

SoftwareOne

Capital Markets Day Q&A Session 15th February 2024

SoftwareOne

Brian Duffy, CEO

Bernd Schlotter, President Software & Cloud

Rohit Nagarajan, CRO

Rodolfo J. Savitzky, CFO

Chiara Mantovani, Investor Relations Manager

Questions

Unidentified Analyst

Martin Jungfleisch, BNP Paribas

Joseph George, JP Morgan

Balajee Tirupati, Citi

Question and Answer Session

Question

Thank you and good afternoon. As well thank you for the presentation, very interesting. I think this question is for Brian if I'm not mistaken. I think you mentioned at the beginning that you are repositioning your go-to-market, you know, if I understood correctly, joining the Services with the Marketplace, so that you have a solutions-oriented proposition. Can you please elaborate more exactly what that means in practice?

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Brian Duffy, CEO

Sure, I'm happy to. So, first way I would say that customers today, they no longer buy solutions, instead they're buying outcomes. So, with a customer of ours, if they're going to buy a Microsoft product, it's not to do - simply to do ABC, it's for the outcome that that solution is going to be driving. And in order to have received that outcome, what's critical for the customer is going to be the services, the managed services that they're going to receive on an ongoing basis.

Previously, our organisation was set up whereby we had Marketplace as in the resale piece on one side, and we had Services on the other side. So, I firmly believe that if we want to deliver for our customers, we need to be structured internally the correct way, and any organisational adjustments should be made in the best interest of our customer.

So, as we bring both Marketplace and Services together under Bernd's leadership, we now have the opportunity to not look at a resale piece and the services, but instead look through the lens that the customer does, which is the outcome that they're going to be receiving as well. And I'm not sure, Bernd if you'd like to add anything?

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Bernd Schlotter, President Software & Cloud

Yeah, maybe a practical example, right? Many customers now transition to focusing on cloud cost, because costs have ballooned. And so, for us, to be in a position, if you want to buy the right to consume, make a commitment to a hyperscaler, we bundle FinOps with it to enable you to govern how you spend the cloud consumption internally, and we can also do cloud cost optimisation for you.

So, we bundle a valuable position together that makes a commodity product, the right to consume on a hyperscaler into something value-added that includes FinOps internally and also cloud cost optimisation externally.

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Chiara Mantovani, Investor Relations Manager

Good. Is there any other question in the room?

If not, I suggest we move to the line. Operator, can you please read the first question?

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Telephone Operator

Our first question comes from Martin Jungfleisch of BNP Paribas. Martin, please go ahead.

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Martin Jungfleisch, BNP Paribas

Hi, good afternoon, everyone. Thanks for taking my question, and thanks for the presentation. I have two questions, please. The first one is on the growth, so the 8 to 10% this year. Would you say that this is a bit more conservative, given that there's still a bit of some underlying market weakness?

And then, how would you expect the trajectory to the mid-teens growth in 2026 to evolve? Would it be more a gradual acceleration to mid-teens, or more tilted toward 2026? And how dependent is really the growth target on the success of the Copilots? That's the first question. Thank you.

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Brian Duffy, CEO

Thanks, Martin. I'll take that first. So, firstly, in terms of the guidance for this year, 8 to 10, as we've said, this year is a transitional year for us. As you saw, we have rolled out a new vision, and obviously behind that vision is various changes that we're going to be driving internally as an organisation.

We firmly believe in the guidance through to 2026, given the underlying growth that's happening within the market as well. Specifically on your question, is it conservative, I would say that we firmly believe in the 2026 guidance. We, as a team, are here to win. We want to get to our 2026 guidance, as we said, in terms of mid-teens, and we're committed to doing that.

As we move through the year in terms of reporting on our progress around our high-growth markets, we're going to continue to do that for all of you. And a lot of this is obviously dependent upon the execution that Rohit and the team will be driving.

