



# **SoftwareOne**

## **H1 Results**

Thursday, 24<sup>th</sup> August 2023

## Welcome

Anna Engvall

*Head of Investor Relations, SoftwareOne*

### Introduction

Thank you. Sorry for the delay. Good morning and thank you to everyone for joining SoftwareOne's H1 2023 Results. I am Anna Engvall, Head of Investor Relations at SoftwareOne. Joining me today are Brian Duffy, our CEO, and Rodolfo Savitzky, CFO.

In terms of agenda, we will kick off with a summary of our H1 results, presented by Brian. Rodolfo will then take us through our financial performance, after which Brian will provide a CEO update. We will finish the session with Q&A, as usual.

Before handing over to Brian, first let me draw your attention to the disclaimer regarding forward-looking statements and non-IFRS measures on slide 2. With that, I will hand over to Brian.

## H1 2023 Summary

Brian Duffy

*CEO, SoftwareOne*

### Solid H1 results with 8.5% revenue growth

Thanks, Anna. Good morning. I am pleased to welcome everyone to our H1 2023 results. We had a solid first half of the year as we continued to successfully deliver across our key markets. This is a testament to the strength of our business model given the challenging macroeconomic environment, as evidenced by peers. Revenue for the group was up 8.5% year-on-year and the adjusted EBITDA margin was 22%.

#### *Operational excellence programme*

Our operational excellence programme is fully on track, with CHF 8 million of cost savings achieved year-to-date, against our full-year target of CHF 15 million. Building on the progress made with operational excellence, we are today announcing Ignite, Focus, Accelerate to sharpen our execution, particularly our sales effectiveness, and deliver enhanced performance as we move into a new era powered by data and AI, and I will come back to that later.

I would like to reiterate that, with these results, we are on track to meeting our targets for the full year, which are double-digit revenue growth and an adjusted EBITDA margin of 24% to 25% of revenue.

#### *Ongoing strategic review*

Before moving on, I would also like to provide an update on the ongoing strategic review. On 24<sup>th</sup> July, the Board of Directors announced that the revised offer from Bain Capital had been rejected and that a strategic review would be launched to consider all options for value creation. These include remaining a public company, a merger or sale, or another potential

strategic transaction. The review is currently ongoing, and we will provide relevant updates as the process progresses. In the meantime, the company remains fully focused on the execution of our strategy for the benefit of all stakeholders.

### **Positive momentum across regions excluding LATAM**

#### *EMEA*

Now, moving on to regional performance, our largest market, EMEA, delivered a solid half year, with revenue up around 8% as our enterprise clients, particularly in the DACH region, continued to invest in cloud solutions.

#### *APAC*

APAC delivered an outstanding performance with growth of 23%, with these strong results across the board.

#### *NORAM*

NORAM drove a strong recovery in Q2, particular in the Microsoft business as its clients transition from legacy CSP to the new commerce experience model.

#### *LATAM*

LATAM was flat following a weak Q2, driven by good momentum in services, offset by softer Microsoft revenues development in Brazil and Mexico.

### **S&C Services growth driven by core service lines; re-acceleration in Microsoft**

#### *Software and Cloud Services*

Software and Cloud Services delivered around 8% revenue growth in Q2, and over 12% for H1. Our core service lines, Cloud, Application and SAP services, grew by around 20% in H1, partially offset by an acceleration in the phasing out of legacy services.

xSimples grew 22% at a normalised rate in line with our expectation. In terms of cross-selling, we saw good progress compared to prior year, and now we have nearly 16,000 clients purchasing both software and services.

#### *Software and Cloud Marketplace*

Moving on to Software and Cloud Marketplace, which was up 5% in the first half overall. Microsoft billings grew at a healthy rate of 12%, reaching USD 10.6 billion in H1 '23. After a soft Q1, Microsoft revenue growth accelerated in Q2, with customers transitioning from legacy CSP to new commerce experience, which comes with higher pricing, more favourable incentives and longer-term subscription.

In other ISVs, revenues declined in Q2 after a very strong Q1 and a high comparable last year.

### **Selected H1 2023 wins: delivering value-adding solutions to meet customer needs**

Now SoftwareOne's greatest strength is our 65,000 clients who place their trust in us, along with our portfolio, and I am delighted today to present a few examples of how we continue to add value and drive business outcomes for them.

In Europe, we secured the renewal of a multiyear contract for the provision of a 24/7 managed service for Spar's entire business-critical IT environment, helping to ensure a smooth and satisfying shopping experience for all Spar customers.

