softwareONE

SoftwareONE Half Year Results 2021

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H1 2021 Summary Results

Dieter Schlosser

CEO, SoftwareONE AG

Welcome

Thanks, moderator. And good morning and a warm welcome to our H1 results presentation. I am Dieter Schlosser. I am the CEO of SoftwareONE. I am joined over here with Alex Alexandrov, our COO, as well as Hans Grüter, our CFO.

Agenda

I will take you to start through some key takeaways and the highlights of the first half of this year. That will be followed by a detailed business update by Alex and then concluded by the financial performance of Hans. I will then turn down to the outlook for the full year and we will then go to a Q&A session as always.

Let me also refer to the disclaimer on slide two regarding the forward-looking statements and non-IFRS measures. As usual, please read them carefully.

Key takeaways

Starting with a few key takeaways for this presentation. You remember in end of 2020, we already started to make some strategic investments. We continued this during the first half of the year. We returned to a very solid level of growth, very proud to share this with you. On the strategy side, our strategy remains the same. We are focusing on the overall growth with our 65,000 customers, digitising Software & Cloud, attaching the portfolio of our Solutions & Services, everything underpinned via the PyraCloud platform, which is unique in the market.

Allow me to go into the business lines. On Software & Cloud, we still showed some residual COVID-19-related purchasing weakness. And let me elaborate a bit more of that. We have seen this till April. From May and June onwards, we have seen an improvement and the recovery throughout the geographies.

As well, we have a continued shift to pay-as-you-go. And that is something we are focused to new to us maybe I go a bit more into detail. Pay-as-you-go is a consequence of moving into the cloud. You move from subscription to consumption. But it is also a conscious decision, a conscious strategy from SoftwareONE to establish a larger lifetime value with our customers. Pay-as-you-go is more scalable, is recurring revenue and allows us to be closer to our customers.

On the regional side, LATAM, as you know, was quite heavily impacted by COVID-19, particular two, three countries, Brazil, Mexico, as well as Colombia to a certain extent, that is rather the macroeconomic environment.

On Solutions & Services, we delivered a very strong performance. Our portfolio is resonating, whether it is pre-COVID, whether it is during COVID or whether it is post-COVID, absolute demand is increasing with customers. Our pipeline is rock solid. Our backlog has never been on that level. So all the artefacts, all the signs are there that we continue on the same level of growth for the second half of the year.

Our investments in H1, where we captured the market opportunities in cloud-based services, will lead to a growing EBITDA margin profile for the full year. We are reiterating the full year guidance with confidence. We strongly believe that our investments are really yielding the results on a full year basis and we remain focused on executing our strategy.

H1 2021 key highlights

Return to a solid level of growth in a year marked by strategic investments

Let me go now to a few key highlights. We ended up the H1 with growth of 12.3%, that is constant currencies. That is also inclusive of InterGrupo. In numbers, it is CHF440 million. On the EBITDA side, we are at CHF109 million. The EBITDA margin you see over here we are at 26.3%. For us, this is the pathway to the full year guidance. We have seen Solutions & Services outperforming with 53.4%. And again, that has become now a quite sizable portion of our overall GP profile. We are talking about 35% of our overall profile.

Going to the acquisitions, you have seen the announcement. In essence, you can put them into two buckets. We have done four SAP acquisitions in the first half year, also associated with our strategic agreements with Microsoft. And we have done two acquisitions, one on Google and one on AWS.

But let me also draw your attention to the 5.4 million managed cloud users, which we are in the meanwhile supporting. Those who have been with us since the beginning of our IPO, they absolutely know the story, how we have started. We have committed and promised to you that this is a scalable solution which will grow on a incredible level. At that time, we said we are doubling up every 18 to 24 months. That has absolutely materialised, is still for us the tenor for the future.

It is a sticky lifetime value. It is a closed customer relationship. It is recurring revenue. It is absolutely scalable. The contribution margin absolutely outweighs the initial investment which we need to do if we grow further.

Before I come to the Executive Board appointments, you have seen the announcement. Hans Grüter, our CFO, is retiring by year’s end from operation activities. He has been with us for the last seven years. He was instrumental to the IPO. He has built a best practice finance organisation. He contributed very well to the success of SoftwareONE. I do not want to wish him all the best now because he is still here for us for the next three months. But I want to thank him for his contribution, for his guidance and for his mentorship. And we will continue to work together till year’s end.

It is also very notable that SoftwareONE is attracting high calibre talents in the Executive Board, but you will see this also when we go a bit more into detail in the Capital Markets Days across the organisation. You will also personally get to know many of our global talents. But very happy to announce that Rodolfo Savitzky is joining us from 1st January, a very seasoned executive leader, very seasoned CFO from a public listed organisation. And he will join us 1st January 2022.

Also we have announced Bernd Schlotter. Bern Schlotter has been appointed as the President of Services. Bernd has joined us from BCG, where he has led the Silicon Valley office of BCG. He has a fantastic, amazing background. He is coming from the top consulting companies, consulting not only service providers on where they need to go but also the customers where they need to pivot on the technology as well as on digital transformation and has been himself on the service provider side as well. So very authentic. Already onboarded, already making an impact, which is very pleasing to see.

Gross profit growth accelerates to 12.3% YOY CCY

Solutions & Services accelerates to 53.4% YOY in CCY driven by customers' continued prioritisation of cloud-first digital transformation

Now, let me go to the next slide and talk you through our gross profit growth and to walk along that. You see on the left side, the blue is the Solutions & Services. Let me do this at a later stage. Let me focus on the red side, which is our Software & Cloud business line.

Over here, you see a slight negative growth of 2.1%. In essence, there are three reasons for that. Number one, as I mentioned earlier, there was still some residual weakness in Software & Cloud for the first four months of this year. As I said, we have seen that turning around in May and June and we are seeing it continuing to recover and grow.