Specifically, in terms of Copilot, as we have said before and then reiterated today, we do see a massive opportunity for us in the market, given the demand across all segments of the pyramid that you saw on the screen, because our customers are crying out for data and AI solutions. Specifically, as we said, with Copilot, we do see a CHF 100m opportunity for ourselves.

We have had a lot of success in Q4, and what I would point out is that in Q4, we actually didn't have Copilot to sell to the SME and corporate space. Instead, we were selling services engagements, and that was highlighted in the video from AAMI in terms of the workshops that we did with them. Now, moving forward, Copilot is available. Microsoft launched it available to the entire market on January the 15th, and we expect to see continued progress with our sales of Copilot to our customers.

And I'm not sure, maybe, Rohit, you want to add anything from a go-to-market perspective?

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Rohit Nagarajan, CRO

I think you covered it well. I mean, we're confident in the 8 to 10% growth in the current year because of the fundamentals of the business, which are strong, and the massive installed base that we keep speaking about, and the share of wallet that we are driving with a multi-vendor strategy.

And as regards the specific initiatives, be that around Copilot or any of the others across the wheel, the front-end sales engine is lining up behind the portfolio as well. This isn't about portfolio development in isolation from the execution on the field. So the sales engine is ramping up, not just around the segments, but also around the portfolio, like we showed a few times, to be able to take that to market in an accelerated fashion, which is why we also feel confident about the growth – the trajectory to the mid-teens that was asked about.

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Chiara Mantovani, Investor Relations Manager

Good. Can we take the second question?

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Telephone Operator

Yes. Our next question comes ... Please go ahead, Martin.

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Martin Jungfleisch, BNP Paribas

Oh, sorry about that. I thought I had two questions. Just on the automation right, I think you mentioned this automated platform and the online marketplace. Would you say this is a key differentiator compared to peers? And based on your knowledge, do your peers already have this sort of online marketplace where you would be able to quote faster, make faster deals, and limit churn and things like that? Thank you.

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Brian Duffy, CEO

Sure. So I will take that first, and then I'll pass it to Bernd. Firstly, we are on a mission whereby we want to make it as smooth as possible for our customers to buy at their fingertips, whereby they can log in, as you saw from the demo with Max, and they can execute on that purchase.

The differentiator that we have against all of our peers is that we operate in more countries than any of them. And when somebody who's sitting in Indonesia, when they're sitting in Ecuador, when they're sitting in Colombia or wherever they are in the world, and they want to be able to purchase a license, I can tell you in our space, they want that license right now. And what Marketplace offers to our customers is the ability to transact and to do that by themselves and to do it quickly.

In addition, Bernd mentioned the fact that we've made this available to our internal sellers as well as a test to see how do they adopt it. And there's nothing better than giving a solution to

sellers to see will they use it. The great news is that we've seen them adopt it at a rapid pace, which is, again, confirming the ease of the solution to use.

And as Bernd shared, we are seeing a trajectory in terms of the volumes that are going through at the Marketplace, which we will continue to move – will continue to share moving forward. And in addition, I would say, yes, this absolutely is a differentiator compared to our peers. Bernd?

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Bernd Schlotter, President Software & Cloud

Yeah, very well put. Yes, it is a good differentiator. The best way I can explain it is reselling sounds simple, but it's very complicated if you think about availability, about tax rates, about where you bill for what, when, is there a master contract on some global level, are you buying de-centrally?

And so there's a lot of tribal knowledge within our company and codifying that tribal knowledge and putting it in a platform so that you can automate and have both the vendor side and the client side self-serve is a very hard problem. And we're pretty far along with that. And to our knowledge, others have not tackled this in the same way. And so I see this as a key differentiator, because the quality and the response rate for quotes or for, you know, the request to buy will be better.

And then adding our reach in a number of countries, as Brian said, and also the 7,500 plus publishers we're working with, this becomes a competitive weapon.

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Martin Jungfleisch, BNP Paribas

Thank you.

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Chiara Mantovani, Investor Relations Manager

Good. Can we move to the next question?

