Full Regular Transcription

SoftwareONE AG

Half Year Results 2020

2020-09-16 at 09:00 AM CEST

Duration: 88 minutes

COMPANY REPRESENTATIVES

Dieter Schlosser – *Chef Executive Officer*

Hans Grueter – *Chief Financial Officer*

Alex Alexandrov – *Chief Operating Officer*

Patrick Zuppiger

PRESENTATION

Operator

Ladies and gentlemen, welcome to the Half Year Results 2020 Conference Call and Live Webcast. I am Stewart, the Chorus Call operator. I would like to remind you that all participants will be in listen-only mode and the Conference is being recorded. The presentation will be followed by a Q&A session. You can register for questions at any time by pressing * and 1 on your telephone. Webcast viewers may submit their questions in writing via the relative field. For operator assistance, please press * and 0. The Conference must not be recorded for publication or broadcast.

At this time, it is my pleasure to handover to Dieter Schlosser, CEO. Please go ahead.

Dieter Schlosser

Thank you, Stewart, and thanks to everyone joining us for the first half year results of financial year 2020. This is Dieter Schlosser, CEO of SoftwareONE. I am here together virtually with Hans Grüter, our Chief Financial Officer and Alex Alexandrov, our Chief Operating Officer.

A real pleasure to have you on the call. I will walk you through the first half year results which is also available online on our webpage. I will start with the key highlights and the business update. Hans will then give you a detailed update on our financial performance, and thereafter, I will turn to our outlook and take you through what we see in the second half of this year. Alex, Hans and myself will then round off this Q&A at the end of the session.

So let’s start with the presentation. First point as always to the disclaimer on page 2, the forward-looking statements as well as non-IFRS measures. Please read them carefully and let me straight jump into slide 5.

I am really happy to share strong results in the extremely difficult environment. A global pandemic, a global crisis where we wanted to make sure, and it's our top priorities that our employees are safe, our customers can operate and continue to operate their business. We stick to what we have told you in the last results presentation, and came out much stronger of the crisis than we entered in it. You will see this throughout the presentation when it comes to our progress on the transformation, when it comes to the progress on the integration side with Comparex but also on the financial metrics. Starting off with our great results on Solutions & Services, our customers really relied during that period in general on Cloud and trusted us completely on our Services and we were able to achieve an acceleration and the year-to-year growth of 15.1%.

We were also able not only to increase our EBITDA level to 18.2%, but also our margin above 32%. You might recall the end of that last year it was around 30%, so that goes towards the mid-term guidance which we guided to, it was 35%. Our run rate on Comparex-related cost synergies have reached now 31.9 million, that’s ahead of the plan, ahead of the curve, and I will give you further details later on. Also very pleased that our business model which we always told and shared you is a resilient business model. We are able to grow and we are able to benefit when the economy and environment is good, but we are also pulled from our customer into the business when the environment is in difficult situation, because of our portfolio, so we were able to leverage that business model and continued on our strategy, invested into acquisitions and into talent.

There is a saying never waste a crisis, and we have been able to utilize that and acquire companies which are on the market, interesting companies helping us on our future transformation and our growth, but also very good talent across the globe, we hired so far in the first half year 380 new collaborators, and that’s a journey which is continuing for the rest of the year. On the financial side is further unlevered balance sheet, significant liquidity and a cash flow generation which Hans will share with you in his part of the presentation.

If I go a bit deeper on slide 6 into our 2 lines of business, very solid performance on Software & Cloud. We have seen customer rushing into everything which is COVID relevant, renewals of mission critical Software, but on the other side also certain scrutiny of whatever is discretionary. On the Solutions & Services side, here we really benefit that our entire Service portfolio is geared up to the cloud and customer consuming wisdom and increased consumption on the cloud, also our Services and that’s across our 2 practices which is Software lifecycle management. I give an example for instance cost takeout advisories to relieve the customers of certain OPEX challenges, or on the technology services where we helped our customer on cloud optimization and on cloud management.

You see below on the revenue, there is a discrepancy when you look at the revenue of H1 2019 compared to H1 2020. That’s an intended consequence of our portfolio cleanup which we shared with you earlier in this year. You remember we have a exhibit in sundown whatever services are non-core for us and non profitable or low profitable, so the results you see over here is less revenue, we are able to achieve a higher gross profit.

If I then go into slide 7 and show the Software & Cloud business into more detail, we see a strong demand from customers when it comes to renewals and to mission-critical Software.

So whatever is relevant to keep on the light has continued to grow, but on the other side, discretionary spend which is focused on innovation, which is not at the same time relevant for the... during the crisis and project-related Software has been delayed in that sense.

On Microsoft side, we are now 75% of the GP and customers buy from us. When I go deeper into the products, 60% on cloud and 40% on premise. On premise is something which we maintain, which we keep as a running book of business even though the growth is much slower over there, and it's limited gross profit opportunity, but as you can imagine, these are the cloud journey travelers of the future and by maintaining them in our book of business, we will benefit in the future when the customers are ready to migrate to the cloud.

Talking about the 60% in the cloud, it's always split between the 3 different clouds Microsoft is providing. It's a productivity cloud, which is Office 365. It is the Azure Cloud which are the workloads and it's the Dynamics Cloud which is the app of the future.

I give now our portfolio mix on customers segments. We do have around 50% on SME. We experienced a lower growth in that particular segment because SMEs were the ones which were hit first during COVID. Also during H1, we had fewer upfront deals where customer pre-bought to get larger discounts, that's usually happening in Q2 and during the year's end, Microsoft and such deals are usually very healthy for us. Customer in fact focus on Pay-as-you-go which in the long run is very positive for us. You see we have a growth over here above 50% and that's promoting the customer relationship which we have, the transformation but also on the Software Cloud subscription revenue a huge upside for us, we see adoption of further cloud products.

Moving into the Services and instead of showing you some numbers, I thought I'd share with you a real face, there's also a video out there on social media. We are talking about the customer who is one of the largest food distributor in the U.S. When they entered into COVID, they faced dramatic challenges not only from enabling remote working, but really maintaining the service level to their customers which is the modern trade, the general trade, the mom and pop shops. And so we partnered very quickly with them, we migrated them completely to Azure. And we deployed the windows virtual desktop, enabling them to not only keep the employees safe and maintain the business, but really have to sales stock on an ongoing basis and benefit from the COVID scenario as well. There are many customers like those, which you also... which you will see as a reflection in our performance on Solutions & Services.

