

Quarterly Statement Q1 2023

Key Figures

in € millions (unless otherwise stated)				
	Q1 2023	Q1 2022	+/- as %	+/- as % acc ¹
Group revenue	210.6	206.0	2	2
Product revenue	169.8	166.9	2	1
thereof Digital Business	120.6	110.9	9	8
thereof Adabas & Natural (A&N)	49.3	56.0	-12	-12
thereof Licenses	50.4	55.5	-9	-9
thereof Maintenance	96.3	97.5	-1	-2
thereof Software as a Service (SaaS)	23.2	14.0	66	64
	March 31, 2023	March 31, 2022		
Group ARR²	704.3	605.5	16	17
Digital Business ARR ²	518.9	429.4	21	21
A&N ARR ²	185.4	176.1	5	7
	Q1 2023	Q1 2022		
Operating EBITA (non-IFRS)	23.6	40.9	-42	
Operating margin (EBITA, non-IFRS) as %	11.2	19.9		
Digital Business segment earnings	-2.4	8.0	-130	
Segment margin as %	-2.0	7.2		
A&N segment earnings	34.0	38.0	-11	
Segment margin as %	69.0	67.8		
EBIT	3.1	30.0	-90	
Operating net income (non-IFRS)	13.0	25.3	-49	
Operating earnings per share (non-IFRS)³ in €	0.18	0.34	-48	
Operating cash flow	26.5	30.6	-13	
CapEx ⁴	-3.2	-3.6	-11	
Repayment of lease liabilities	-2.4	-2.7	-11	
Free cash flow	20.9	24.3	-14	
Free cash flow per share in €	0.28	0.33	-14	
	March 31, 2023	Dec. 31, 2022		
Balance sheet				
Total assets	2,628.2	2,678.4	-2	
Cash and cash equivalents	434.6	427.1	2	
Net cash position	-232.9	-240.0	-3	
Employees (FTE)	4,848	4,996	-3	

¹ At constant currency.

² Annual recurring revenue.

³ Based on weighted average shares outstanding (basic) Q1 2023: 74.0 mn / Q1 2022: 74.0 mn.

⁴ Cash flow from investing activities adjusted for acquisitions and investments in debt instruments.

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All information in this quarterly statement is unaudited. This means that the information has not been subject to an audit nor to a review by an independent auditor.

Unless otherwise stated, all figures are in accordance with IFRS. Increases are at constant currency and rounded.

Because the figures in this report are stated in accordance with commercial rounding principles, totals and percentages may not always be exact.

Management's Assessment of First- Quarter Results

The results of the first quarter of 2023 give us confidence that, with our strategic partner Silver Lake, we will meet our full-year targets. On April 21, 2023, Silver Lake announced a voluntary public tender offer to acquire all shares in Software AG. We, the Management Board, the Takeover Committee on behalf of the Supervisory Board, and Software AG's historically largest shareholder, the Software AG Foundation, support this offer. We believe the offer represents an attractive proposition for all our stakeholders and are certain that Silver Lake is the right partner for us to pursue our long-term goals. If the offer succeeds, Silver Lake plans to delist the Company.

Silver Lake shares our strategic vision and our values to deliver the best results for our employees and customers with respect to our focus on innovation in integration, further accelerating our cloud-first journey, transitioning to a Software as a Service (SaaS) business model, and creating opportunities for attracting and developing the best talent. Deepening our collaboration with Silver Lake will make us, as a private company, faster and more agile to achieve these goals.

In the first quarter of 2023, we demonstrated that we can execute our operational plan even in a challenging macroeconomic environment. In general, however, customers remained cautious about IT spending. As a result, we continued to see prolonged sales cycles due mainly to ongoing macroeconomic uncertainties.

First-quarter Digital Business ARR grew significantly, by 21 percent year-on-year. Given our usual seasonal weighting, this growth was in line with market expectations and signifies that we are on track to meeting our full-year guidance.

In A&N, ARR grew 5 percent year-on-year, or 7 percent at constant currency. This is also in line with expectations, given the strong fourth quarter which was driven by a large deal pulled forward.