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Telephone Operator

Our next question comes from Joe George of JP Morgan. Joe, the line is yours.

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Joseph George, JP Morgan

Yes. Hi, guys. Thanks very much for taking the questions and thank you for the presentation. I've got three questions, two probably for Brian, and then one maybe for Rodolfo. So maybe two for Brian first.

Just within the 8% to 10% growth guidance through 2024, could you just help us in terms of how we should think about the split of growth between Marketplace and Services?

And then secondly, just on Copilot and the \$100m revenue opportunity there, how much of that is based in to both the '24 and midterm guidance, if any? Thanks.

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Brian Duffy, CEO

Sure. So firstly, in terms of the split between Marketplace and Services, we continue to expect that Services will be growing in the double digits, as you saw from Rodolfo, 15% in 2023. We do have a drag, which naturally is our Legacy Services.

However, now, Joe, as we move into 2024, with the clear articulation of our focus in the higher growth markets, where we have the opportunity to have modularised offerings from a Services perspective, which will not be these custom builds, but will be, in many instances, Services, which will be more standard and a rinse and repeat model, we have an opportunity to look at accelerating our growth on the Services perspective.

What is critical to the acceleration of everything that Bernd will be delivering is the partnership that Bernd and Rohit share together. And I'm very confident in our ability to execute on the go-to-market jointly.

And then in terms of Copilot, right now, we are not disclosing how much we have built into Copilot for 2024. The reason for that is, obviously, it has only been launched on January the 15th. As we continue to make progress with our customers, we certainly will be disclosing the progress around Copilot moving forward.

But what I would reiterate is the massive opportunity we have and the pent-up demand that is within our customer base. And quite frankly, within SME and corporate, a lot of this is being fuelled based on the expectations that employees of these organisations have when they come, quite frankly, to the enterprise every day. Rodolfo?

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Rodolfo J. Savitzky, CFO

So maybe on the third question, could you repeat or mention, Joe, the third question?

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Joseph George, JP Morgan

Yeah, of course. Thank you for that, Brian. I think the third question would just be on the linearity of the margin trajectory from here. I guess there's sort of 300 to 400 basis points of margin expansion from 2023 out to 2026 to get to the new midterm guidance. How should we think about the linearity of this? Is it more or less a straight line or is it going to be back half-loaded? Just any colour there would be great.

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Rodolfo J. Savitzky, CFO

Yeah, look, this is a little bit following the prior question on how does the growth evolution go from the 8 to 10 to the mid-teens. First, we are convinced on the guidance for 2026. This is definitely a number in terms of growth and margin that is completely achievable.

And then as you think about the progression, it is linear, right? It's not a hockey stick and it's true both for the revenue growth and for the margin. And it has to do more with the pace of implementation of the different programmes you heard about today. That, of course, they don't happen overnight. And as they start getting traction, you will see them reflected both in margin and in the revenue growth.

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Joseph George, JP Morgan

Perfect. Thank you very much.

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Chiara Mantovani, Investor Relations Manager

Good. Shall we move to the next question?

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Telephone Operator

Our next question comes from Balajee Tirupati of Citi Group. Balajee, please go ahead.

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Balajee Tirupati, Citi

Hi. Thank you. Two questions from my side. Firstly, on margins, your target of reaching 28% by 2026, would it be possible to break your target between Services and Marketplace? The target of reaching mid-teens for Services probably would imply closer to a 5 percentage point improving margin in Marketplace. You already have a very strong margin profile, so could you share some colour what you think will be driving that?

And the second question is on cash conversion. Based on the free cash flow definition that SoftwareOne has, the free cash flow number in the last two years has been on the weaker side.

So should we expect that to improve from here and what are going to be drivers for that? Thank you.

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Brian Duffy, CEO

So maybe I'll take one part of the first question and then I'll turn it over to Rodolfo and Bernd to weigh in as well. So specifically in terms of the margin from a Marketplace perspective, obviously we have a very healthy business, and we are best in class in terms of margin within Marketplace.