Coming to our synergies and to our major acquisition and integration efforts on Comparex, beginning of the year, we shared with you that we made the hard decisions in 2019. We harmonized the Solution & Services portfolio in the beginning of the year right from the get go from January, we started this one portfolio. We aligned the sales and enablement, we harmonized compensation, which is one of the most important topics if you are a tech sales organization. And the ongoing concern at that time was the integration and harmonization of the ERP systems. So I'm very happy to share with you that we basically have by now the entire SoftwareONE company on our ERP on our harmonized ERP system in place. That's a major step forward, so we can make a tick in the box in terms of the integration effort with Comparex. The synergy realization is of course ongoing. And you can imagine from next year onwards, when you have a full financial year, calendar year of... in one harmonized process and back office and we will also have a further traction on the synergies.

If you look at the numbers on the right side, the monetary aspect, we finished with... in the first half year with 15.6 million on synergies on a run rate projected for 12 months, that's 32 million, which is far ahead of what we guided initially. We said we would achieve around 60% of the 40 million target. So, we already ahead of the curve and just to already share this with you, we will also adjust the guidance on that which I will share with you later on.

When it comes to acquisition, it's again it's a proof, it's a evidence, it's a validation of our resilient business model. We didn't change the strategy, we continued on our strategy to really utilize the crisis and acquire companies which are in the market. And the same goes later on for the talents. So happy to share with you that on top of the 8 acquisitions, which we have done till the end of last year, we added another 3, B-Lay is a Dutch organization which is focusing on Software lifecycle management, and gives us strong additional capabilities on Oracle and SAP.

Make-it-noble, are extremely specialized experts on Microsoft, who joined us in our Swiss office. GorillaStack is in capabilities in IP which provides cloud cost management and event monitoring on AWS. We will... yes, currently integrating that into our platform in superior cloud, which will boost up our cloud platform management to a complete different level. And we are also on the verge of making that as a feature priority for Azure in the same way. So we are really hyper scale on the cloud platform management.

With the other sector, we will wait until we are through with the Comparex integration before we open the opportunity on acquisitions on scale.

As I have shared with you earlier, we are well on track, we've actually done this... the integration on Comparex, and so the window of opportunity for such acquisitions would open up by year ending 2021.

On talents, same scenario. The crisis offered to us a unique chance to hire talents in the market. And we did this very aggressively. In our growth streams, we have 3 growth streams. One is the cloud-managed services, where we fast growing now on AWS, but of course further utilize our opportunity being the number 1 player on Azure. We have furthermore application modernization where we help to really... our customers embark on their digital transformation re-platform, re-factor, and re-engineer their legacy applications, which is a necessity if you want to maintain those in the future.

And at the same token, our critical workloads practice which is SAP on the cloud, which we also reinvested heavily into this practice. These are growth streams which we believe are growing for the next between 8 and 16 years depending on which one we are talking and for us it's very crucial that we continue investing in them. But equally also in our back-end, which is scalable business model as you as you know to our global delivery model, and also paired with our platform, which helps our customers to really optimize their digital Software supply chain.

There is... we are getting many awards on a yearly basis as you can imagine, but this one I wanted to share with you for the simple reason, it’s actually 2 reasons. number 1, this is the first time that Gartner really could use the Magic Quadrant on Software lifecycle management. And what it means is that there is now an acceptance that Software lifecycle management becomes even more strategic in the future because when you have every IT resource in the cloud, every single IT spend becomes OPEX. And the management of those digital assets become more and more important to make the right decisions to go fast on digital transformation, but also to optimize and leverage your spend. So you can focus on innovation and reuse your discretionary spend to the right things.

There's one more award which I quickly want to share with you, which is a SAP award. Through the CRO review magazine, where we have been named as one of the most promising SAP consulting and service company in the cloud, and that's exactly where we built up the practice with our acquisition last year on BMW, but also organically this is our own practice build up and help our customers now to move SAP on to Azure and AWS.

So with that, I am handing over to Hans Grüter, our Chief Financial Officer, and he will give you more detailed information on our financial performance. Thank you. Hans, over to you.

Hans Grüter

Thank you, Dieter, and also from my side I'd like to welcome you to this conference call. I am pleased to go through the financials in more detail. Let's start with the page 14 and an overview of the profit and loss statements. The IFRS reported figures H1 2019, and H1 2020 represents the figures in the half year's report. To remember for you, in H1 2019 the Comparex figures have only included for 5 months as we have acquired Comparex at the end of January 2019.

So more important to assess the performance of our business are the adjusted figures, which you see on the right side of this slide. We make adjustments based on our alternative performance measure. It's highly controlled, and it's in line with our internal rules. These adjustments include pro forma adjustments for Comparex, as if it has been with us since the beginning of January 2019. It includes the bad debt and presentation in line with IFRS as part of OPEX in 2019.

This presentation is going on in the future and OPEX adjustments for share-based payments, IPO, Comparex integration, M&A, and earn out. I will come back to these adjustments later on and would like to say some words about the figures itself. We had achieved in the line of business gross profit from sales of Software and other revenue 274.6 million gross profit, which is a growth in constant currency of 0.9%.

On the gross profit for Solution & Services, we have achieved 96.2 million Swiss francs, a growth of 15.1% compared to prior year, and the total gross profit of 370.8 million gross all in constant currency of 4.3%. The EBITDA increased from 107.4 to 120 million, which is a growth of 18.2% and represents an EBITDA margin of 32.4%, well above the 28.2 we have achieved a year ago. The profit of the period is 67.9 million, a bit higher than it was last year for that period.

On the next page, we would like to give you the full transparency of all the adjustments made and show you here the bridge from the reported profit for the period to the adjusted profit of the period. We start with the reported period and make the adjustments for 2019 for Comparex. So this figure is 5.7 million, which represents basically the January of Comparex. We adjusted share-based payment in 2 areas. One is the equity management program, which we disclosed during the IPO. To remember here, it's financed by the share... by the major shareholders, but we need to present due to IFRS grant to P&L.