The combination of higher costs from the impact of StreamSets (not present in the first quarter of the previous year) and higher costs stemming from inflation and cloud hosting led to an operating margin of 11.2 percent, in line with our guidance for the quarter. While this result is not within our full-year guidance range, we remain confident about delivering on our 2023 margin guidance and the other full-year guidance metrics due to the usual seasonal weighting toward the remaining quarters of the year.

Sanjay Brahmawar, CEO of Software AG

“Software AG has accelerated Digital Business annual recurring revenue growth in the first quarter, putting us on track to fulfill our full-year guidance. Despite ongoing macroeconomic headwinds, we continue to see our mission-critical software resonate in the market, as we are helping our customers to manage their digital transformation. We remain laser-focused on integration with successful customer wins through our combination with StreamSets’ competitive platform solutions. We welcome the deepened partnership with Silver Lake and are confident to deliver our goals as we enter the next phase of our strategic road map.”

Daniela Bünger, CFO of Software AG

“Our first-quarter results show that our strategic focus on cloud-first, SaaS, integration, and our sales specialization is paying off. We have initiated the right measures to align our cost base and will maintain our financial prudence for the remainder of the year. While we continue to see the technical impact of our business model transformation, we were able to mitigate the effect by consistently improving efficiency and effectiveness in our operations.”

ARR Performance

As of the end of the first quarter of 2023, Software AG's **Digital Business ARR** was €518.9 million (Q1 2022: €429.4 million), representing year-on-year growth of 21 percent as stated and at constant currency. **ARR** in the Group's **A&N** business line was €185.4 million compared to €176.1 million at the end of the first quarter of 2022, representing year-on-year growth of 5 percent, or 7 percent at constant currency. The steady ARR growth demonstrates the success of Software AG's business model shift to subscription and SaaS and the resulting higher quality, more predictable revenue streams.

Group Revenue and Earnings Development

Software AG reported €210.6 million in **total revenue** in the first quarter of 2023 (Q1 2022: €206.0 million). This represents growth of 2 percent, both as stated and at constant currency. **Product revenue** rose by 2 percent, or 1 percent at constant currency, to €169.8 million (Q1 2022: €166.9 million). Subscriptions and SaaS accounted for 57 percent of product revenue, an increase of 13 percentage points compared to the prior-year period. **Digital Business** product revenue saw growth of 9 percent, or 8 percent at constant currency, to €120.6 million (Q1 2022: €110.9 million) in the first quarter. **A&N** product revenue was €49.3 million (Q1 2022: €56.0 million) in the first quarter, representing a decline of 12 percent as stated and at constant currency. First-quarter revenue in the **Professional Services** segment was up 4 percent at €40.7 million (Q1 2022: €39.1 million).

The Company's **EBIT** was €3.1 million in the first quarter of 2023 (Q1 2022: €30.0 million). The Group's **operating EBITA** (non-IFRS) was €23.6 million in the first quarter (Q1 2022: €40.9 million), giving Software AG an **operating margin** (EBITA, non-IFRS) of 11.2 percent in the first quarter (Q1 2022: 19.9 percent).

The Group's **free cash flow** totaled €20.9 million (Q1 2022: €24.3 million) in the first quarter of 2023.

2023 Outlook

The Group has reiterated its guidance for the 2023 fiscal year as published on January 31, 2023.

Software AG's Management Board expects results at constant currency (i.e. based on 2022 exchange rates) within the following forecast ranges:

Outlook for Fiscal Year 2023

	FY 2022 in € millions	Outlook FY 2023 as of Jan 31, 2023 as %
Digital Business ARR	516.4	+10 to +15 ¹
A&N ARR	183.8	-2 to +2 ¹
Product revenue	795.6	+6 to +10 ¹
Operating margin (EBITA, non-IFRS) ² as %	18.6	16 to 18

¹ At constant currency.

² Before adjusting for non-operating factors (see non-IFRS earnings definition in the 2022 Annual Report from p. 79).

In addition, Software AG remains committed to double-digit revenue growth in the Digital Business segment and reiterates its ambition to reach an operating profit margin in the high twenties in the medium term which will translate into improved cash flow generation.

