

Full Regular Transcription

SoftwareOne AG

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COMPANY REPRESENTATIVES

Raphael Erb, Co-Chief Executive Officer

Melissa Mulholland, Co-Chief Executive Officer

QUESTION & ANSWER

Nejati Nooshin

Thank you. It's Nooshin Nejati from Deutsche Bank. So, you highlighted a strong revenue synergy pipeline and cross-sell opportunity across the life cycle. Can you share early examples where this is already translating into tangible revenue wins and how you think about scaling that motion over time? And one more, please.

You have highlighted channel as a scalable and profitable growth driver, while it still represents only 8% of the total revenue. Looking three years out, is there a realistic path for channel to become a materially larger contributor to the group mix? Or should investors think of it as a high-growth but still relatively small business? And as you scale into remaining markets, how should we think about the pace of rollout versus the margin profile and what would be the key constraint to faster scaling?

Management

Thank you very much for the questions. Around the revenue synergies, let me start with that. We always mention that also in our quarterly updates, it's in a way difficult to quantify. But for sure, on one side, and I have mentioned it earlier, we see a good growth result already looking back into the last two quarters and we have certainly a good momentum.

If we talk about examples, let me take the both portfolios which we took together, right? So as an example, in SoftwareOne, we have a SoftwareOne Cloud Support which we offer to our customers. This is something which the Crayon customer base very much is embracing. We are doing a lot of upselling of those kind of cloud support services into, let's say, the legacy Crayon customer base. This is a typical example.

Another example is our ISV and vendor certifications which we have, let's say, many, many more on a truly global scale, which gives us in some regions and areas a more competitive pricing compared to, let's say, the past. Those are other examples where we start to see the realization of the potential, let's say, in terms of revenue synergies of the two companies coming together.

In terms of channel, you are right. In a way, it's 8% of the total business, right? But that's also the opportunity at the same time, I think, for us to gain further market share and to have accelerated growth in the combined company. And that's certainly something which is part of our 2030 plan. We see it as the fastest-growing business line today. We also see it moving forward as the fastest-growing business line.

So we think if you look into our projections, we think the channel business will grow faster as the direct business and therefore also the mix is slightly shifting. And that should also help, by the way, from an overall EBITDA margin profitability perspective and make a slightly positive impact. Did we answer your questions? Good.

Mao Ines

Hi, this is Ines from BNP Paribas. I just have one question. It was very interesting because you're basically developing internally some agents for internal purposes, but eventually you will sell them eventually to external customers. On a five-year timeframe, aren't you scared of cannibalizing your own revenue in services, if services going forward at industry level is going to be the growth tailwind for resellers, that's what I understand, right? So what's your view on the two-year or five-year timeframe? Thank you.

Management

Well, it's a good question. So the answer is yes. Of course, we're building agents internally. I always say we have to start with ourselves before we take it to customers because then we're going to be in a much better position to actually deliver and sell it as a product. So the example that was shown earlier with end-user license agreements, these types of concepts we've built internally and then we test it and we take to customers.

To answer your question around cannibalization, I mean, certainly I think the technology shifts have adopted and changed. I mean, a year ago we didn't even see agentic AI at the levels that it is now. And I think that, let's call it the shifts will continue to evolve over the next five years. We see this as a way for us to actually create far more revenue.

I think synergies also help us streamline the costs so that we're much more efficient and productive, which also implies to our EBITDA margin over time. It's always difficult to say what the world will look like in five years, but certainly this is something that we will continue to evolve and we have that proven capability over the last 25 years to continue to do so.

Mao Ines

And just, is this something that your competitors are already doing typically, or are you a bit ahead of the curve?

Management

I would say in these specific use cases, we haven't seen our competitors deliver them today. So the example that we talked about with Agent Aura, which is a CSP renewal agent, we were the first to market to deliver that. And did that together in joint partnership, of course, with Microsoft. So we need to be ahead of the curve without a doubt.

And I think this is where the insight and capability of our people that (Alex Waldhaus 0:05:56) talked about in terms of bringing up these internal use cases, really understanding where do we think we're going to have the most impact is critical so that we have speed and time to market.

Management

Any other questions from the audience in the room? Everyone wants to go for coffee.

Wolf Andreas

Thank you. It's Andreas Wolf, Bernberg. Could you speak about the automated billing, especially in CSP, and how it helps you to lower working capital and improve the order-to-cash process? Thank you.

Management

Yeah, it's a great question. And we think of SoftwareOne, but I think it's a good example of the channel business and where we saw automation with CSP. So in the channel business, we automate CSP billing from end to end. So it is highly scalable. We do not have the human necessity necessarily. But it also really makes sure that that time to cash is efficient. And we see that in terms of the historic working capital performance of Crayon as a standalone business.

Now fast forward, what we're doing is we're taking that insight and we're building that all together as one SoftwareOne, so creating much more streamlined operations. So over time, I mean, clearly cash is so critical to our business and we stay very committed on networking capital. So we should see that transcend to more efficiency in time to processing, especially around areas like CSP.