With our public sector experience and Microsoft expertise, we supported the Government of Mexico with the development of a new collaboration hub, based on Microsoft 365, to streamline communications between the Government and citizens.

We also helped Savills with the negotiation of Microsoft licence terms across 35 countries to reduce costs and complexity.

And finally, in the US we supported Red Roof, a leader in the lodging industry, with migration to AWS and the provision of shared services to franchisees to accelerate their transformation to a new business model.

### **Introducing targets to progress our ESG strategy**

I am very proud to say that today we reach an important milestone at SoftwareOne and publish our first ESG report. As a company, we fully recognise the role that we can and must play in creating a more sustainable future. Importantly, we aim to be net zero for scope 1 and 2 by 2030, by reducing the carbon footprint that we are responsible for and investing in impact projects for the remaining emissions. We will achieve this through a carbon reduction plan, which primarily includes reducing emissions from our car fleet and generating energy-efficient workplaces through our green offices initiative.

In addition, we will continue helping clients with their ESG journey via our Cloud sustainability programme. This aims to provide clients with accurate emissions data for their cloud solutions and advice on the complexities of cloud emissions.

I would like to thank our ESG team and all our SoftwareOne leaders and employees who have contributed thus far. Let us keep up that great work and deliver on these important commitments.

On that note, Rodolfo will now take us through our financial performance, and I will follow up after him.

## **Financial Performance**

Rodolfo Savitzky

*CFO, SoftwareOne*

### **Solid growth and market performance**

Thank you, Brian. A warm welcome from me as well. Revenue growth in H1 was solid at 8.5%, supported by an acceleration in Microsoft as we had anticipated, but we also faced headwinds in other ISVs in the phase-out of legacy services.

Contribution margin increased by 0.9 percentage points in H1 and 1.2 percentage points in Q2, reflecting optimisation of delivery costs in our services business line as part of our operational excellence programme.

SG&A expenses grew by 16.2% in H1, with personnel expenses mainly growing in line with wage inflation. This also reflected the impact of operational excellence, with the majority of

the SG&A increase driven by non-personnel expenses. I will provide more detail on the next slide.

With the strong Swiss franc, FOREX headwinds had a significant impact – over 5 percentage points – on revenue costs. However, given our natural hedge, with similar exposures on OPEX, the FOREX impact on adjusted EBITDA continues to be small.

I would also like to point out that certain re-statements reflecting IFRS 15 have been made to the services business line prior year numbers. For H1 '22, this resulted in a reduction of both revenue and delivery costs by CHF 11 million. The contribution margin in EBITDA, of course, remains unchanged.

### **Adj. EBITDA impacted by post-Covid normalisation of commercial activities**

The year-on-year development of adjusted EBITDA is shown in the bridge. The incremental revenue was almost fully reflected in incremental contribution margin, given the minimum increase in delivery costs. Similarly, general admin stayed almost flat year-on-year.

The major increases in expenses related to a normalisation of non-personnel expenses, specifically higher travel in sales and marketing costs, as well as one-off co-marketing investments from last year coming from strategic partners.

### **Strong contribution margin across both business lines**

Moving on to the business line view. Our core service lines continued to grow at around 20% in both Q1 and Q2, with the decline in legacy services accelerating in Q2. The contribution margin in services was 39% of revenue in H1, up 3.3% compared to prior year, and approaching best-in-class levels as a result of progress in our operational excellence initiative.

SG&A grew at a lower rate than contribution margin, translating into an adjusted EBITDA of CHF 7.1 million and a margin of 3.1%. This year-on-year improvement yet again confirms that we are on track to meet our 15% target for '24.

In Marketplace, while Microsoft delivered a significant rebound in Q2 as expected, other ISVs significantly slowed down in Q2, resulting in steady overall growth in both quarters. The adjusted EBITDA margin was 46.1%. This is down compared to prior year, reflecting increased SG&A, partially driven by the allocation of solution consultants to this business line.

### **Operational excellence programme fully on track**

We remained focused on getting the full benefits from the operational excellence programme. Going through the key pillars, in the commercial workstream we continue to rebalance sales resources. We have also scaled up our AI-driven cross-sell pilot in NORAM and initiated a similar pilot in APAC.

In services delivery, we have made great progress, with the majority of personnel transitions now fully executed. The pre-sale process has also been revamped, and the organisational-wide rollout is under way.

Finally, in the support functions, country finance transition to shared services centres continued to progress fully in line with plan, and standardisation of financial processes [inaudible].

In HR, we are piloting a shared service centre for EMEA, with APAC to follow.