The second is the dilution of our gross profit from Software & Cloud in the services, which is through pay-as-you-go. Again, pay-as-you-go is not only a consequence of cloud but it is also our conscious strategy because the scalability and the lifetime value of our customer.

The third point is certain geographies have not performed as we wanted them to perform. I mentioned already LATAM and that is macroeconomic through COVID-19. I will show you later a bit more on the rest of the geographies how we have performed.

Now moving to the right side and giving you more detail on the Solutions & Services. You remember we spent in 2019 the time to integrate with Comparex integrator our service portfolio and the service catalogue. We clearly committed and told you that this will lead to an acceleration once we are through the integration. We delivered this in 2020. We accelerated to 23.9%.

Now you see another acceleration up to 53.4%. And yes, you see there is also 36%, which is organic. And for us it is more or less the same, whether it is organic or non-organic because every integration means also attention, means also focus and means also opportunity costs. So the achievement is the achievement and we are very confident that this level of growth continues for the remainder of the year, driven by pipeline, driven by backlog.

But also at the bottom you see the 59%, which is again a number which is growing. That is our ratio on managed services, means we have recurring contracts and that is delivery backlog. That is not sales backlog. That is delivery backlog, which is part of your bookings for the future.

Strong performance across key markets

Certain regions still impacted by COVID-19, particularly LATAM; signification acceleration in NORAM and DACH

Going into the geographies. Let me start with North America. You see 11.3% growth year-on-year. I am very pleased over there, particularly from Q2 onwards. We have seen really an acceleration which is also indicative of what we see in the rest of the market and also from competitors.

On EMEA, we have seen a solid growth of 8.2%. You see below, DACH has really grown very well. In the rest of EMEA, we have two, three countries which have not performed to our satisfaction level and we have addressed this for the second half of the year.

APAC is growing very nicely with 25.1%. And LATAM on the left bottom you see is also growing. It is growing 48.7% but let us be clear on this that the biggest chunk is the integration of InterGrupo. If we take InterGrupo out, we have a negative growth of 5.4% which is what I mentioned earlier macroeconomic through COVID-19, particularly Brazil, particularly Mexico, and to a certain extent, InterGrupo.

Focused execution of strategy to drive growth

> *Digitisation of software & cloud with expanded services portfolio to deliver customer value, digitally-enabled by PyraCloud*

So before I hand over to Alex, let me reiterate our strategy. And for those who have been with us for quite some time, you always see five pillars how we execute our strategy.

First pillar is continue to grow and digitise Software & Cloud. And I want to do a bit of a deep dive on that for you. What we see in the market, what we see from our customers, what we see from the publishers and the ISVs and technology trends, in the future in this classical reselling space will completely evolve. There will be only two motions going forward.

The first motion is the customer wants to do self-service. And whether that self-service is enabled through a platform, whether it is enabled through a marketplace, whether it is enabled through customisation, they want to do a self-service. The trend is absolutely going into marketplaces and enabling the customer through that virtual experience.

The second motion is the customer wants a trusted advisor to manage their software and cloud spend. They want to manage it completely through a trusted advisor and that is where we see a great potential with our offering. We call this Digital Supply Chain, where we have seen tremendous growth over the past six months.

But also on the marketplace, we are well-positioned and it is very important that you see the penetration and the adoption of our PyraCloud, because marketplace is one component of PyraCloud. We are able to position the marketplace to our customers. They can use our marketplace to consume Software & Cloud. They can use our marketplace to aggregate other marketplaces which are out there, whether it is in Amazon, AWS or whether it is in Azure or Google. And we can also use the same marketplace to do business-to-business. So really an omni-marketplace which is changing the landscape quite dramatically.

Why do I deep dive fully? Why do I elaborate on this so much? It is very important for the community to see that the classical reselling is changing. It is not any more in the future about optimising every single deal and take the highest GP out of a single deal. It is about digital experience for the customer and the customer wants to consume software and cloud through a self-service platform.

The second point is cross and up-selling our Solutions & Services. That is always a very safe terms, the ones looking on metrics are looking at upwards and side-wards mobility. We see it very simple. Every single customer which we have, we want to attach Solution & Services, and every Solutions & Services customers we want to attach Software & Cloud because they both go together. They are not exclusive to each other. They are synergised. They belong to each other.

And you see now from a growth perspective on 66% of LTM is already from customers purchasing both Software & Services. You also see, and we have indicated this now quite clearly, an over 70% year-on-year gross profit growth in our xSimple bundles. Remember, xSimple bundles is equally for us for pay-as-you-go. And that is a tremendous achievement, is continuing this way. We do not see any slowdown over here. And as I mentioned early, highly scalable recurring revenue and the contribution margin on this is just incredible to further scale out.

The third area is to look at the customers' digital journey and make sure that our portfolio is addressing that customers' digital journey, that customers' commercial or technology journey. And I want to highlight that over here, we want to disconnect the growth of our business with headcount growth. We are focusing on the front-end of the customer on absolutely IP-enabled services. We are focusing to do it with a fresh approach where we do not need a bench, where we do not need to grow similarly to headcount when we have a business growth. You will see this also later on the back-office and Alex will go into more detail.

Also we see the investment in our strategic growth areas evolving very well to recall and you see more later in the slides. These are five strategic growth areas such as like SAP in the cloud, such as like application services, application modernisation or managed FinOps, which is the cloud dynamics in the future. To be crystal clear, in SoftwareONE we have a golden rule; if we establish a practice, that practice has to have a potential of at least CHF100 million GP. Our five strategic growth areas are on this journey to cross this CHF100 million and we will do so in the next two years.