The second part is free grant, we have granted to our employees a number of shares and offered them to all of our employees with a vesting period for 2 years. The adjustment made for these 2 programs are 12.4 million.

Going forward, we expect this figure to be for the full-year 2020, 24 million. It will continue in 2021 with 13 million, and expected in 2022 to be 4 million. Further adjustments we have made for IPO expenses 1.9 million in ‘19 and 0.5 in ’20. Integration expenses for the acquisition of Comparex of 2.9 million in ’19, expected this year 4.4 in 2020. And M&A and earn-out expenses net of 0.1 in ’19 and 0.4 million in 2020.

So further adjustments we have made for the appreciation of the Crayon shares, which was 11.5 million in ’19 and its 13.3 million in 2020, and made all the tax impact of these adjustments reflected in the adjustment figures, which is an expense of 9... 0.6 million total in 2019 and 3.2 in 2020.

Going into the performance of our line of businesses, we have achieved GP growth, an acceleration in GP growth in our line of business Solution & Services of 15.1%, as well as a solid growth in the sale of Software and revenue of 0.9% all at constant currency and overall a growth of 4.3%.

Going to the EBITDA. As earlier mentioned, we have increased the EBITDA of 107 to 120 million and the EBITDA margin of 28% to 32%. This was possible... this improvement basically one on growing the GP with less growth in the... on the cost side with realization of our synergies with some savings, for example on the travel expenses, but also offsetting some of this is the investments made in key talents and M&A, as Dieter explained to you earlier.

We have achieved a strong cash flow from operating activities for the period of an amount of 206.7 million compared to a negative 15.1 million in that period a year ago. A main driver of that was the change in net working capital, which you see here in the middle part, all the figures are based on reported figures. We have benefited from a vendor payment program that made a big impact on this, where I will come back to in more detail in another slide.

The capital expenditure is about 10 million for half of the year. So for a full year about 20 million, it's on a low level as we always said, it demonstrates the asset light business model that SoftwareONE has. I would also like to remind you that in this investment, the biggest part is for investment in the PyraCloud, the platform for interacting with our customers and the platform for enrollment in our business.

Important to note is, well, it's our good position and managing the customer credit exposure in this and not so easy kind of COVID-19 situation. First of all, I would like to remind you that we have a very diversified customer base, a diversification based on geography, but also on industries.

We have a centralized processing place for credit line and payment terms with our customer and tried to ensure as much as possible and then you see the chart on the left we have, in our portfolio 80% of our portfolio is all insured or really high-rated customer. So this position is very solid and a very good situation in particular in this time.

We have increased the bad debt provision for our accounts receivable from 16.2 to 18.5 million. I would like to note here that this increase is an increase made by management assessment and it's a provision only.

Coming into the balance sheet, we can present you a very strong balance sheet with a very good cash... net cash position of 333 million, up from a net debt of 35 million a year ago at the same time. The net working capital, which is a big part of our balance sheet is at minus 173 million at the end of H1 2020, compared to 104 million one-year ago.

As mentioned to you, this net working capital was supported by a vendor deferred program we have in place. We expect that this program will end in H2 and we will expect as well that there will be a cash outflow of that in the magnitude of about 250 million. This vendor program helped us extremely to support our customer in this difficult time. I would also like to mention to you that we have made some progress in the underlying net working capital, mainly on the collection side on it, and expect this positive cash generating that we can do and also in H2.

We have... as we have in the beginning of last year, continuing unused bank credit lines going forward, we do have an equity ratio consistently on about 20%. And as a summary of this slide. we do really have a strong balance sheet, which is good position for continuing growth internally or through acquisition.

And with this, I would like to give the word back to you, Dieter.

Dieter Schlosser

Thank you, Hans. SO let me go into the outlook for the remaining part of the year, for the second half of 2020. With regards to COVID-19, of course, the future development remains highly unpredictable, it's difficult to judge. But we have... we see trends in our customer operating environment, we truly suggest certain normalization, this is of course, dependent on which geography. We see a faster pick-up in Europe and parts of Asia compared to the U.S. and of course, it's also related... dependent on which industry segments we are referring to.

Looking at the guidance and assuming no material deterioration in the environment through COVID. We expect that we can keep the gross profit level, as we have seen in the first half of the year, also for the full year of 2020 and that's on Software & Cloud, and Solution & Services. Again, it's this time and the crisis is evidence that our business model is resilient and the only... only the practical experience of this year has really proven the foundation of our business model. And that's why we're able to give you that guidance.

If I go further into detail, how this looks in terms of breakdown on Software & Cloud. We would be talking about GP growth on same level that in H1, which is around 0.9%. As you know, the user behavior with corporate customers is that there is a certain burn down on the IT budgets depending on the financial year. And if the financial year is aligned with the calendar year, you usually see this happening in the last quarter in Q4, particularly in December.

The question is, of course, is that happening... does that happen in the same way as it usually happens in the past, and will it happen also during a COVID phase, or will be there a really reduction of the OPEX and the reduction of the baseline for the future. So we are rather conservative from this and hence we are expecting to grow on the same... on the same level than we have proven in H1.

On the Solution & Services side, we also assume that we have... and we guide that we have a growth of 15.1% for the rest of the year. Actually, the designs are really evident over there. I shared this with you also in the beginning of the year that we assume creeping up of the backlog. And that's why it was so important not to reduce capacity and capability, but really reinvest into capacity and capability, so that we are able to deliver that. So that has really occurred, the backlog is at the highest level on the professional services now, as well as, on the managed services side. So we are very confident on that guidance.

In terms of synergies, now we uplift the guidance over here from 60% to 80% to 85%, of the 40 million OPEX synergies which we tried to achieve by FY21. And as I mentioned earlier, the entire company is now on one system, on one process, on one back office. And once you have a full pay in the calendar year, full financial year, on the back office, of course, there's further upside for us visible.

On the EBITDA margin, we will be approximately on the same level, we have achieved in H1 2020, and for the full-year.

And that's again, it's evidence that the business model is moving towards targeted one and the guided one in the midterm, which is 35%. Dividend policy hasn't changed and that maybe between 30% to 50% profit for the year.

So that was the end of our presentation. So I'm happy to refer back to Stewart our operator, and we go to the Q&A session.