By June, with good progress across the pillars, we have achieved CHF 8 million of cost savings and are fully on track to achieve the targeted savings of CHF 15 million this year.

### **Increased productivity behind operational excellence**

The bridge illustrates that our adjusted personnel expenses have grown by 10% in constant currency, of which around 5% is due to wage inflation. The minimal increase in FTEs, despite the continued solid growth momentum, has only been possible thanks to the improvement in efficiency and effectiveness across the organisation.

### **Stable working capital development**

Working capital entered the half year at CHF 177 million after factoring, broadly in line with our position one year ago. I see this as a good outcome given business growth.

Our daily sales outstanding have increased to overall market conditions and growth of consumption-based offerings. With these offerings, customers are invoiced later compared to prepaid enterprise agreements. So, in accounts payable, we have optimised our payments to align with the longer customer payment side.

While we were satisfied with the result, we do see scope to tighten working capital management, particularly collections.

### **More stringent net debt definition to further improve transparency**

We have consistently sought to improve the quality of our disclosures, and, in this regard, we have now simplified our definition of net debt. The new, more stringent definition comprises bank overdraft plus current and non-current financial liabilities, less cash and financial assets, including our hold in Crayon. Importantly, this definition no longer includes other non-current receivables.

This change implies that, as of 30<sup>th</sup> June 2023, we had a net debt position of CHF 72 million, compared to CHF 5 million one year ago, and we have done this to align with industry best standards.

### **Solid balance sheet**

Now on a 12-month basis, if we did that to eliminate seasonality, core operating cash flow, including CAPEX, was CHF 141 million, reflecting a 60% cash conversion compared to adjusted EBITDA. The CAPEX investments of CHF 51 million include our digital marketplace.

And regarding other outflows, CHF 62 million is attributable to M&A, earnouts and restructuring, while CHF 71 million relates to our dividend share buyback programme and financing costs.

### **2023 guidance reiterated**

I will conclude this section of our presentation with the full-year outlook. We have had a solid start to the year, with strong underlying demand across our portfolio. We remain focused on continuing to implement operational excellence across SoftwareOne to step improve our efficiency and effectiveness and to deliver the planned savings.

While we recognise the uncertain macroeconomic environment, we generally see healthy demand in our market and are confident in meeting our guidance for the year.

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

## **CEO Update**

Brian Duffy

*CEO, SoftwareOne*

### **Megatrends driving massive market opportunity in cloud**

Thanks, Rodolfo. It has been around three months since I joined SoftwareOne and, amidst unique circumstances, I have taken the time to meet with many of our customers, partners and, of course, the wider SoftwareOne team. At this stage, I would like to share my initial perspectives on what makes me excited about SoftwareOne's future. It is fair to say that we operate in a dynamic and high-growth market environment, strongly supported by a whole range of megatrends, some of which you see highlighted on this slide here.

The opportunity ahead of us is massive. Organisations continue to prioritise investing in cloud solutions, and there is a long runway to go, with only 30% of workflows in the cloud already. Cloud journeys bring challenges and complexity. Multi-cloud and hybrid environments are generally the norm today and, for over 80% of organisations, controlling cloud spend has now surpassed security as the top challenge.

Meanwhile, the demand for data and AI is exploding, with over 70% of organisations exploring generative AI opportunities. At SoftwareOne we have and continue to develop our portfolio of value-adding solutions to manage these highly complex and business-critical cloud journeys for our clients.

### **Large, fast-growing addressable market for S&C Marketplace**

Now let us go into more detail on the components that make up this great opportunity for SoftwareOne.

The overall market for software and cloud spend was nearly USD 640 billion in '22. Of this, the reselling serviceable market, or SAM, is nearly USD 18 billion. By 2026 our SAM is expected to be worth USD 30 billion. That implies a CAGR of 14%.

Digitalisation will play a key role in driving this growth as customers trend towards self-service. We are already well positioned with one of the largest marketplaces globally, comprising 7,500 ISV partners and a number of very different delivery models. Our end goal, however, is to establish one digital workplace. Leveraging our investments in Goatpath and PyraCloud, we are launching our SoftwareOne client portal for existing PyraCloud clients and providing the opportunity for all customers to embrace digitalisation and self-service.

### **Significant headroom to grow for S&C Services**

Scaling out services has been a key pillar of our strategy over recent years. Services are critical in a cloud- and subscription-driven world with big customer pain points. With unique insights and our integrated born-in-the-cloud portfolio, we are in a strong position to help clients along their entire cloud journey, from advisory to optimising their cloud environment with a managed service.