On the fourth pillar, we see the scale on the local operating model that is important because we need to further evolve on an ongoing basis on our margin profile. Again, there is automation and there is enterprise avenue for us where we disconnect the growth from headcount investments.

But also it is important that we are there where the customers. We have to deliver local, regional and global. And we have to make sure that whatever we can standardise, whatever we can automate is coming through the system. Whatever we can standardise, we can deliver globally, whatever needs to be face-to-face, whatever needs to be customised towards the customer, that reduced scope needs to be local and regional.

Last pillar is our M&A. And over here we will continue to be very selectively adding to our organic growth. And it is all about jump starting. It is all about capabilities. You already have seen we have announced six acquisitions so far. We will continue to focus on SAP in the cloud and we will continue to focus also to add capabilities on AWS and our Google practice.

With that, I am very happy to hand over to our COO, Alex Alexandrov. Thank you very much.

Business Update

Alex Alexandrov

COO, SoftwareONE AG

Increasing importance and complexity of technology driving growth

Large markets growing double-digit

Thank you, Dieter, and also a nice warm welcome from my side. It is nice to be back in person as we conduct this call with you. I would like to spend a few minutes with the business update. And I will start with the backdrop in terms of our customer base and the markets where we operate.

As we have talked about from the IPO, all of our customers are using technology to enable their business. They see technology as a way to differentiate. They see technology as a way to grow, to transform their own business. This technology spend continues to grow within our customers and it grows as both CapEx and OpEx. So the additional complexity as well as the additional OpEx puts quite a bit of spotlight on technology. And that is the place where SoftwareONE fits in. We are helping our customers all along those technology needs, whether it is spend, whether it is optimisation, whether it is migration and management in the cloud.

On the right side, you see our markets, the markets where we operate. We have talked about, in the top right, the Software & Cloud market for us is really the enterprise software market. You see here that it is greater than USD500 billion market, now growing at over 10% as it recovers from COVID.

On the bottom right, as you heard from Dieter, all of our services and solutions are built for cloud only. And as we continue to build out this portfolio, we will spend some more time with you in the Capital Markets Day to really show you our specific addressable markets. But overall, what we can say is the backdrop of the public cloud infrastructure-as-a-service is a good proxy for our markets. And you can see how well it is growing at 30% CAGR over the next several years and the market is essentially four times the size over the next five years.

Portfolio supporting end-to-end customers' digital transformation

Value proposition based on combining software with services to drive recurring customer relationships

Our portfolio towards the customers is organised in a way to address the customers' pain points, to deliver outcomes to our customers. And that is why we speak about commercial transformation, we speak about technology transformation and ultimately digital transformation. What do we mean by this? On the commercial transformation, yes, we are helping customers buy at the lowest cost. We are helping them buy in the right jurisdiction with the right terms and conditions.

But more and more we are helping our customers get their arms around their overall spend. We are introducing visibility. We are introducing transparency and ultimately management of their overall spend. That is what we are able to accomplish for our customers as part of their commercial transformation.

On technology transformation, it is all about helping customers get value from that spend. They are spending on software. They are spending on cloud. And often they need help to get there. They need help implementing or migrating. Then once they are in the cloud, they need help managing. They need help optimising. And that is where our technology transformation practice plays a big role.

As you heard from Dieter, as we continue to add to this portfolio, yes, the portfolio continues to grow because we are trying to address more and more of our customers' needs; but we try to do it in very much in an IP-enabled way so that is not a plain vanilla service. It is always a SoftwareONE unique service because that allows us to add more value to the customer. It allows us to remain sticky with the customer.

And finally, when we put commercial and technology transformation together and we add business or vertical expertise, we are able to take our customers all the way to digital transformation. We help them innovate their business model, improve their own customer experience and improve the experience or optimise their own internal process or employee experience.

Performance across business lines

Focus on overall growth with customers across both business lines

Our lines of business are increasingly more and more integrated because as I just mentioned, we are after delivering these outcomes to our customers around commercial technology and digital transformation. For example, we might take a third-party software or a subscription, wrap a SoftwareONE service around it, add analytics and digital interaction with our platform and come up with a SoftwareONE solution. That would cross and have gross profit that would drop into both Software & Cloud and Solutions & Services.

At the same time, we might have another example. We might have application modernisation. We might move a customers' workload into the cloud and that would be a service. At the same time, as that application now operates in the cloud environment, we would drive cloud consumption and that would be a positive for a Software & Cloud business.

I wanted to illustrate these two examples just so to better show how the two lines of business are working closely together and why we focus so much around our overall growth rates at the customer level.

To take it down to the specifics of line of business performance. On Software & Cloud, you see that 65% of our gross profit today. As Dieter mentioned, we are negative 2% for the first half. Some of the contributors, I will dive into now.

On the Microsoft side, what we see is our billings growth is very similar to what we see in the market, what we see with Microsoft. At the same time, we continue to see this mix effect that we talked about on our last call, which is enterprise, which is about two thirds of our billings continues to grow very strong, but it is at a lower gross profit contribution to SoftwareONE. At the same time, SME had been weak through COVID. We are now seeing a nice recovery in SME, as Dieter mentioned, towards the end of the first half and we expect this to really recover in the second half.

The impact of SME recovery, SME growth shows up in two ways. It shows up in Software & Cloud and it also really drives our pay-as-you-go dynamic, as Dieter mentioned.

The second big impact, the big force that we see in our Software & Cloud business is pay-as-you-go. And as you are hearing from Dieter, this is our xSimple bundles. What we do here is customers signing up to a subscription and we wrap a service around the subscription and we wrap PyraCloud around it. We create a bundle. That creates much higher margin business, a very scalable and recurring business.