Consolidated Income Statement

For the three months ended March 31,
2023 and 2022
(IFRS, unaudited)

in € thousands	Q1 2023	Q1 2022	+/- as %
Licenses	50,374	55,511	-9
Maintenance	96,306	97,459	-1
SaaS	23,170	13,967	66
Product revenue	169,850	166,937	2
Services	40,733	39,092	4
Other	0	3	-100
Total revenue	210,583	206,032	2
Cost of sales	-61,064	-49,271	24
Gross profit	149,519	156,761	-5
Research and development expenses	-49,448	-40,919	21
Sales, marketing, and distribution expenses	-72,659	-67,056	8
General and administrative expenses	-17,493	-22,754	-23
Other income	3,819	13,540	-72
Other expenses	-10,658	-9,552	12
Other taxes	-1,216	-1,065	14
Operating income	1,864	28,955	-94
Financing income	5,941	2,150	176
Financing expenses	-6,355	-5,592	14
Net financial income/expenses	-414	-3,442	-88
Earnings before income taxes	1,450	25,513	-94
Income taxes	-591	-7,751	-92
Net income	859	17,762	-95
thereof attributable to shareholders of Software AG	859	17,626	-95
thereof attributable to non-controlling interests	0	136	-100
Earnings per share (basic) in €	0.01	0.24	-96
Earnings per share (diluted) in €	0.01	0.24	-96
Weighted average number of shares outstanding (basic)	73,979,889	73,979,889	-
Weighted average number of shares outstanding (diluted)	73,979,889	77,678,858	-

Statement of Comprehensive Income

For the three months ended March 31, 2023 and 2022
(IFRS, unaudited)

in € thousands	Q1 2023	Q1 2022
Net income	859	17,762
Currency translation differences from foreign operations	-23,579	18,659
Net gain/(loss) from cash flow hedges	148	-445
Currency translation gain/loss from net investments in foreign operations	-6,738	0
Items to be reclassified to the income statement if certain conditions are met	-30,169	18,214
Net gain/(loss) from equity instruments designated to measurement at fair value through other comprehensive income	109	-210
Net actuarial gain/loss from remeasurement of post-employment benefit obligations	1,473	170
Items not to be reclassified to the income statement	1,582	-40
Gain/loss recognized in equity	-28,587	18,174
Total comprehensive income	-27,728	35,936
thereof attributable to shareholders of Software AG	-27,728	35,800
thereof attributable to non-controlling interests	0	136

Consolidated Balance Sheet

ASSETS

in € thousands	March 31, 2023	Dec. 31, 2022
Current assets		
Cash and cash equivalents	434,559	427,105
Other financial assets	2,812	2,551
Trade receivables, contract assets, and other receivables	233,169	251,799
Other non-financial assets	58,455	51,987
Income tax receivables	35,037	36,505
	764,032	769,947
Non-current assets		
Intangible assets	209,258	221,702
Goodwill	1,363,820	1,381,828
Property, plant, and equipment	73,906	76,005
Investment property	5,574	5,635
Other financial assets	10,453	9,823
Trade receivables, contract assets, and other receivables	126,701	135,848
Other non-financial assets	50,237	52,812
Income tax receivables	16,145	15,748
Deferred tax receivables	8,026	9,057
	1,864,120	1,908,458
Total assets	2,628,152	2,678,405

EQUITY AND LIABILITIES

in € thousands	March 31, 2023	Dec. 31, 2022
Current liabilities		
Financial liabilities	136,232	31,888
Trade and other payables	46,836	57,350
Other non-financial liabilities	106,087	138,037
Other provisions	58,945	59,529
Income tax liabilities	25,357	30,673
Contract liabilities	176,372	137,168
	549,829	454,645
Non-current liabilities		
Financial liabilities	531,264	635,217
Trade and other payables	127	130
Other non-financial liabilities	788	866
Other provisions	4,742	5,504
Provisions for pensions and similar obligations	11,220	11,750
Income tax liabilities	893	911
Deferred tax liabilities	36,810	42,671
Contract liabilities	9,030	15,559
	594,874	712,608
Equity		
Subscribed capital	74,000	74,000
Capital reserves	55,762	55,737
Retained earnings	1,332,993	1,332,134
Other reserves	21,451	50,038
Treasury shares	-757	-757
Attributable to shareholders of Software AG	1,483,449	1,511,152
Non-controlling interests	–	–
	1,483,449	1,511,152
Total equity and liabilities	2,628,152	2,678,405