Our services SAM is worth USD 58 billion today and is expected to grow to over USD 110 billion by 2026 at a CAGR of 19%. There is, again, a very significant opportunity for us to grow at least in line with the market and to capture share, given the high level of fragmentation that exists.

### **Sharpened execution of strategy via 'Ignite, Focus, Accelerate'**

Now, in my prior role, I led one of the largest cloud transformations in the industry. We were highly successful in achieving our goals because we had a solid foundation and it was built on clarity, activating the ecosystem and focusing on my favourite word: execution.

At SoftwareOne there is more that we can do to capture the market opportunity. That is why we are initiating our Ignite, Focus, Accelerate approach. And let me walk you through what we plan to do.

#### *Ignite*

Firstly, Ignite. 65,000 clients across the world have placed their trust in SoftwareOne. I firmly believe that we are in a position of strength to ignite these relationships as clients look to answer three very important questions. Firstly, how will we move to the cloud and transform? Secondly, how are we going to embrace generative AI? And thirdly, and very importantly, which has been SoftwareOne's strength for so many years, how are we going to keep those cloud transformation costs under control?

Now, I want to share with you all an example. In Q2 we assisted a large US-headquartered Fortune 500 company as they looked to move a critical application to a hyperscaler. They wanted to embrace AI, but unfortunately they had a transformation with a systems integrator that was running over budget and behind time. We got stuck in and we assisted them in designing a fresh, new blueprint and laying out a road map to allow the business to timely adopt innovation and to do so within budget.

This customer story is similar elsewhere across the world. What is common is businesses can no longer wait. They have to drive innovation now in order to compete and survive. In addition, at SoftwareOne, we have 7,500 partners around the world, and I have spent time with several of the largest ones since joining, and I am energised by the opportunity that we can ignite together.

Customers have made it loud and clear: they need the entire ecosystem to work together for them. At SoftwareOne, we will mobilise 9,257 men and women to connect partners to serve our joint customers in the best possible way.

#### *Focus*

Now moving onto our second pillar, Focus. Microsoft 365 Copilot is a massive opportunity for SoftwareOne and our clients to completely reimagine productivity for employees. SoftwareOne, as you know, was a key partner for Microsoft when Office 365 was launched, and today we have tens of thousands of 365 customers. I recently attended a round table with the CEO of Microsoft, Satya, and, this week, our team and the Microsoft team are meeting to finalise our go-to-market plan. And my plan is very, very simple: we aim to be Microsoft's number-one partner for Copilot globally.



Sales excellence and execution are key to driving growth, and we are now laser-focused on both. I have found over the years that sales teams enjoy a challenge, they enjoy direction and they enjoy rigour. The changes I am implementing to continuously evaluate our progress and bring the best of the best to support our journey will fully reinforce this.

We have already implemented new cadences, embraced new tools to double down on key initiatives. And let me give you an example. In North America we launched an AI-driven initiative across the entire region which directs our teams to a next best action for a client based on customer benchmark data, of which we have tons, and this is showing incredible results so far.

And finally, as you would imagine, bolt-on M&A remains a priority to add capabilities and geographical reach.

### *Accelerate*

Now, finally, Accelerate. In order to win, we will further develop our generative AI offering and pivot as needed. We will also fully embrace AI as much as possible internally to support our own transformation. We see a huge opportunity to scale SoftwareOne's client portal to leverage our existing base and expand beyond that in a highly cost-efficient digital way. We have made considerable progress in this space, and we will execute on our road map. We will also continue to invest in our people and weave a great tapestry of talent to support our customers and partners.

### **Market opportunity with Microsoft and Copilot**

I want to take some time to emphasise the great opportunity we have with Copilot, and it is huge. We have run some preliminary numbers to estimate the short-term market opportunity and, based on the 12.5 million addressable seats that we have, and a conservative – very conservative – 15% adoption rate, we estimate a revenue opportunity of over USD 100 million across reselling and services.

Our relationship with Microsoft is something we are hugely committed to, and the quote you see here reflects the value Microsoft also places on the partnership journey with SoftwareOne, given our global reach, deep understanding of our clients' needs and proven track record.

### **Data and AI capabilities at SoftwareOne**

The opportunity in data and AI extends beyond Copilot, of course. It is also not new to us at SoftwareOne. We already have significant capabilities, with 250 data and AI experts and more than 230 projects delivered since 2021 across seven delivery hubs.