QUESTION & ANSWER

Operator

We will now begin the question and answer session. Anyone who wishes to ask a question, may press * followed by 1 on your touchtone telephone. You will hear a tone to confirm that you had entered the queue. If you wish to remove yourself from the question queue, you may press * and 2. Questioners on the phone are requested to use only handsets and eventually turn off the volume from the webcast. Webcast viewers may submit their questions in writing via the relative field. Anyone who has a question may press * followed by 1 at this time.

The first question is from the line of Stacy Pollard from JP Morgan. Please go ahead.

Stacey Pollard

Thank you very much for taking the questions. I have a few actually. So first of all, you mentioned 50% SMEs grew a bit slower. Can you maybe quantify that and then what progression are you seeing in the pipeline for sort of Q3 and Q4? That's one question. Maybe my second one, do you mind just talking about other vendors? So you talked about Microsoft being 75% of your GP for Software & Cloud. Just some color on what other vendors are strong or weak in pipeline there? Third question, do you mind just reminding us of the share ownership and when lockups end? And then, last question really for CFO, can you talk about expectations for cash from operations in H2. There were a few moving parts, so I was hoping to kind of settle that? Thanks.

Dieter Schlosser

Thanks Stacy. So we have 4 questions, let's start with the last one. Hans, you want to quickly address the last one?

Hans Grüter

Yes, sure I can do that. So it was the question about the cash flow from operation, what we expect to be in H2. So as I always say, it's very linked to the net working capital, and of course the performance of the underlying business. But I think that the net working capital is the more topics we would like to get some coloring. The net working capital is... does underlie a trend in our business, which is linked to the trend of our business with peaks in June, in December, in March and September and this you see reflecting in the net working capital, a month or 2 later on.

We have had in H1 this vendor deferral program, which has helped the net working... for the net working capital to this level, I have provided to you, which is 173 million negative. We expect that this... the programs will end, and it's a magnitude of 260 million. When you say, when I'm coming back to this regularity, which I see, when I would refer to the cash flow we have generated in the last year, and I think that we'll see some pattern going forward, also in this year, and it will depend as well on when we closed the balance sheet has the custom really that day or is a day later or whatever.

So this micromanagement topic is a topic which always is with us, and will be a bit decisive what happens at the end of that period. But I think this is more what happens there, but I see positive in all what I've seen here in this COVID situation since March until today, we have seen a constant flow of cash in of our collection. We have even improved compared to what I have seen in the last year, and made some progress, and I have no doubt today that this will continue on the caveat that the situation stay that way, but I see this trend going forward also for H2. I hope that helps you a bit, Stacey.

Dieter Schlosser

So Stacey, let me quickly share something on the non-Microsoft, as well as, on the small and medium enterprise in the customer segment. What we see on the non-Microsoft is everything which is you know, UCC Unified Communication Collaboration. Everything which is related to remote working virtualization, virtual desktop, digital workspace. What we see in terms of cloud enablement that's right on top of the world. And then, on the other side also the security posture, and particular cyber security and policies and control because, as you can imagine during the first phase of COVID, many, many companies throughout the security policies... because they had no chance then maintaining the business by following that, so they are obviously gaining control but... and that’s something which is also visible.

In terms of the small and medium enterprises, I shared with you that's 50% of our customer segment, 50% is enterprise. And we have a higher profitability on the SME side versus the enterprise side. What we have seen is that the SME were tougher hit and were more hit and faster hit than the enterprise level, but we also see it from our pipeline and from our backlog that they are coming out faster again. So that’s a positive sign for us and we said that it's really important that we keep up this... our resources and capabilities requirements to deliver on the backlog which has been creeping up over the last couple of months.

On the shareholding lockdown, Patrick, you want to quickly give the exact dates, was this end of October. Can you just confirm that, please?

Patrick
So the first lock-up will end on the 21st September. That’s for the selling shareholders KKR, Raiffeisen and the heirs of Patrick Winter and then on the 25th of October, the lock-up will end for the founding shareholders and also for EV members and be reminded then on 25th of October, one-thirds of the net of EV members the lock-up will end. So these are the guides currently.

Hans Grüter
Thanks, Patrick. Thanks Stacey for the questions.

Stacey Pollard
Yes. Thank you.

Operator
Next question is from the line Alastair Nolan from Morgan Stanley. Please go ahead.

Alastair Nolan
Good morning. Thanks for taking my questions. Just a couple if you don’t mind. Maybe first, could you maybe comment on a little bit more around the (unintelligible) growth through the first half? Give us an idea kind of how much and when COVID had the biggest impact and maybe something around exit rates towards the end of... end of the period.

And then secondly, on synergies, it feels as though obviously progress is pretty solid, ahead of expectations. As a result, is there any thought or any possibility from what you have seen so far and the fact that maybe those targets may ultimately end up higher than where we are or where it's currently has gone.

And then finally, just on the commentary around an increase in pay-as-you-go contracts. Could you maybe give us little bit more detail around this, my understanding of what you've mentioned was that previously there were some more multi-year deals done in the second quarter and maybe COVID impacted that, some more people shifting towards pay-as-you-go, or is that something more structural that’s not really impacted by COVID, and so then just answer the questions, please.

Dieter Schlosser
Thanks, Alastair. So on the first question in terms of the trajectory with regard to the COVID timing, when we did there for 19 percentage in end of March, we shared with you that we see actually a pickup in certain aspects on the business, particularly through the work from home. So that really went through the end of first quarter, end of March, but then in April and May, we saw rather a reduction on the... particularly on the discretionary spend for the customers. And June again was much stronger month for us.

And next coming to the third question on pay-as-you-go, as well and I'll let Alex to answer you on the second part of it as well, but what we usually see and that’s that particular enterprises going on pre-purchase and pre-buying commitment to achieve larger discounts and utilize that window. It's either in the financial year's end of publisher of the years, and in general, the calendar year's end. So Microsoft is end of June and hence Q2 was usually... that is the quarter. So for that's kind of purchasing behavior and in particular in June it's something that we expect. That’s not something which will go away either. They always happen as long as they have the financial year in that months, but this year we saw much fewer of such deals coming in, but the customers were rather pivoting to the pay-as-you-go which is then, you know you need a full year cycle to recover on that from a revenue recognition.