What it does is it produces less revenue upfront because the customer is not signing up to an annual or a three-year contract, but it does create a very nice lifetime value of the customer. And it creates a lot of gross profit that is recognised as a service on Solutions & Services side.

And then finally by region, we saw weakness in LATAM, and this undoubtedly impacted our results. What we expect going forward is, as I mentioned, continued recovery in SME that is driving both our Software & Cloud and our Solutions & Services business and continued strong growth in pay-as-you-go. What you see in some of the KPIs that we are now disclosing is that the pay-as-you-go business was previously growing greater than 50% and we are now seeing growth greater than 70% in this segment.

On the multi-vendor side, we would say very much closely resembled to what we are seeing with Microsoft specifically, which is some purchasing weakness through COVID and a nice recovery in May and June as we wrapped up the first half.

Just a few highlights on Solutions & Services and I will go into more detail. On Solutions & Services, we continue with our strategy, as Dieter mentioned, to take our customer and do more with them. And we measure our success here with our cross-sell metric, which is how much of our gross profit is with customers that do both with us, Software & Cloud and Solutions & Services.

The KPI here, as we have talked about consistently, has gone from 60% in prior period to now 66% of our gross profit is customers that are doing both with us. We believe this is very attractive because it creates again a stickier more recurring customer relationship. We are much closer and interacting constantly with the customer.

I will go through the additional detail on the following slides in terms of the contribution of the commercial and technology segments, as well as the growth rates there. We are very excited about the results because on the commercial transformation area, we are seeing return to double-digit growth rates. On the technology transformation, we are seeing 39% growth.

And finally, I will spend a few more minutes on the following slide on our investment areas.

Digitising Software & Cloud, IP-enabling Solutions & Services

As we talk about our integrated business, as we talk about what is the future business model look like and why Dieter spends so much time in the strategy section on this, we see PyraCloud playing a critical role. This is our way to deliver an integrated business model to our customers. It is a way for us embed our own IP, intelligence and automation. And that is why we are so excited. That is why we continue to invest so much in our platform.

Our platform has three aspects to it. The first aspect is the marketplace. This is a place where customers can come to buy, select the software and even select from our services catalogue self-provision some of those solutions.

In the middle, what you see is as building a way to interact with our customers in a digital way. We will not be able to replace and nor do we want to replace a lot of our human touch points; but more and more, as you are hearing from Dieter, customers want that digital interaction. They want that digital way of doing business. And that is what we are creating with SoftwareONE Digital.

Finally, customers are using multiple cloud. And this is the third aspect of our PyraCloud of our product portfolio which is an intelligent management platform from multiple cloud environments. What we want to highlight here is, again, this is the connective tissue, the glue between our Software & Cloud and Services & Solutions business. We will continue to invest more and more here because this creates a lot of IP and value-add for our customers. And the statistics show that customers appreciate this and customers are willing to adopt it. More than 60% of our customers are now activated on the platform and we are seeing significant increases in usage.

Solutions & Services Portfolio Delivering Customer Value

As I mentioned in the previous slide, our services portfolio is organised around customer outcomes. And this is what we mean around commercial transformation and technology transformation. Let me now spend a few minutes.

On the commercial transformation, we are helping customers with an advisory engagement upfront to understand what are they buying, is it what they need to buy. And then as an outcome of that, we help them buy at the lowest cost. This area today contributes a little bit more than 25% to our services' gross profit and it is now growing nicely at more than 15% year-on-year.

On the right, you see our technology transformation areas. Here, we are offering our customers scalable solutions to move to the cloud. Then we offer them an ability to manage and optimise their environment in the cloud. Many of these are very much in a managed service format because again we always try to balance a professional service that leads to a managed service. This for us is a key ingredient to success because it allows us to build a very scalable profitable services business.

The technology transformation area in H1 contributed more than 50% to our services' gross profit and it is growing very well at 39% year-on-year. The strategic growth areas I will dive into next. This today is a little bit less than 20% of our gross profit contribution and is obviously growing very fast. So let me now spend a few minutes on that.

Strategic growth areas capitalising on market opportunities

Our strategic growth areas is what we started to break out for you at the beginning of this year. It is something that where we started investing heavily in 2020. We selected these areas based on market opportunities, total addressable market opportunity and an addressable pain point with the customer.

It is very important for us to say, 'Does the customer have a pain point? Are we able to address it?' When we combine those two, the addressable market and the customer pain point, that for us shows it is a good area for us to invest in. We can add value and help solve the customers' problems.

The strategic growth areas are made up of Application Services, SAP to the cloud, Hyperscaler Factory, Industry Verticals, where we started with engineering and construction, and finally, Managed FinOps.

What I want to highlight here is that we are investing in this area. In the first half, we invested approximately CHF26 million in OpEx, both the combination of internal organic OpEx as well as through our acquisitions. Already, these strategic growth investment areas are yielding approximately 26% of gross profit.

We are very happy with where they are today. At the same time, it is also very clear that these areas are still very much at the beginning of their growth journey and very much at the beginning of their ability to scale and really contribute to our EBITDA. The momentum we see here is really exciting. We are seeing win rates increasing 2 to 3 times. We are seeing pipeline at 3 times. And we hope to go into much more detail in these areas with you in our Capital Markets Day.

I will now turn it over to Hans, obviously a very special and exciting day for Hans and bitter sweet for us as Hans has been an amazing partner for our entire team. Go ahead, Hans.

Financial Performance

Hans Grüter

CFO, SoftwareONE AG

H1 2021 profit & loss summary

Thank you, Alex, and also from my side welcome to this conference call. I am pleased to go through the financials in more detail. I would like to start with the profit and loss statement.

The IFRS reported figures H1 2020 and H1 2021 represent the figures which you see in the half year report. More meaningful to assess our performance are the adjusted figures which you see on the right side. The adjustments made are all in line with our policy represented in the Annual Report as alternative performance measure.