But let me be clear: AI is not just a technology. It is an enabler for organisations to achieve significant improvements in efficiency, insight, customer and employee experience, and, ultimately, innovation. It is about becoming a data-driven enterprise. Yet, to achieve the full potential of AI, many elements need to be taken into consideration: data management, governance, security and adoption and change management, to name just a few. SoftwareOne has incorporated this experience into an offering we call SoftwareOne Intelligence Fabric, a powerful foundation to help customers resolve the complexities and transition into data-driven and AI-powered organisations.

**Customer case study: fuelling operational efficiencies and predictive capabilities with Data and AI**

Let me take you through an example of how we helped ACCO, a US-based leader in the HVAC industry, drive operational efficiencies and create predictive capabilities using data and AI.

They faced a very typical situation of needing to future-proof their environment by consolidating and securing decentralised data after years of rapid growth. Partnering with AWS, we offered the platform, the tools and the expertise to build the data lake to address ACCO's needs, and we leveraged our migration acceleration programme expertise. As a result, ACCO is today at the cutting edge of governance and predictive data analysis and able to raise the customer service bar even higher.

**Key takeaways**

To conclude with everybody, I would like to highlight the following. We have delivered a solid half-year and are on track to meet our full-year guidance. Our operational excellence programme is fully on track to deliver the promised savings. With Ignite, Focus, Accelerate, we will ignite customer and partner relationships, take advantage of the new market opportunity in AI and sharpen execution to deliver enhanced performance.

And thank you, everybody, and now let us move on to Q&A.

**Q&A**

**Kathinka de Kuyper (UBS):** Hi, thanks for taking my questions. A few for me, please. Firstly, on the macroenvironment, I think you know that you have been seeing a healthy demand backdrop. Can you just comment on how the current trading in July and August has evolved and if the strategic review situation has impacted any conversations that you have with your customers?

Then secondly, on Microsoft, it actually seems that the billings growth slowed in Q2 versus Q1. But, you know, there is an acceleration in the revenue growth, so could you maybe just quantify the revenue growth and comment on how much of that growth came from the price increases?

And then, finally, it was quite surprising to see that the services margin was down in Q2, especially given the progress you made on the services delivery, so could you provide a bit more colour there? Thank you.

**Brian Duffy:** Sure. Thank you for the question, and I will split this with Rodolfo a little bit. Firstly, in terms of the strategic review, which is ongoing, I guess, to answer that question, I will look through a lens of our customers and also our employees. So firstly, in terms of customers, that has not impacted one relationship or trading with customers. And secondly, in terms of employees, our employees are focused on one thing, which is delivering for our 65,000 customers around the world.

Then, in relation to specifically our trading for July and August, obviously we cannot go into too much detail around our July and August numbers specifically, but what I will say is that, given our broad portfolio to deliver solutions across the world, it allows us to navigate through the uncertain times that customers experience.

And I would also stress that AI is certainly fuelling the demand that we see even more and more from customers around the world. And then, obviously, our SoftwareOne client portal is a huge opportunity for us, and services is what allows us to differentiate ourselves from the competition specifically. And then I will turn it over to Rodolfo on the remaining questions from you.

**Rodolfo Savitzky:** Thanks, Brian. Hi, Kathinka. So let me take the last question first, on the services. When you look at the numbers for the quarter, I think what I would like to point your attention is to the contribution margin. For me, this is the most critical measure. And while there was a slowdown in growth in services, let me reiterate again, the core services portfolio continues to grow 20%. What we saw is really a drop in the legacy services, and what is super encouraging is contribution margin [inaudible] 20%. When you see the contribution margin as a percentage of revenue, it crossed the 40% mark, which is best in class here.

Now, why did the margin decline, right? We have a high increase in SG&A, and, as you know from the presentation, this is mainly reflected through non-personnel expenses. There are a couple of one-offs that are impacting that. But going forward, for me, the most critical thing is, with this very healthy contribution margin, with all the efforts around operational excellence to also be used to streamline the SG&A, the possibility of operating leverage is extremely high.

And then, I do not know, did we miss one of your questions, Kathinka?

**Kathinka de Kuyper:** Yeah, just on Microsoft, it seems that the billings slowed there in the second quarter, because you reported 13% growth in Q1, but then you mentioned it's an acceleration in revenue growth. So could you just quantify that revenue growth and maybe give us a sense of how much of that growth was driven by the price increases?

And then maybe just one quick follow-up on the current trading. Did you see an acceleration already in Q3 of growth? Thank you.

**Rodolfo Savitzky:** Yeah, so we do not provide a detail on the, let us say, split in our marketplaces [inaudible] we did say last time that [inaudible] around 30% like-for-like, reaching a reference point Microsoft decline, and we expected that. And in Q2, I would say, high-single-digit growth in revenue for Microsoft. And here the billings – look, we continue to – our billings continue to be very healthy. I would just say it is clearly in the double-digit territory, and it is mirroring very closely the revenue that Microsoft itself is reporting, right?