On the synergy side, yes, I mentioned we are ahead of the curve. We also see that the 40 million are very, very realistic, but I don’t want to commit now beyond that. You can have your hypothesis on it if we run the full year of the entire company on one process and one back office but there might be upside, but I don’t want to commit beyond.

Alastair Nolan
Thank you very much.

Dieter Schlosser
Thanks Alastair.

Operator

Next question is from the line of Michael Briest from UBS. Please go ahead.

Michael Briest

Great. Thank you. Good morning. A couple from me as well. Can we look at revenues for a moment? Just in terms of the Microsoft business, I think on note 5, page 27, the Microsoft indirect revenues were up 1% and I guess with currency it may be 6% or 7%, but I know Microsoft has called out SME weakness, but the 3 things why business was up 20%, Azure 50%, Dynamics up 40%, so within your revenues I appreciate gross profit is skewed towards cloud, is it fair to assume that the majority of revenues were on premise and that’s why you are somewhat divorced from the trends that Microsoft is seeing? And then looking to next year, obviously, you are guiding for a reacceleration to high single-digit growth in Software gross profit. What is the driver of that, is it the margins will improve, is it the revenue growth will reaccelerate? Can you just talk about what’s the assumption behind that? Is it macro than, and then I have got one on costs.

Dieter Schlosser

Yes. Thanks, Michael, and thanks for your report which you sent out this morning. The second question is on the macro and I will leave the first question to Alex to answer. As you remember, our guidance was high single teens on the Software & Cloud and... high single-digit on Software & Cloud and high teens on Solution & Services. On Solution & Services, for us the accelerate of digital transformation was really COVID time. And we believe that is something which will not only continue but rather exponential growth in FY '21.

On the Software & Cloud what we are already seeing you know, it's visible to have Dollar of cost savings of the customer, so in usual days, it is very tough for you to save more than 10% on an ongoing basis without shutting down part of your businesses and part of your operation and function as an organization. So you will see the majority of our book of business coming back to a normal spend behavior and again, Michael, this is dependent on how COVID progresses or whether the light at the end the tunnel is really the light right. If... but we see currently this... from the customer side, there is an improvement... already there. Are we going into full recovery in Q4? Most likely not yet. Is it something which is globally across any geography? I think it's rather for a few geographies. You asked for the... a bit on the (inaudible) in particular in Brazil and Mexico, and with that I would say for FY '20 if COVID develops as we have the hypotheses then that’s our mid-term guidance. On the first one, Alex, you want to answer on that?

Alex Alexandrov
Yes, hi, Michael. So on the Microsoft side, we see ourselves on the topline, on the revenue line which includes what we look at as both what you see on our P&L, as well as the direct purchase volume which does not hit our P&L. I would say, the entire volume for us is inline slightly faster growing then what Microsoft is seeing. The reason you then see and why we try to watch, try to layout page... Slide 7, is... it is a combination of on-premise and cloud, and our gross profit is very much geared towards the cloud segments of the Microsoft spend for our customers. And in the cloud segment that's where we see a number of these intersecting lines which is as customer... SME customers were more impacted that impacted our mix and we naturally make more gross profit in the SME segment.

As customers... to Alastair's question, as customers did more Pay-as-you-Go rather than a commitment, while that had an immediate impact in the first half we still... we really like that model, because again it attaches us very closely to customers, allows us to add value to them every day every week. So we believe the long term prospects for that business is very healthy.

And finally even on the Azure side, we made gross profit as customers are consuming. So that consumption trend continues to accelerate and there is a slight new ones, because in the market what's being reported is built Azure, and again we continue to see a very strong, very healthy run way of cloud consumption and that's how our gross profit is geared.

Michael Briest
Right. Just follow-up I think, at IPO 60% of the cloud gross profit from Microsoft 365 related to that change much as it move more to dynamics of Azure?

Alex Alexandrov
No, well, I don't have the specific number for you today. I would say, just given the growth dynamics of Azure, I would say Azure is going to be picking up, let's say, our share of gross profit, because the growth trajectory there as you see from us and from Microsoft is much higher than 365, but 365 continues to be a major contributor and very healthy growth as we probably mentioned on some other calls with 365 even though it is highly penetrated we see a very big opportunity with customers to actually on adoption. So, many customers are on 365, but they maybe on a kind of initial of basic version of 365 and as they get to know the functionality they are able to adopt more and more, and so they can go from something basic to something that allows them to utilize unified communication collaboration to even something that allows them to utilize security. So we see quite a healthy runway for 365.

Michael Briest

Thanks. And then, just a final one on cost. A lot of other companies has reported benefits from lower travel, marketing and things like that. Has that, affected your profitability this half or do you expect a tailwind from that in the year? Thank you.

Dieter Schlosser

And I think Hans mentioned a bit during his presentation, that Hans you want to elaborate further on this?

Hans Grüter

Yes, Michael, there is a travel where we benefit as well. So we have in the first half year there was probably 3 or 4 months, where we had no possibility to travel. And I think so that this will continue as well going forward. So this had an impact for us as well, I would say the magnitude in H1 of travel expense savings was about 4 million Swiss francs.

Michael Briest

Thank you.

Dieter Schlosser

Thanks, Michael.

Operator

The next question is from the line Charlie Brennan from Credit Suisse. Please go ahead.

Charlie Brennan

Thanks and good morning to everyone. If that's okay, I will carry on the tradition of asking a few questions. Just 2 on Microsoft quickly, last year for the full year, I thought that the Microsoft was 54% of the gross profit. And in these H1 numbers, you are talking about being 75%. Does that reflect some significant Microsoft seasonality with the year end being June or if you change the way in which you are defining the Microsoft gross profit?

Secondly, related to Microsoft, you seem to be attributing your performance to exposure to SMEs and some shifts to the clouds, but those dynamics are presumably relevant for Microsoft as well, and yet Microsoft is still reporting faster growth. Across the industry I have heard some suggestion that Microsoft is looking to go direct with more business.

Now, I understand if they go direct they will still pay you an agency commission, but maybe that's slightly lower than you would get if you are managing the relationship. Is that a dynamic you have seen and can you comment on that?