We have achieved a total gross profit of CHF414.4 million corresponding to a growth at constant currency of 12.3%. Even though the two lines of [inaudible] really belong together, as Alex just alluded to you, represent the line of businesses separately. The gross profit from Software & Cloud declined by 2.1% and achieved CHF267.6 million. The gross profit from Solutions & Services is CHF146.7 million and represents an extraordinary growth of 53.4%.

On the OpEx side, the operational expenses amounted to CHF305.3 million, which represents 22.5% growth increased or higher than the gross profit. And this marks the investments we have made in the growth areas.

The resulting EBITDA is CHF109.1 million, down 9% from the CHF120 million on prior year period. Depreciation, amortisation, financial results and tax expenses are in sum very similar to the period of last year. But to be noted here, we have a small increase in depreciation to a smaller higher CapEx and we had special effect, positive effect in last year due to customer relation valuation and a tax benefit. This one-time positive effect did not recur in 2021.

Adjusted profit bridge

With this bridge on the next slide from reported profit from the period to the adjusted profit, we want to provide you the transparency of all the adjustments made. Starting with the IFRS profit of the period of CHF38.3 million, we added an expense of the share-based compensation of CHF7.8 million. This contains two topics or two metrics. One is the management equity plan which was launched prior to IPO and was fully funded by the major shareholders. So there is no impact for the SoftwareONE for the company neither on cash, neither on equity.

And the other one is the free grant share. The CHF7.8 million is already reduced to last year of CHF12.4 million and it will further reduce going forward and will end in 2022. We have adjusted expenses for the integration of acquired companies of CHF3.1 million and we have adjusted M&A and earn-out expenses of CHF5.7 million. This is mainly the earn-out expenses will make up that sum.

In addition, we adjusted the depreciation of the shareholdings in the Norwegian listed company, Crayon, of CHF1.2 million. Last year there was an appreciation of CHF13.3 million. And finally, we made the tax adjustments of all this adjustments made and reach an adjusted profit of the period of CHF54.3 million. Continuing with the profitability on the next slide.

Profitability impacted by strategic investments

Front-loaded investments in strategic growth areas and sales & marketing and delivery capabilities

Our profitability here presented as EBITDA is impacted by the investments made in our strategic growth areas. The EBITDA H1 2020 of CHF120 million decreased by 9% to CHF109.1 million. Main drivers have been a gross profit decline in Software & Cloud of CHF9.6 million; a gross profit increase in Solutions & Services of CHF27.4 million. And already a nice gross profit increase of CHF25.8 million of our strategic growth areas.

These strategic growth areas on the other side had an OpEx of already more on the same level and already reached a breakeven point. It is very markable at the beginning to be in that good shape.

The further investments we have made in delivery capabilities and sales & marketing all for future growth of our business. This results to an EBITDA of CHF109.1 million.

In summary, the investments made are not yet profitable or fully profitable. However, a very good foundation is made for future growth and increase our profitability.

Cash flow driven by seasonality and business growth

Continued underlying improvements in net working capital during H1 2021

Continuing with the cash flow. We have achieved underlying an improvement in the net operational cash flow of minus CHF32.4 million. However, on a reported basis, the cash flow decreased from CHF206 million positive in H1 2020 to this CHF32.4 million minus in H1 2021.

As disclosed last year, the cash flow was inflated by about CHF250 million last year to the COVID-related vendor deferral payments. Corrected by this one-time effect in the first half year in 2020, the cash flow from operation activities would have been about minus CHF40 million and there you see the positive improvement underlying we have made this year already.

Small increases in the CapEx, you see on the left side to CHF14.3 million. The main contribution to the CapEx are investments in our PyraCloud and also investments internally generated in our processes and improvements. This demonstrated the small numbers that we are in a asset-light business model and able to generate positive cash flows.

Strong balance sheet for accelerated growth

Excellent basis for further acquisitions

Continuing with our balance sheet. We do have a very strong balance sheet. And let me take the most or biggest part of the balance sheet, which is the net working capital.

The net working capital is in a negative territory despite the seasonal effects we have and despite the business growth. Also here you see the improvements underlying made to the prior year. The prior year reported net working capital was CHF173.4 million negative but adjusted to one-time effect represented till last year of CHF250 million. We have an improvement made this year very significantly.

And I can tell you this improvement was not only at the really balance sheet date. It was achieved during the H1 2020 period every month.

Going forward, I think this trend can continue, but we do not expect that we can achieve this really record low level we have achieved at the end of last year fully but should be close coming to that. The equity ratio with 24.4% remains on the same level as in December last year. So it is on a good level. And it also demonstrating the unlevered balance sheet we do have today.

The net debt at the end of the period is about minus CHF400 million or you could also say the net cash positively is CHF400 million. Together with unused available credit line, with this unlevered solid balance sheet, we are very well-positioned for future growth and very well-positioned for future acquisitions.

And finally, a personal note. As announced, I will step down as CFO and retire from operational activities at the end of this year. The seven years at SoftwareONE has been the best experience in my career. I enjoyed and will enjoy every day of that extraordinary and ambitious journey I was able to participate and to contribute. I am very glad that we found with Rodolfo Savitzky, an excellent successor, and that we are able to plan a smooth transition.

And with this, I give it back to you, Dieter. Thank you.

Outlook

Dieter Schlosser

CEO, SoftwareONE AG

Full-year 2021 guidance and mid-term targets reiterated

Based on no material deterioration in the environment due to COVID-19

Thanks, Hans, and also thanks, Alex. Let me now, before we go into the Q&A, reiterate the outlook for the remainder of the year as well as elaborate a bit on our Capital Markets Day in October.