Consolidated Statement of Cash Flows

For the three months ended March 31, 2023 and 2022
(IFRS, unaudited)

in € thousands	Q1 2023	Q1 2022
Net income	859	17,762
Income taxes	591	7,751
Net financial income/expenses	414	3,442
Amortization/depreciation of non-current assets	14,106	9,740
Other noncash income/expenses	85	-7,197
Changes in receivables and other assets	24,788	10,427
Changes in payables and other liabilities	-6,676	4,126
Income taxes paid	-9,667	-14,429
Interest paid	-3,973	-3,316
Interest received	6,009	2,299
Net cash flow from operating activities	26,536	30,605
Proceeds from the sale of property, plant, and equipment/intangible assets	464	158
Purchase of property, plant, and equipment/intangible assets	-2,621	-1,693
Proceeds from the sale of non-current financial assets	40	1
Purchase of non-current financial assets	-1,100	-2,011
Proceeds from the sale of current financial assets	58	67
Purchase of current financial assets	-278	-840
Net cash flow from investing activities	-3,437	-4,318
Dividends paid	0	-474
Proceeds/payments for current financial liabilities	-387	3,188
Repayment of lease liabilities	-2,366	-2,717
New non-current financial liabilities	0	364,300
Repayment of non-current financial liabilities	-3,333	-40,000
Net cash flow from financing activities	-6,086	324,297
Change in cash and cash equivalents	17,013	350,584
Change in cash and cash equivalents from currency translation	-9,559	7,465
Net change in cash and cash equivalents	7,454	358,049
Cash and cash equivalents at beginning of period	427,105	585,844
Cash and cash equivalents at end of period	434,559	943,893

Segment Report

For the three months ended March 31, 2023 and 2022
(IFRS, unaudited)

in € thousands	Digital Business			Adabas & Natural (A&N)		
	Q1 2023 IFRS	Q1 2023 acc ¹	Q1 2022 IFRS	Q1 2023 IFRS	Q1 2023 acc ¹	Q1 2022 IFRS
Licenses from subscriptions	29,534	29,396	22,707	11,673	11,555	13,793
Maintenance from subscriptions	25,203	24,902	18,075	6,591	6,584	4,188
Perpetual maintenance	38,552	37,970	44,485	25,960	25,942	30,711
SaaS	23,170	22,914	13,967	0	0	0
Annual recurring revenue	116,459	115,182	99,234	44,224	44,081	48,692
Perpetual licenses	4,097	4,127	11,685	5,070	5,278	7,326
Product revenue	120,556	119,309	110,919	49,294	49,359	56,018
Services	0	0	0	0	0	0
Other	0	0	3	0	0	0
Revenue	120,556	119,309	110,922	49,294	49,359	56,018
Cost of sales	-18,971	-18,860	-15,422	-1,637	-1,627	-2,161
Gross profit	101,585	100,449	95,500	47,657	47,732	53,857
Sales, marketing, and distribution expenses	-62,209	-61,196	-55,106	-5,966	-6,045	-7,348
Segment contribution	39,376	39,253	40,394	41,691	41,687	46,509
Research and development expenses	-41,749	-41,088	-32,402	-7,699	-7,719	-8,517
Segment earnings	-2,373	-1,835	7,992	33,992	33,968	37,992
General and administrative expenses						
Other income						
Other expenses						
Other taxes						
Operating income						
Financing income						
Financing expenses						
Net financial income/expenses						
Earnings before income taxes						
Income taxes						
Net income						

¹ At constant currency.