And then, thirdly can I just turn to the services business, the way in which you report your gross profit is to exclude third party costs. So if you just internalized the way in which you deliver some of those services, you can increase gross profits. In light of what happened to revenues and the services line, how do we get comfortable that the gross profit growth is a genuine underlying growth as oppose just to the way in which the contract delivered? Thank you.

Dieter Schlosser

Yes, thanks Charlie. On the first one on 54 percentage, we showed to you for last year that was against the entire business, the 75% which we showed you today in that slide is against softer line of business, Software & Cloud, and I guess that explains the difference.

On the incentive side, I mean, Alex it continues in the same... in the same discussion, you just want to add on that.

Alex Alexandrov

Yes. So yes, I and it's exactly still 54%... Microsoft is still 54% of the total and 75% of the Software & Cloud. And yes, I mean, just Charlie to your point on kind of how does it compare to Microsoft. Microsoft doesn't really... to my knowledge doesn't disclose their own mix of enterprise and SME, but we can just say that in our model gross profit is really geared to make more gross profit, both incentive and upfront margin from the SME. And so, as the SME market is usually very healthy we benefit when it takes a head as we did in the first half that's what kind of... that's what hurt us relatively speaking, relatively speaking to Microsoft but I would say relatively speaking to what's going on in the marketplace. We think the results were fairly strong... it's...

Charlie Brennan

(Inaudible) Microsoft going... the trend that we have in the industry, Microsoft going direct and some of the larger accounts. Is that something you've see across your customer base?

Alex Alexandrov

You know, it's a...

Company Representative

Charlie, okay.

Dieter Schlosser

Yes, what is different, right is that, you see Microsoft to obviously what they have is will drive and we benefit on the consumed revenue. The consumption itself... and that's what, what you also see from our portfolio. We all... we're all geared up and our transformation is really driving towards building, driving and transformation consumption. So is that we catered to the pin points and the road map of the customer, but at the same time we also... we also participate on the economics with the partnership eco-system.

(Inaudible), you know, every Dollar what you spend on cloudification will end up of 3 to 5 Dollars on the consumption side, the same on sticky workloads like you have on SAP, it drives the consumption. So that's... this is exactly the scenarios where our transformation on the services side and our practices which we have built up is going to.

On the... the last question what you had on the third party. So it is true that the gross profit is below third party, what's... and we gave you some examples as for last year we really shut down individual team right, which were on hardware, which were on-premise services, which were not strategic relevant for us the... if those customers were not willing or had no roadmap or plan to go to the Cloud in next 3 to 5 years and the... we didn't see any profitability, we really made those hard calls and (inaudible) and transitioned out of that, so that's what you see as an impact on the revenue stream. Whatever is core for us we will do ourselves, right, but whatever is non-core for us, we'd rather have the negative effects in the year of integration which was last year than carrying it on.

Alex Alexandrov

Maybe just a follow-up and add to this point on services starting what you will see in our gross profit chart on Solutions & Services is that because we did the cleanup in the second half of 2019, you already see us taking that adjustments in the second half last year and so, the growth is... we believe we look at growth kind of year-over-year, but if you wanted to look period-over-period, you can also look at that versus second half when we grew revenue and gross profits there, and thus cleaned up format.

Charlie Brennan

Perfect, thank you.

Alex Alexandrov

Thanks, Charlie

Operator

Next question is from the line of Andreas Mueller from ZKB. Please go ahead.

Andreas Mueller

Yes, thanks for taking my questions. One is on sales synergies, have you achieved already something there or still... is that still kind of a mid-term target, the 20 million you wanted to achieve on the sales synergies. And then could you (inaudible) please, the organic growth impact of the pay-as-you-go shift and then do you see that development also to continue in the second half, what was the impact there, that would be interesting?

And then the last question is on the competitive environment. Do you see any shifts in the industry due to COVID, on the competitiveness of certain business model, I think you will add dimension such as large global volume players versus local or regional players or pure play Software & Cloud resellers versus the one we have hardware content as well? Do we see there any shifts in your industry? Thank you.

Dieter Schlosser

Yes, thanks, Andreas. On the sales synergies, we always have touched towards the end of our guidance which is '21, we already see a certain development in that and we believe that we have not only an achievement of this 20 million but really the individual points going on that number and even an upside is possible. On the pay-as-you-go, Alex, do you want to refer to this?

Alex Alexandrov

Yes, I mean we... we see this will really... I think we mentioned before. It takes us less than 6 months to make up the difference when a customer switches from an upfront commitment buying to a pay-as-you-go model. For us in terms of our growth profit impact, because we are able to attach much more services and Solutions and Platforms, the PyraCloud platforms when customers go to a pay-as-you-go format, our gross profit dynamics were actually recently favorable, so we are able to kind of do the crossover and breakeven within 6 months, so we again... we really like that business and while it does have very near term impact, we think within 6 months we are already above that breakeven.

So we continue to see that accelerate, we would say it's still a small part of our gross profit because again, now customers buying patterns, customer preferences are still to do the commitment, upfront commitment to get a discount, but as we see with many other publishers and even with Microsoft, that's continuing to change gradually over time. And so while it's still a small percentage, because there's a pretty long runway.

Dieter Schlosser

And... I think it's fair, it's fair to say Alex on this, that you know, we wish that everything will become Pay-as-You-Go, because if you look at the stickiness towards the customer, you know, there are 3 levels of stickiness. One is the relationship... the customer relationship, the second one is a process integration, and the third one is a tool integration. And this Pay-as-You-Go and our bundles which we are providing through that, we are covering all 3. So it is fair to say that this is definitely a journey for us in the future.

And in the competitive environment, we have seen a complete different picture in the first half of the year, whilst you know, those ones which are mixed portfolio they had some issues after post-March when the supply chain went down, and on the hardware side delivery was a difficult event because it was all physical assets. Also on the... those who were focusing on on-premise as well as cloud, you saw the on-premise side, it was a mixed picture.

In terms of consolidation, we have seen a few acquisition happening but we believe that there will be further consolidation in the market in the near future. What is currently visible is that quite a number of companies are out there which are really on a revenue multiplier, which is, of course, always an indication that there is not much EBITDA and profitable business model behind it. So the question is, whether that is moving forward or whether that's something which is changing in the future. Alex from a landscape, you want to add something?