So coming to the full-year 2021 guidance. Just to reiterate on the gross profit side. Our guidance was and is above 10% growth in constant currency. That is excluding InterGrupo which we expected to contribute obviously around 4%.

Our key assumptions to the guidance. We see a further acceleration in our gross profit growth in the second half of the year. That is led by a recovery in Software & Cloud. We already shared this with you, with a return to a positive growth and a continued strong momentum in Solutions & Services supported by a backlog. Mid-term guidance is mid-teens growth in constant currencies.

On the adjusted EBITDA margin, approximately 30%. And over here our key assumptions are the cost base approximately the same level in H2 2021 compared to H1 2021, driven by our front-loaded investments, which we have done in the first half of the year. The mid-term guidance on EBITDA is the EBITDA growth will be in excess of gross profit growth.

On the dividend policy, our guidance is 30-50% adjusted profit for the year. And as you have seen before and the historic trend, we have a progressive dividend policy. The mid-term guidance remains unchanged between 30% and 50% adjusted profit for the year.

2021 Capital Markets Day

Now coming to our event on 20th October. Hopefully, we see many of you at our Capital Markets Day. Over here, you will not only us as a key Executive Board, but we also bring quite a number of global talents demonstrating to you our strategy on Software & Cloud, our digitisation strategy on Software & Cloud, as well as our Solutions & Services, how everything flows together and how we make sure that this becomes an IP-driven and not an OpEx or a headcount-driven growth plan.

Looking very much forward to that and hope you enjoyed the presentation. Hope you have seen what we are doing in SoftwareONE. It is always about winning the business of today while we built the business of tomorrow.

And now I am handing over to the Q&A sessions. And hopefully we can spend the next 30, 40 minutes on questions and answers. Thank you very much.

Q&A

Stacy Pollard (JP Morgan): A few questions from me. First of all, can you talk about the pipeline for Software & Cloud and what kind of year-on-year growth you would expect for the second half? And could you make it to a positive growth for the full year? And then as you look into 2022, do you think there is a bit of a rebalancing, so for example the Software & Cloud get back up to double digits and then Solutions & Services obviously quite exceptional growth in the first half of this year? Where do you see that sort of balancing out on a normalised basis? I will ask the second question after.

Dieter Schlosser: All right. Thanks, Stacy. Great questions. On the first one in terms of our pipeline, we have already seen the pipeline growing from May onwards. We see continuous rebound in that line of business also in the current months post H1 and we have a positive momentum.

If you take our geographies and that slide which I showed Stacy on LATAM, and if you would normalise LATAM and if you were to take those two, three countries from Europe in the normal performance, we would be already on a positive level in Software & Cloud. So that is what we have addressed. Of course, we cannot address the macroeconomic side of it. But as you know, Brazil and Mexico and Colombia is also improving heavily on that side.

On the second part is whether we see a normalisation in 2022. We see this from different angles. The first one is, of course, we see that positive momentum across geographies, but we also see the SME recovery across the Board. And the second part which I want to mention over here. We see a very positive dynamics also in the Microsoft space. And for that we are very confident on 2022 as well. But as you know, 2022 guidance we will do with the full year results.

Stacy Pollard: That is fair. And second question, just can you talk about the operating leverage that you are getting in the second half? Now I know it is partly slower investments. Maybe what other areas? Obviously, Comparex synergies are on target. I guess, still those are some catch-up to do, I think, in the second half and basically trying to get a sense of just are you very confident in that catch-up? Are there any things that we should sort of watch around the edges that it could sort of kind of be better or worse?

Dieter Schlosser: Yeah, you are absolutely right. I mean, if you do the numbers, then you have to see that we have to have an accelerated growth in the second half of the year. But that is not the only piece, right? We also have to make sure that the cost piece goes into the same direction.

We do have a high-performance culture in SoftwareONE. And we are absolutely reiterating this over here, that is where our investment into our resources in the first half of the year, we will see the payback and we will see the acceleration on the second half of the year. The Comparex synergies, which I mentioned, we are on track on that. But on top of that, the high-performance culture, coming out of COVID, coming of a more empathy year of 2020 we are back on high performance and that paired with our investment in H1 will accelerate our growth.

Alastair Nolan (Morgan Stanley): Just a follow-up on Stacy's question. Am I right in saying in terms of getting to the 30% of EBITDA margin for the full year, if we assume a flat cost base, we are basically implying an acceleration to close to mid 20s ex-FX growth, so I think 23% ex-FX growth, which is a pretty material acceleration; can you confirm that? And what gives you the confidence to see an acceleration of that scale?

And then I guess more broadly as we look into the mid-term, if services is going to continue to accelerate and become a larger component of the overall business, I think you have alluded to 50% in the mid-term, how do we get comfortable that EBITDA can grow at a faster rate than gross profit, given services typically come at a lower margin GP to EBITDA? So those would be the two questions.

Hans Grüter: Yeah. Thanks, Alastair. So on the first point, yes, you are absolutely right. It means that we will be exiting the 2021 with a higher growth rate. For us, it is absolutely clear that our growth is further accelerating in the second half of the year. There are multiple components over there which gives us this confidence.

First of all, we already have a run rate business and we have seen this in our 59% of the overall 35% of the GP, that is continuously to grow and that is already given. It is booked. It is banked into the system. We have a pipeline with a high conversion ratio where we have the intelligence of what the win rate is in the past and if you assimilate this, we are very confident on that as well. And both together, for us, is absolutely clear that the acceleration in second half of the year will continue. We already see this, Alastair. It is already visible now in the running environment.