Wolf Andreas

Thank you. And one follow-up, if I may? If you look at your medium-term target, the high-single-digit growth rate, how should we think about the Microsoft revenue share in four years from now? Thank you.

Management

Today Microsoft is 60% of our total revenue mix overall. We still see Microsoft to be vital and we'll talk about that later today in our session with Microsoft. We need to continue to grow that, but it's also about expanding into other multi-vendor and attaching on behalf of on total Microsoft estate. I always say every customer needs Excel.

So it's really difficult to say when you don't need Microsoft in-house. So it's so important for us to be able to continue that growth, but also see additional opportunities to support our customers across software vendors, but also other cloud providers. So I think we can safely say that 60% is a healthy, strong number and puts us in a unique position to continue to drive additional growth.

Wolf Andreas

Thank you.

Management

Any comment?

Management

Yeah, maybe to add on, it's very important for us, of course, to stay agnostic and independent, right? And it's also a bit dependent on the customer demands out there and what our customers really want. And that defines then that mix to some extent. But at the end of the day, I would say we have a very broad vendor portfolio which gives us a lot of possibilities also in the future.

Questioner

Hi, (unintelligible 0:09:17). I had a question just on the vendor side. Could you talk a bit about how the relationship with Anthropic and the other sort of model vendors is developing and how that is working? That would be very interesting.

Management

Yes, so we've just started an initial partnership with Anthropic. You may have seen that covered on the vendor slide. And we see this as incredibly accretive to our overall business. As Rafi just rightly stated, it's all about customer choice. In the end, it's about being independent and being in a position to advise and support the customers accordingly.

With Anthropic, we certainly see that to be critical because especially when it comes to applied research or deep custom, let's say, project-based research that you want to use Claude for, Anthropic of course has a leg up.

But when you look at the development of LLMs and AI overall, it's a vast playing field and it's starting to really differentiate. Microsoft with Agent 365 has access into Anthropic with their partnership, so that also builds on our Microsoft base to continuously have that as -- essential. So, in the US market, we are continuing to, let's say, pursue this, because that's the starting basis of our relationship with Anthropic, and we want to of course have it globally.

Questioner

Good afternoon, (Andrea 0:10:52) from ING. May we follow up on that one, but does that mean that you will not aim to work with other LLM providers, or OpenAI, just to mention one, or Perplexity? So that's one, and the second is, AI was mentioned quite a lot, so I think that was made clear. So, but your added value on AI is going to the likes of my company and say, "Hey, I will let you know how you optimized in," I think token economics is I think one of the first things you mentioned, Melissa. So, if you just can really explain again what exactly how, a concrete example as to how you help your customers with their AI spend, for example?

Mulholland Melissa

Yeah, great question. So, Anthropic has decided to do a partner extension of a partner model, so that's why we're continuing to pursue it. Of course, we advise across any LLM. So, whether you want to use Perplexity, whether you want to use Gemini, Copilot, any of the case. And I think the reality is, is that most companies will end up having multiple models in-house.

I mean, certainly, that's our experience today, depending on, let's say, the specific need, we will go to different LLMs depending on that need. And so that's where I think that advisory comes into play. When it comes to, let's say, ING, which, you know, is a valued customer, but also a bank for us, it's important that we continue to advise around that cost.

So, yes, so helping with negotiation around what to buy. So, when Oliver talked about that full lifecycle, sourcing across the multi-cloud estate, but also the vendors, and then, of course, reducing costs. And these are things that we provide capabilities today and we'll continue to do so. And I think in the world of token economics, this is something that with compute costs being so volatile, and energy costs also being high, data centers are just there's just not enough data centers there. So, the costs are continued to be very high.

We believe we have the position to really support, because of that cost optimization background that is really who we are, to assess that total the tokens and spend. We're moving into a world

where I believe it will be very much managed like travel and entertainment budget, where each head count will have a certain allocation of tokens. And so these are things that we are building IP around today through agents, so that we can help our customers and advise in the world of tokenomics.

Management

Okay, it seems like there are no further questions from the audience in the room, so then I would like the operator to open up for the online audience.

Operator

We now have a question from the line of Christopher Tong from UBS. Please go ahead.

Tong Christopher

Hi, thank you very much for taking my question. I guess my question is on the EBITDA margin targets of 28%. So, it's quite a big step up. So, I was just wondering if you could provide some of the drivers of this, either by segment or, what you want to do with head count given all these efficiencies.

Management

Yeah, thank you. Maybe I can I can start, and I mean, if you bear with us for the other, let's say, one, two hours which we have ahead of us, our CFO will give much more insights on how we how we achieve this and how we deliver this, and there will be a Q&A afterwards as well.

But, I mentioned already before, let's say, the shift which we see, channel business, our most, let's say, strongest growth business line for the next years, which is also our business line with the highest EBITDA margin, that should obviously help, that shift. That accelerated growth, that business mix shift should slightly help to improve the EBITDA margin.

We mentioned before about AI in everything we do, and also that will obviously help to gain efficiencies over the years. And for sure, also our overall services portfolio is something where we see room for improvement to achieve higher EBITDA margins throughout the course of 2030.

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