We currently do have an initiative underway to assess how we could be more efficient within that space as well. Like I've said before, evolution is certainly within the DNA of SoftwareOne, and we

are currently assessing where there is an opportunity to fine tune from a Marketplace perspective our margin.

And similarly as it relates to Services, repeating myself a little bit here, but obviously the modularised services that we are going to be offering have the opportunity for us based on the partnership with Rohit to look at how we can have some margin expansion there as well. Bernd?

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Bernd Schlotter, President Software & Cloud

Yeah, so I would look at the business in 2026 in three pieces. There's the business that clearly will be Marketplace, there's the business that clearly will be Services and then a large and growing piece in the middle that is both. And you can have endless debates from the left pocket to the right pocket. Is this now Marketplace or is it Services?

Microsoft CSP business is a good example. There are more and more examples that we bundle. We like the right to use a license with value added services and then it's a bit academic to attribute discrete values to one or the other.

So internally we do the best for the customer and the best for SoftwareOne, and we don't worry too much drawing a distinct line between the two. So it's going to be a bit fluid where to attribute some of those gains.

But make no mistake, the delivery model on both sides has to be becoming more efficient. We need to make more gains in Services. We need to defend in Marketplace. And then together with Rohit, we need to make go to market more efficient. We have to you know replace human pre-sales with configurator with the rules that allows us to sell as a configurate – to configure instead of using the Services pre-sales person to architect the solution.

That will be possible in the SME business, maybe a little bit in corporate for some services and that will provide us some leverage. And then add productivity on the sales force to this. And then you can see your path to increasing from 25 to 28% our margin.

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Rodolfo J. Savitzky, CFO

Then on the cash conversion, it's absolutely a fair statement. I think when you look at what I call the operating cash and the level of cash conversions it is very healthy. Of course, when you go and we saw it in the waterfall, we have a relatively high dividend, tax, etc, that will continue.

I think what has hurt a bit the free cash flow in the last couple of years, of course, as we are going through this transformational programme, there's been a lot of expenses that have been below the line, right. These are the adjustments from EBITDA to core EBITDA. And many of those do have a cash component.

The question is, how do we see it going forward? We see it improving significantly. And this will be driven by two things. One is as you expand the revenue and you expand the margin, of course, the EBITDA base will be much higher. And then as the company continues to move into what I would call you know a more smooth operating model, then, of course, you will not see any

of these restructuring calls that have impacted the last couple of years. So, we have a clear path to improving the overall free cash flow going forward.

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Balajee Tirupati, Citi

Very clear. Lastly, I have one more question here. In terms of the business plan to sharpen the portfolio focus, should we expect more charges going forward on account of discontinuation of certain parts of the portfolio?

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Brian Duffy, CEO

Yeah, Balajee, I will take that. And I will say that, firstly, when I joined SoftwareOne, I said I like things simple. So, I would like to have our strategy fit on one slide and I would like maximum five things. And lo and behold, we now have a strategy where we laid out in terms of leads, and it spans one slide, and it happens to be five things.

The commitment that I'll give to you, Balajee, and to everybody moving forward is we will continue to evolve our portfolio. And we do that to best serve our customers. As we're going to bring to market new offerings, which we think are relevant for our customers, we certainly will be sharing them with you.

And it's critical that we continue to have this path of evolution if we want to continue to serve our customers better. And moving forward on a quarterly basis, you should expect to see and hear more from us around the portfolio and the progress that we are making around it. And obviously also the execution of that in the field under Rohit and team.

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Balajee Tirupati, Citi

Thanks a lot.

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Brian Duffy, CEO

Thanks, Balajee.

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Telephone Operator

With that, we have no further questions on the phone line. So, I'll hand back to Chiara.

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Chiara Mantovani, Investor Relations Manager

Good. So, if there are no further questions, I would thank you all very much for being here.

And for those that are in Zurich, we can move on to the last section of the event, which is the Apero.

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Brian Duffy, CEO

Okay. Thank you, everybody.

[Applause]

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