On the second question, when you say if you pivot to a more Solutions & Services organisation, I just want to reiterate our strategy. Our strategy is not to become Solutions & Services alone. Our strategy and there – our main differentiator is that we have the synergy between Software & Cloud and Solutions & Services, which is quite unique in the market. And I know where you come from with your hesitation on saying a normal system an integrator would have a different margin profile, right, on the EBITDA side.

But we do not want to become a system integrator. We want to be next-gen service provider where we drive IP, where we drive automation, a fresh approach where even on the Solutions & Services, it is absolutely isolated from a headcount growth and we have a scalability, where the contribution margin outweighs our investment.

This paired with our digitisation on the reselling space where we have now not only a restriction to 90 countries and to 65,000 customers which we have today, but once you are on the marketplace, you are certainly in a digital experience where the addressable market is a completely different one. And you take the human factor out of it with the digital experience, it means whatever margin you have on that flows directly through the bottom line. So that gives us this confidence.

I understand that we have to talk more about this and we will do this in the Capital Markets Day because that is something where I think there is still a gap from a communication point of view.

Knut Woller (Baader Bank): Actually, two questions. Dieter, you mentioned that you target to achieve around about CHF100 million gross profit when you do something like the strategic investments that you announced with the release of the 2020 results. Can you share with us something like a timeframe when you would expect to achieve these run rates in terms of gross profit? When should we see that?

And then secondly, getting back on the margin side. I mean, to get to your margin target, you probably need something like a 35% or mid-30s margin in the second half, which looks a bit more than you have done in H1 last year. So to which extent does this margin target depend on a recovery of LATAM and to which extent is that already pencilled in but what you have achieved to-date and given your expectation of the broadly stable cost base in H2 versus H1?

Dieter Schlosser: Yeah, thanks, Knut. Very good points, both questions. On the first one on the strategic growth areas, remember, we are talking about five strategic growth areas. So the principle which I said, if we invest into a practice, if we build out a strategic growth area, the addressable market has to be minimum 100 million GP. That is the minimum, otherwise we are not investing into it.

And what Alex mentioned as well, we always choose areas where there is a tremendous addressable market. And he calls it customer pain point. I call it burning platform. You see this, an SAP in the cloud. They have to move by 27. On application services, they have to scale out and modernise the application, the legacy applications. You see this in the construction vertical, 38% of CO2 emission is from the construction industry. With our solution, we are able to impact this positively.

So these are the burning platforms which help us to accelerate those strategic growth areas quite tremendously. Now you want a definite timeline for me and I have alluded to it actually in the call. I said those five strategic areas will all cost CHF100 million in the next two years. And it is not aggregated. It is individual.

And, of course, we will evolve further and there might be a change on another growth area. But for those which we have visibility and we speak here absolutely out of confidence. We see the pipeline. We see the win rate. And we see the ramp up and the demand from the customer side.

So that is the first one. On the second one in terms of the EBITDA margin profile. So our front-loaded investments really will support us. Our resources will be productive. And you see this in any sales and service organisation. If you invest in the first half of the year, you get the productivity in the second half of the year. If you do it staggered and you do it out of seasonality every month continuously for 12 months, you never have a jumpstart on productivity.

What we did is a conscious effort to really hire and use also the period where at the moment in the first half year the talent crunch was not really there because many have not really come out of COVID. And we finished with the hiring. So we will see the productivity over there back-loading our margin profile.

The other aspect is, of course, if I take this handful countries and normalise on an average growth level which we have, then we are absolutely on what we are saying. And just to reiterate, our EBITDA margin, what we guide is approximately 30%.

Michael Briest (UBS): A couple from me. Just to look at the cost base and the guidance that it is flat sequentially. I mean, if I think about headcount, it is up 600 in the half and presumably that did not all happen on 1st January. And similarly, you have announced a couple of acquisitions of about 400 people. And also you have this plan to get 5,000 new staff and recertified staff on Microsoft by the end of 2023. So are you saying that headcount is going to be soft of flattish in the second half on the first half?

And then just, Dieter, coming back on your comments on approximately 30%. I mean, would 29% be within the ballpark there? And I am curious what you have said just now about the CHF100 million GP potentially in each of those five strategic areas being deliverable by two years, because if I put that on top of last year's gross profit base, I get well over mid-teens gross profit growth. So maybe you could just square the circle there.

Dieter Schlosser: Hi, Michael. Thanks. Again, very well questions for us. On the cost base, you are absolutely right. So it was a ramped up hiring over the first six months of the year. We do need to understand that we have an ongoing attrition as well, right, as an organisation, like any organisation has. And what you have seen is an acceleration in the first half of the year where we actually net new hired on top of this attrition.

What you are saying is that we also have strategic co-investors; Microsoft, where we talk about 5,000 headcounts. Let me go into this a bit. We have a contract which lasts till 2023. So it is a three years contract. Over this period of time, ramping up with the business demand, ramping up with the need of the customers, we have to come to a certification level of this approximately 5,000.

We are already on a certification level of 2,500. I want to see how our first workforce being productive and we are not building benches. I am not building a bench for the future. I want to see the pipeline coming through. And if you ran out of capacity, if you run out of capability, we would hire in the right space. But from a focus point of view at H2 we are focusing on making our resources productive to achieve our targets.

It is approximately 29%. So we said approximately 30%. We will be exiting with the high growth rate at the end of the year. And that is also needs to be understood. That is also comparing to a weaker H2 in 2020. We will not change the guidance or discuss the guidance for the next year. That becomes of course with the full year results. And in terms of your mid-term guidance where you say are we then talking about high-teens or mid-teens, as I said, you see that we are exiting on a high growth but we talk about the full year's results.

Approximately 30% means for us approximately 30%. I mean, Michael, it is a certain range but it is approximately 30%.

Michael Briest: Just on the software gross margin, has that now bottomed do you think at 6.4% just given the comments about Microsoft and the outlook on SME?

