing remarks. Thank you.

Engvall Anna

Thank you. And thank you to everyone for joining the call this morning. We look forward to speaking soon again.

- END -