Professional Services			Reconciliation		Total		
Q1 2023 IFRS	Q1 2023 acc¹	Q1 2022 IFRS	Q1 2023 IFRS	Q1 2022 IFRS	Q1 2023 IFRS	Q1 2023 acc¹	Q1 2022 IFRS
0	0	0	0	0	41,207	40,951	36,500
0	0	0	0	0	31,794	31,486	22,263
0	0	0	0	0	64,512	63,912	75,196
0	0	0	0	0	23,170	22,914	13,967
0	0	0	0	0	160,683	159,263	147,926
0	0	0	0	0	9,167	9,405	19,011
0	0	0	0	0	169,850	168,668	166,937
40,733	40,777	39,092	0	0	40,733	40,777	39,092
0	0	0	0	0	0	0	3
40,733	40,777	39,092	0	0	210,583	209,445	206,032
-33,514	-33,350	-29,193	-6,942	-2,495	-61,064		-49,271
7,219	7,427	9,899	-6,942	-2,495	149,519		156,761
-2,854	-2,830	-3,080	-1,630	-1,522	-72,659		-67,056
4,365	4,597	6,819	-8,572	-4,017	76,860		89,705
0	0	0	0	0	-49,448		-40,919
4,365	4,597	6,819	-8,572	-4,017	27,412		48,786
					-17,493		-22,754
					3,819		13,540
					-10,658		-9,552
					-1,216		-1,065
					1,864		28,955
					5,941		2,150
					-6,355		-5,592
					-414		-3,442
					1,450		25,513
					-591		-7,751
					859		17,762

Basis of Preparation

The document is a quarterly statement pursuant to section 53 of the Exchange Rules of the Frankfurt Stock Exchange and does not constitute an interim report according to the International Accounting Standard 34. This quarterly statement should be read in conjunction with the Annual Report for the 2022 fiscal year and the additional information about the Company provided therein. The accounting policies and measurement principles applied in this quarterly statement are based on those used in the Consolidated Financial Statements for fiscal year 2022.

Key Events

Software AG signed an investment agreement with Blitz 22-449 SE (the “Investor”) on April 21, 2023, a holding company controlled by funds managed or advised by Silver Lake Technology Management, L.L.C. (“Silver Lake”), to deepen its existing strategic partnership with Silver Lake and support the long-term growth and strategic objectives of the Company. In this context, the Investor announced its intention to launch a voluntary public tender offer at an offer price of €30.00 per share in cash for all outstanding shares of Software AG. The Software AG Foundation supports the offer and has signed a purchase agreement to sell 25.1 percent of all shares to Silver Lake.

According to Silver Lake’s announcement, the offer is subject to a minimum acceptance threshold of 50 percent plus one share and further customary closing conditions, including regulatory clearances. The transaction is fully funded with equity and debt financing in place.

Following the announcement of the entering into the investment agreement with Silver Lake, the Company's Management Board and the independent Takeover Committee of the Supervisory Board also received and reviewed a preliminary, non-binding offer from an US software competitor, subject to a number of conditions precedent. In line with its fiduciary duty, the Management Board and the independent Takeover Committee of the Supervisory Board of Software AG have reviewed this second offer. Based on this assessment, the Management Board has subsequently negotiated with Silver Lake an increase of the offer price as agreed and documented in an amendment to the investment agreement dated May 4, 2023.

Subject to the careful review of the offer document, the Management Board and the independent Takeover Committee on behalf of the Supervisory Board of Software AG intend to recommend acceptance of the offer in their reasoned statement.

Disclaimer

This document includes forward-looking statements based on the beliefs of the management of Software AG (together with its consolidated subsidiaries, the “**Software AG Group**”), which are predictions, projections, or other statements about future events. Such statements reflect current views of Software AG with respect to future events and results and are subject to risks and uncertainties. Actual results may vary materially from those projected here, due to factors including changes in general economic and business conditions, changes in currency exchange, the introduction of competing products, lack of market acceptance of new products, services or technologies, and changes in business strategy. Software AG does not have any obligation to update these forward-looking statements and has no intention to assume such an obligation.

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About Software AG

Software AG simplifies the connected world. Founded in 1969, it helps deliver the experiences that employees, partners, and customers now expect. Its technology creates the digital backbone that integrates applications, devices, data, and clouds; empowers streamlined processes; and connects “things” like sensors, devices, and machines. It helps 10,000+ organizations to become a truly connected enterprise and make smarter decisions, faster. The Company has about 5,000 employees across more than 70 countries and annual Group revenue of over €950 million.

Publication Credits

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