So, in this sense, we continue to maintain/gain market share, and the kind of rebound in revenue is clearly driven by the margins around new commerce experience, by the higher pricing and so forth. We talked a lot about in the Q1 call that we had been a bit penalised, given that we have lost many customers in the old CSP until, let us say, March/April of this year, right, and so we are seeing what we expect.

**Kathinka de Kuyper:** Thank you.

**Florian Treisch (Kepler Cheuvreux):** Yes, thanks for taking my question. My question is around the legacy services, simply to get a better feeling how big the impact here really was [inaudible] what is, or what you expect the impact to be, or what is left, basically, for H2, to

better really understand when the services growth rate will clearly accelerate, assuming that the legacy drop will at some point in time no longer be such a headwind as it is today?

Then a question around Copilot, I appreciate your comment, and I think it is a big opportunity for the whole reseller space or the whole Microsoft camp. Can you mention a bit on, assuming today is zero from Copilot, what you expect it can be in the coming quarters, so let us say '23, '24, to really get a feeling how realistic these USD 100 million you put into display are on a short-term case?

And the second one, on Microsoft incentive levels. Do you expect, let us say, a stable development in coming quarters for core products like 365 [inaudible] and what do you think is a fair assumption for incentive levels on the Copilot side? Thank you.

**Brian Duffy:** Okay, so I will take the Copilot and then the Microsoft piece here. So, firstly, in terms of Copilot, as I said, I think we have a massive opportunity. This is a moment for organisations around the world to bend the curve in terms of productivity, firstly. For ourselves, we have enabled our salesforce already and we have been provided access by Microsoft in terms of access to the product. And, as a reminder, the product is not generally available yet from Microsoft. We anticipate that to happen within, let us say, early 2024, and then, as I said, we have 12.5 million seats in Office 365 who are primed and ready to receive Copilot.

Then, in terms of the opportunities that are available, the USD 100 million obviously is highly dependent on when the product is made generally available, but USD 100 million would cut across both services and the reselling space, and I certainly believe that we have an opportunity to really accelerate on that USD 100 million as soon as the product becomes available. And then we, internally, are mobilising our team to ensure that we are ready to hit the ground running once it is available.

Secondly, in terms of Microsoft, I have spent a lot of time, as I said, with our key partners – large ones and some other partners – since joining, and I certainly believe that we have an opportunity with Microsoft now, not only to do what we already have done, but actually to reimagine that partnership.

I have committed to Satya and team that we will be partner number one for Copilot. Like I said, we had the Microsoft partner team here with us this week, and really what we are choosing not only is to stabilise the incentive, but actually to reimagine what the partner of the future for Microsoft actually looks like, and there is a willingness top down from Microsoft to have those conversations and explore what good looks like in that space.

And then, Rodolfo?

**Rodolfo Savitzky:** Yeah, Florian, thanks for those questions. And going back to the legacy services, look, as the – these [inaudible], of course, is comparing against the prior year base. We do expect that we still see an important effect in Q3, but by Q4 we expect that the effect will be significantly small. And I think, again, let me reiterate the very encouraging development in the portfolio is this strong growth in the core services side.

**Florian Treisch:** Okay, thank you.

**Joe George (JP Morgan):** Yes. Hi, guys. Thanks very much for taking my questions. I have two just on the AI front, please. Firstly, Brian, on the split of that USD 100 million-plus

revenue opportunity, can you just give us some colour on how that would broadly be split between reselling and services? And within the services piece, could you just give us some detail on what sort of services you guys will be providing? Because obviously this is, you know, white space.

And then, secondly, beyond Microsoft, within the AI opportunity, who are the vendors that you see more significant AI opportunities with, and why as well? Thanks.

**Brian Duffy:** Sure. Thanks, Joe, for the questions. Firstly, in terms of – maybe I will work backwards a little bit. In terms of the opportunity – and, like I said, it is massive – I think the challenge for customers now is nobody is asking. ‘Why should we transform at a high level?’ or ‘Why should we embrace AI?’. They know that they need to do it, otherwise they are going to be left behind. The challenge for all these customers is how: ‘How are we going to embrace it and how are we going to actually fundamentally change our business with it?’. And I think many customers have learned lessons from the past in terms of adopting innovations to make sure that now they are going to be set up for success. And that, honestly, is where we come in: to answer that ‘how’ question.