Dieter Schlosser: Yeah, so absolutely spot on. Outlook on SME contributed to that but there is also a certain dynamic in Microsoft, which might be not yet common knowledge. And we see Microsoft will have quite a drastic price increase in the first part of next year for the first time on the cloud components. So since 10 years, they are really increasing the price drastically of Office365, M365, etc., etc.

So you will, for sure, see two things, two dynamics happening over here. First of all, there will be an acceleration and renewal prior to this point. And that will be already in a financial year of the company, so not waiting after the new financial year kicks in. So you will see an impact towards the year's end and you will see an impact in the first part of next year. But you also will see that customers will require more advisory and will require more hand-holding from us so how to navigate around this situation.

And the other point if you talk about bottoming out of margins, as you know, in October, there are always incentive changes from Microsoft, and the view which we have is that this year in October there is no negative change at all. And it goes actually in the opposite direction.

Andreas Müller (ZKB): I have got a question on LATAM and also on the rest of EMEA, which was growing not really well. What kind of measures you have implemented in the rest of the EMEA market? And when do you think LATAM is going to recover and if there was also maybe some planned attrition, for example, in Mexico with the InterGrupo full acquisition?

Dieter Schlosser: Yeah. So thanks, Andreas. Let me start with LATAM. So the measurements over there is really going from a remote sales motion into a contact spot again. Sales is contact spot, right? So that has now already evolved in the last couple of weeks. You see the cases in both countries going in the right direction, not yet over, but it is absolutely improving. We already see this in the numbers. So it is a re-pivoting of the sales motion and it is a re-pivoting of the portfolio.

If you look at EMEA, so we talk about outside of DACH. DACH is on a very positive track and will continue to be so. Also some other major countries in EMEA, but we have two, three countries where we were not happy with the performance in the first half of the year. What we have changed is the approach to the portfolio and the sales activity and the sales motion. And we already see, again, an impact, which has already kicked in, in the first months of the second half of this year.

Andreas Müller: All right. Then my last question on the SME side, which seems to recover. Can you maybe give some size, metrics, how that is going to recover? I think in that, of course, the pay-as-you-go factor dilutes a bit this growth. But just to get a feeling how this SME sector is coming back?

Dieter Schlosser: Yeah, so two messages over here, Andreas. The first one, it is not geography-specific. We see this across the globe now. That recovery on the SME side, we have seen this first in North America in Q2 but we see it now across the globe. And for us the metrics and the indicator is, of course, the acceleration and the growth of our xSimple bundles, our pay-as-you-go, where we added 50% more of acceleration, which is now above 70%.

So from a target market, pay-as-you-go is absolute targeted to SME. So you see that rebound happening through that. The other aspect is that also SMEs in the meanwhile are really interested as a digital customer experience. So they are driving also towards the digital supply chain on our side. We have a light version for them compared to the enterprise side, and they are driving to our product[?] now.

Ben Castillo (Exane BNP Paribas): I had a question, on you are seeing strong growth in your xSimple bundles, pay-as-you-go consumptions. Can you quantify that in terms of the short-term negative impact to Software & Cloud gross profit from the revenue recognition standpoint, and then the offsetting or corresponding positive impact in services as more GP gets booked over there? And how long do you think that headwind from the shift to more pat-as-you-go consumption could last? Is that 2021 story, or is that something that could continue to be a headwind in the outer years?

Dieter Schlosser: Thanks, Ben. Yeah, so the dilution or the shift from Software & Cloud and the services, again, we are driving a strategy over here. For us, this is creating more lifetime value on our customer base. But if you look at the addressable market of our pay-as-you-go, it is SME again. If you look at our overall portfolio with Microsoft, that is the addressable market which we have to consider.

From a metrics point of view and from an achievement number point of view, what we can tell you is that we are already half way there. So from an addressable market, from a target market, we are half way there to convert our customers to pay-as-you-go from a normal subscription base. So it will take us another 18, 24 months max to convert to the remainder part of it. Alex, you want to say something on top of it?

Alex Alexandrov: Hi, Ben. Yeah, I would say we want to dive in a bit more into this dynamic just to paint a picture for you on the impact on Software & Cloud and Services & Solutions. It is a meaningful impact, but where we want to, just again, highlight with a simple example is while we have an immediate impact, as you would see in the first period in any traditional software company going from software to a subscription, it has an immediate impact because you lose the upfront but you pickup as the monthly subscription amount and the margin that we make on it.

We want to cover this in more detail. I will just give you maybe a few stats. We see the breakeven for us in about six months. And over the course of three years, which is a typical commitment buying example that we would give you, we see that just the three-year lifetime value being six to eight times higher on this pay-as-you-go model than you would see on the annual upfront.

So we will then come back and help you quantify the impact on both sides. But in terms of a unit economics, it is a very exciting proposition for us.

Ben Castillo: That makes sense. The lifetime value. Absolutely, I am just trying to gauge how long will this short-term headwind from that initial shift last for. But I appreciate that. I have one follow-up, just a clarification, if that is okay. I think you mentioned 36% growth in Solutions & Services ex-InterGrupo with a CHF16 million contribution. Can you just give an indication of the contribution from the other acquisitions that you have made?

Hans Grüter: Yes. Thanks, Ben. For us, we always separate out the bigger acquisitions which is what we did with Comparex and what we did with InterGrupo. The other ones are bolt-on acquisitions, that is part for us as business as usual and it is ramping. It is just simply ramping up capabilities faster than we would do with an organic hiring. So we are not really separating that.

Dieter Schlosser: Thanks, everyone, for joining us. And for our analysts, I am looking forward to our Q&A later. Thanks for making time for us. Have a great day. Bye.

[END OF TRANSCRIPT]