Alex Alexandrov

I would say the only... just to add to your comment. The only thing... other thing we see is where we see smaller consulting or services firms. They really struggled in this environment, what really allowed us to accelerate was the managed services side. Because as you would imagine, the professional services side end up being kind of start and stop and way it is depending on... the country, depending on COVID, but the managed services side, because it's so well suited to the cloud environment grew very strongly. And that's kind of a big difference that we saw to some of the other players in the industry. And to be honest, they are really great players. They have great skills, great talents.

And so, we would love to partner with them and bring them on board, but through the current environment they might struggle, because if the model is really set up in a professional services in a project based way. And then as Dieter mentioned, I don't have anything to add on the hardware versus pure play, I think, both formats you know, some great competitors out there. But as you have seen on the hardware side, it did become quite difficult after the kind of the pre... the COVID buying (inaudible).

Dieter Schlosser

Thanks Andreas.

Andreas Mueller

Okay, thanks.

Operator

As a reminder, if you would like to register for a question, please press * followed by 1 on your touchtone telephone. The next question comes from the line of Ross Jobber from Citi. Please go ahead.

Ross Jobber

Thanks very much. Good morning, gentlemen. I just want to dig a little deeper on there on a few of the issues (inaudible) just focusing actually on a long term question. I am interested in your thoughts on what long term impacts the Pay-as-you-Go model has on the dynamics of the business, in terms of increasing sensitivity to consumption, over and above the sensitivity that you will historically have from the link between IT spending and customer trading activities. So my first question really is, a longer term question about, how do you think... or does it increase the group sensitivity exposure to consumption in a way (inaudible) to mitigate that?

And my second question, it goes back to the point about the third-party service delivery costs, and that saving half year... on half year 50 million. I understand what you say about the fact that you've done some cleaning up. And so, that's one reason why that’s falling. But some of your peers have also enjoyed quite significant savings, because they haven't used third-party contracts much in the period. And of course, that could... and should come back in more normal trading. So do you think that some our savings would actually under more normal pre-COVID trading conditions actually come back? And if so, how much? Thank you.

Dieter Schlosser

Yes. Thanks, Ross. And it was a bit difficult to understand, but I heard long term impact on the consumption model versus conservative-to-convention model. I believe that consumption based model in long run is more predictable, simply because it's not a commercial construct, but there's real technology resources behind it. And it always takes an event and migration out strategy of a customer to change that. So from that angle, I prefer this as a model.

On the second point, on the third-party, remember that we have quite a majority of our services on managed services. So even during COVID, we could not change that, right. We had to deliver the service level towards our customers and we're very happy that we were able to do so. So whatever resources and capacity was in place, was always utilized during that period, so that would not resonate for me but... your hypothesis on that.

Ross Jobber

I guess, if I rephrase my second question, apologies. I suppose, if I could phrase it this way. Is the H1 2020, run rate for third-party service delivery costs a typical run rate that you would expect (inaudible) to be the same once COVID conditions are reversed?

Dieter Schlosser

So I... again, our strategy is very clear, if you have... we have a standardized portfolio, standardized service catalog across our 90 countries, whatever is in that catalog is to be delivered from SoftwareONE internally. And because its core, if there are contracts which are... which bound us to a longer delivery and which... where there's a certain lock in, then that would be a migration strategy. But it's not related because of COVID, it's related of what is core and what is non-core?

Ross Jobber

Okay. Thank you.

Operator

The next question is from the line of Martin Jungfleisch from Kepler Cheuvreux. Please go ahead.

Martin Jungfleisch

Yes. Hi and good morning, and thanks for taking my questions. I have 3 questions, please. The first one is on the guidance for this year. You expect the similar gross profit growth rate in the second half as seen at constant currencies, which would likely mean, lower stated gross profit growth due to stronger FOREX effects in the second half.

On my numbers assuming a similar margin, this translates into lower absolute EBITDA in the second half of ‘20, compared to the second half of 2019. Is that assumption roughly correct? And can you provide some color what the drivers behind this expectations are. And also touch a bit on how currency impacts your bottom line? I think the impact should be a little bit less than on the top line. That's the first question. And then I'll go back in the queue.

Dieter Schlosser

Okay. Thanks Martin. Hans, can you take that question, please?

Hans Grüter

Yes. The guidance we have provided on the growth it is very similar growth, and in the total fiscal year 2020 as on H1 2020. And that's a bit the reference you make, you need to make. Underlying the H1 and H2 businesses are not the same. The H1 is a bit stronger than the H2, and that probably may be reason for your questions. But the guidance go into to say we see the similar growth for the full-year 2020 compared to 2019, as we have seen to compare the first half year... this year versus the first half year last year. And we see that the FOREX are being the same as we have seen in H1 2020.

Martin Jungfleisch

Okay. Thank you. And the dropdown to the bottom line, in terms of FOREX, can you provide some color on that, please?

Hans Grüter

I have not really understood the mechanics why you're saying then there is dropdown to

Martin Jungfleisch

And what was the kind of the sensitivity is on the EBITDA from changes in currency?

Hans Grüter

Well, I mean, you have seen. I think, we have given some guidance into that, how in that currency, our operating expenses are, and you see as well in the result H1 versus H2, where we have provided the growth rate in constant currency. I think, it was about 17 million, which the OPEX in 2020 H1 was lower based on the currency part, perhaps this helps for you.

Martin Jungfleisch

Yes, thanks. And second question is a bit on the enterprise agreements and subscriptions. Can you provide some color, how these have changed with any true downs, during the first-half of the year in enterprise agreements or would you expect any true downs in the coming quarters should the economy not improve materially?

Hans Grüter

Yes. Good question, Martin, you know, true down is not a word, which exists in the vocabulary of publishers. They don't have that, they only have a true-up officially, but yes, I think isolated. I mean there are some outliers in there, but it was really not. It was really not visible across the board. And there was some 1 or 2 exceptions where they really struggled in the business and went into liquidation but... and that's not, that's not anymore true down, that's rather going towards the Chapter 11 version. And so, overall, I would say, it's really more an anomaly than the norm, but there is not... the true up scenario has changed, of course.