So, right now, in terms of services that we can offer with our Fabric offering, it is really around getting a customer ready to adopt AI. Like I said earlier, from a governance, from a security, from a risk perspective, from a data management perspective, all of these services are available, one, to a customer now. But then, obviously, when Copilot comes for us, the opportunity that is available is now to, one, around the implementation and the adoption of the Copilot offering and enablement for organisations around the world.

In terms of the split for us, I anticipate that that would look approximately like a 40/60 split; 40 on the resell side, 60 on the services side. I will say that I believe that those are conservative numbers that we have, again, when you look at the 12.5 million users that are available.

You had also asked about other partners that we are working with and talking with. We are, as you would imagine, in conversation with AWS as well in terms of their AI offering, which will be announced here shortly to the market. We are in conversations with them in terms of how we can partner with them to further that offering.

And then, of the other 7,500, there are many, as you would imagine, who are coming out with other generative AI offerings which could be relevant for customers. The one thing that we are going to do, and hopefully you picked that up from my commentary earlier, is focus. We have 7,500 partners, and we have a segment of those partners that are the key ones that are delivering most revenue for us, and we are going to double down our focus in terms of those partners and the business opportunities that are available.

And then also my commitment is, at the top of those partners, in terms of working on and defining a clear go-to-market with each and every one of them. Thanks, Joe.

**Joe George:** Thank you.

**Balajee Tirupati (Citi):** Hi. Thank you. Two questions from my side, if I may. Firstly, would you be able to comment on drivers of your expectation of material growth trends over second quarter into second half period, and what is the expected contribution from M&A within that?

And second question, on ISVs. Could you share colour on growth rate on other ISVs in the second quarter period? And should we think that all the acceleration was on account of [inaudible], and how should we expect growth with them in second half of this year?

**Rodolfo Savitsky:** So, Balajee, thanks for the questions. It was a little bit difficult to – I think, on the – let me just see if I got the questions right. So you are talking about the growth of ISVs in Q2, and then what do we expect for the balance of the year? And then, in the – what are the drivers – overall drivers of growth in H2, is that right?

**Balajee Tirupati:** Yes, and also if you are factoring increased contribution from acquisitions in the second half period.

**Rodolfo Savitsky:** Okay, no, thanks for the questions. Look, again, as I said, we do not provide specific numbers on the growth for Microsoft and ISVs, but, of course, again, if we give you the mat[?], you would see that there was not much growth in the ISV portfolio in Q2. Then, when you double-click the portfolio – and this ties nicely with what Brian said before – we see that, for many of the key ISVs, the growth continued to be okay, but that really the very high decline or lack of growth was in the tail end of the portfolio. And here again, it is sometimes difficult to have clear root cause analysis, but as we shifted a lot of focus to Microsoft – it was a very important quarter – some of that may have played in the development in the ISVs.

Now, when you take the average, I think this is a subset that [inaudible]. and here I build on what Brian said. He is really driving focus on the key ISVs, making sure we have the right base laid with these key partners. So we would expect anyway, let us say, when taken on average, a similar development in H2 and in H1, but with everything that is on the table right now, we expect an acceleration of growth.

I think when it comes to the second half, again, the core services remain strong, in line ahead market, which we expect to continue/accelerate. Very positive momentum with Microsoft. I can only echo what Brian described before. We are really coming together. This is Brian coming into the organisation. He has kind of reset, in a very positive way, the relationship with Microsoft, and I think that should translate into a higher degree of alignment for joint programmes that [inaudible] can have will impact clearly 2024. And so that is very definitely part of the growth expectations for the second half.

As far as acquisitions are concerned, this remains a priority for us on all fronts, but none of the guidance is relying on any significant inorganic opportunity. We announced a small bolt-on in the first half, there may be one or two in the second half, but again, nothing material, so the guidance is not banking or counting on any bolt-ons.

**Balajee Tirupati:** Understood, understood. If I may add one more question on the cash flow side? The group's working capital has continued to move up. Has the evolution been in line with your internal expectation, and how should we think about it going forward?

**Roberto Savitsky:** Look, it is a very fair question. When you look at the slide with the net working capital, which is under development is very similar to development of last year. Now, we did say at the time we were not particularly pleased with the development in H1 '22. Now, a lot of things have changed since then, right? We have a worsened financial environment this year. We have more – we are shifting much more into consumption-based

offerings where the payment terms are longer. So I would say – and this is what I qualified during my presentation – the fact that the net working capital in H1 '23 is pretty much in line with '22, I see that as a good development [inaudible]. Number one, in the financial situation and the shift in the portfolio. The team has done a very good job at making sure we mirror that with making sure our payment cycle is consistent with the collections. And therefore, the impact from net working capital, you see it in the cash flow, is really minimum, right, for the level of growth we have.