Martin Jungfleisch

Yes, okay. And then, the final question is on PyraCloud, if you could provide some detail how that has performed in last couple of months and also if you could provide some detail on monetization of this, of this solution to your clients, please?

Dieter Schlosser

Yes, that's I mean, very exciting story for us and I'm very passionate about that because I believe that PyraCloud will really become the game changer in the industry. So we narrow it down to 3 areas. We have an aspect of cloud platform management where we are very neutral that runs across hyper scale and help our customers to manage the cloud, and secure the cloud at the same time, and we have our digital Software supply chain aspect where, as for the customer, it just becomes more efficient and more transparent, and ultimately a way of digitizing the Software supply chain. That is all underpinned by our what we call IDP or Intelligent Data Platform, based on AI and machine learning, where it gives the customers the insights on the spend day we are... and, on the vulnerabilities, and on the optimization potential.

And that's really... in the meanwhile, next to second to none in the industry, that's non-existent there. We'll be able to deliver that or provide that. But we refocused in terms of our monetization to rather make it viral and give it to every customer than purely direct sales play and become a kind of a product of an IT company.

So for us it was more important to put a cloud into every bundle which we have and every engagement, every service customer or receives result on managed service through their quarterly business review on a daily basis uses the PyraCloud as a user interface. Every order which comes in is digitized through PyraCloud. Every communication the customer has with us is going through our digital assistance and next rather where we want to be, so we want to use that also for us internally to digitize our enterprise. So that's the monetization is rather in bringing it to 65'000 customers. And Alex**,** I am not sure whether we have new numbers, but the last number I was aware of that we have around 7'000 customers in PyraCloud right now.

Alex Alexandrov

That's right. Yes, and we have... I would say we will... we have held often disclosing exact PyraCloud numbers while we transition everyone on the same system. And I think once as Dieter mentioned once this is completely cleaned up this year, I think we will be able to report very cleanly across this, but yes, the opportunity is really to completely differentiate and digitize our business and as Dieter said that opportunity is our entire customer set.

Martin Jungfleisch

Thank you very helpful.

Operator

Next question is from the line of Stefan Slowinski from Exane BNP Paribas. Please go ahead.

Stefan Slowinski

Yes, hi. Thanks for taking my question. Just on Comparex, can you tell us in the first half of the year what the growth trends were like between kind of the legacy SoftwareONE business and the Comparex business, and you said this was kind of growing 1%. Is this fair to say that Comparex is still underperforming the whole business? And then how do you see it evolving going forward when we look out to 2021. Obviously, potentially there is upside for the macro improving. But what is it maybe a bigger driver is again the Comparex business to kind of reaccelerate or is it just, you know, some of this Pay-as-you-Go and subscription type pricing that will drive kind of an acceleration in growth into next year. Thank you.

Dieter Schlosser

Yes, thanks Stefan. You know, we from the executive board, we spent so much time to have convinced everyone in the organization that from 1st of January 2020, there is no Comparex and there is no SoftwareONE. There is only SoftwareONE.

Everything is integrated, the account plans are harmonized and the system in the backend from reconsideration are harmonized as well. So in the essence we are not looking anymore into separate views on that, and it is also not what we want to discuss internally and externally, that's... it is one organization, it is now harmonized and going forward it is only SoftwareONE.

On the growth drivers that you mentioned, you're absolutely right, there are multiple growth drivers. One of them is our book of business. We continue to transform our book of business towards services attached. We were quite successful also in the first half of the year and made good progress to convert transaction and customers and the tech services with a higher profitability, and that's definitely the growth driver for the next couple of years, but then also aside of the macro, we have those growth streams which we are participating from a window of change which is happening on the hyper scalers' and the workloads which is happening on SAP and which is happening on application and modernization. Just to give you a number, they are like 50 to 100 million legacy applications out there. And nobody really knows the exact number, but it's fair to say that's high double-digit move, and those legacy applications every single customer needs to make a decision whether they require them in the future, and if they require them in the future, they need to cloudify them. And that's where DevOps practice like, we have acquired this within the group comes into play and where we see, one of the fantastic growth opportunities in the next couple of years. That's an ongoing churn for the next 8 to 10 years for sure.

Stefan Slowinski
Alright, great. Thank you very much.

Operator
Next question is from the line of Chandra Sriram from MainFirst. Please go ahead.

Chandra Sriram
Yes, hi, thanks for taking my question. Good morning, everyone. Just a couple of quick ones, the multi-vendor line of business was up quite nicely in the first half, I just wanted to check if you would like to flag any specific vendor with a particular strength and also wanted to clarify if it's largely cloud-based. My second question is on the Solutions & Services business which was up H1 on H2, so I just wanted to reconfirm that the strategic process of cleaning up low quality contracts and all this is done and we are moving forward from H1 to H2? Thanks.

Dieter Schlosser

Yes. On the last point, Sriram, and as we have done that and actually that's part of our budget process in '19 already where we identified that and maybe there was a lag because of termination process and exit conditions. But, that exercise has been done and we don't carry any burden on this anymore. On the multi-vendor which are the ones, it's you know, I mean the, CEO went out and was very happy presenting how they have grown right and... but so have many of the security providers so as planned, so has Red Hat they were, there are multiple partnerships which have benefitted from... even during this logical ones is always, is always 4 aspects, there is a lot during a crisis, during that crisis and that's... and that's the ones which are related to the workspace, that's the one which are related to scalability, that's the one which are related to business contingency and that's the one which are related to security. If you are in those 4 buckets, you could assume there is a... there is an adverse trend.

Chandra Sriram

Okay. Thanks.

Operator

That was the last question, and I would like to turn the conference back over to Mr. Dieter Schlosser for any closing comments. Please go ahead.

Dieter Schlosser

Yes, thanks Stewart. And thanks to everyone on the call. Thanks also for the... for the lively debate. We are all looking forward to see you also in live again and in person again and aside of having the audio calls and video calls. So, hopefully that can be done soon than later. We wish you a very good day and again thanks for the attention and for participating in the results presentation. Thank you very much and have a great day.

Operator

Ladies and gentlemen, the Conference is now over. Thank you for choosing Chorus Call, and thank you for participating in the Conference. You may now disconnect your lines. Goodbye.

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