But we do see, with operational excellence, we see an opportunity to improve certain financial processes that will reduce the collection times, and we do see some of that already having an impact towards the end of the year.

**Balajee Tirupati:** Understood. Appreciate it, thank you.

**Andreas Müller (ZKB):** Yes, thanks for taking my questions. I have two or three, one after the other. The first one is, in SG&A, when you would you expect the normalisation of the marketing and travel spend will be washed out on a year-on-year comparison? That is the first question.

**Rodolfo Savitzky:** Well, this one I take. I think, clearly, in alignment here with Brian, we – again, look, this is a business cycle. While we were in COVID, we stopped everything, and now, you know, following a normalisation of business life, you get an upswing in the wrong direction. So we have definitely put measures in place now to get to the right level of spending in travel, in some sales activities and so forth. So we expect this to impact [inaudible] few weeks. So this [inaudible]. And again, it is just normal, right? It is probably part of the business cycle, and measures have been taken to normalise it.

**Andreas Müller:** Okay. And then the net debt position. What do you expect by the end of 2023? Could it be a net cash position again with these new measurements?

**Rodolfo Savitzky:** We do not provide guidance on cash flow, right? I think I do not want to now start that one. I would say that you know that, typically, from a cash flow perspective, our H2 is much stronger, right, and so we will see, I mean, compared to H2 of last year, we should see a similar evolution as we had in – but again, we cannot – we will not provide a guidance on the cash.

**Andreas Müller:** Okay, thank you. And then the last question. I was still wondering, on this AI-driven cross-selling pilot, is it now going to be fully rolled out in North America and another pilot will be done in Europe? And has it fully fulfilled its expectation? And when would you think that a full rollout would be here for all regions?

**Brian Duffy:** Thanks, Andreas, for the question. So, firstly, it has been fully rolled out in North America and, with this AI pilot that we ran at the time, we basically are taking all of the data that we have on our customers, crunching that data, and then, with an algorithm, suggesting to our sales team the solutions which should be provided next to them, the services, and the price that it should be sold at.

We have, as I said, seen considerable impact from that in terms of opportunity creation, but very importantly, opportunity closure as well, which is why we moved from pilot phase to rollout across the entire region. And the plan is for the second half of this year that we will look to embrace that and roll it out to the rest of the world as well, given the promising signs

that our pilot showed to us, which again reinforces the opportunity that AI presents itself to all customers globally.

**Andreas Müller:** Okay. Thank you very much.

**Brian Duffy:** Thank you.

**Knut Woller (Baader Bank):** Looking at LATAM, which was the weak spot in Q2, can you share from a qualitative perspective at least whether you saw here an improvement of the demand momentum in Q3?

And the second question, looking at the co-marketing invest headwinds in terms of the comparables, we saw that that came down a bit from CHF 5.1 million in Q1 to CHF 3.5 million in the second quarter, can you please provide here an update on the expected headwind for the second half? Thank you.

**Brian Duffy:** Sure. I will take the first part of that question. So Latin America, firstly, a massive geography for us and one which is very important – and one, in fact, where the partners rely heavily on us. As a market it is probably most similar to APAC for us, and you can see the growth rates that we had in APAC. In Q3 we will have a leadership change in Latin America to bring the necessary focus to the business that we need in that part of the world. We are unique in that we have a very significant presence from a services perspective. In that regard, most players in this space do not have such a presence there. That is one of the differentiators for us. And with this leadership change, I firmly believe that we will have the focus back on the business that we need, given the growth potential that we have there.

And I would just comment that many partners do not have the same presence in that part of the world that they do in other parts of the world, which is why they would be heavily relying on us, and we plan to make further investments into that space to grow that business.

And then I will turn the next part over to Rodolfo.

**Rodolfo Savitzky:** Yes, thanks, Brian. So, on the co-marketing, look again, we do not provide many details on these topics, but in general, I would say these co-marketing investments that we had last year were relatively front-loaded. So I would say roughly 70% would fall under H1, and so there is still a remaining 30% that we should expect happening, and this would be even splitting in the coming two quarters. But again, the impact should basically [inaudible].

**Knut Woller:** Thank you, guys.

**Brian Duffy:** Thank you.

Great. Thank you, everybody, for joining this morning. I appreciate it and thank you for your time. and we look forward to following up with you afterwards as well. Thanks, everybody. Bye-bye.

[END OF TRANSCRIPT]