

Software AG delivers on full-year 2023 guidance with strong A&N ARR growth and operating margin

Darmstadt, Germany – January 30th, 2024: [Software AG](#) (FRA:SOW) today announced its preliminary financial results for the fourth quarter and full year 2023.

Sanjay Brahmawar, Software AG CEO, commented: *“I’m proud of our 2023 results and how our team pulled together to deliver outstanding performance in a year of change at Software AG. We executed sharply, particularly in the fourth quarter, and saw all of our Business Units make important contributions to our success. As we work towards a new phase after the sale of our Super iPaaS business to IBM, we’re focused on maintaining our momentum, driving excellence for our customers and all other Software AG stakeholders.”*

Daniela Bünger, Software AG CFO, commented: *“The continuing trend towards subscriptions and SaaS has helped us to deliver the targeted ARR growth in our Digital Business for 2023. On the bottom line, our adj. EBITA benefited from a temporary technical effect of more than anticipated subscription shifts in the A&N business – our expectations for the underlying business remain unchanged though. Additionally, the cost control measures that we started in Q2 2023 have shown to be successful and will continue in 2024.”*

2023 Financial Highlights

[Unless otherwise stated, all figures are preliminary and IFRS. Changes on year-on-year basis and rounded. In Q4 2023 the Group changed its revenue recognition policy on determining significant financing components. The comparative information and growth rates are presented on a restated basis.]

- **Digital Business annual recurring revenue (ARR)** grew 10 percent at constant currency in 2023, reaching the lower end of the guidance range.
- **Adabas & Natural (A&N) ARR** achieved growth of 11 percent at constant currency in 2023, exceeding guidance due to less churn and more migrations to subscription licenses.
- **Group product revenue** showed constant currency growth of 2 percent in the fourth quarter and 7 percent in the full year, reaching the lower end of the guidance range.
- Due to A&N, **operating margin (EBITA, non-IFRS)** landed at 19.1 percent in the fourth quarter and 19.6 percent in the full year, exceeding the guidance range.

ARR performance

As of the end of the fourth quarter of 2023, Software AG’s Digital Business ARR was €557.7 million (Q4 2022: €516.4 million), representing growth of 8 percent or 10 percent at constant currency, reaching the lower end of the guidance range. Compared to the end of the third quarter, Digital

Business ARR rose by €12.6 million, a sequential increase of 2 percent.

ARR in the Group's A&N business reached €198.0 million compared to €183.8 million at the year-end of 2022, representing growth of 8 percent or 11 percent at constant currency. Compared to the end of the third quarter, ARR in the A&N segment grew €2.1 million or 1 percent sequentially. This result has exceeded the Group's guidance range of -2 to +2% (at constant currency) mainly due to less customer churn in the respective period, but also more customers shifting from perpetual to subscription licenses, especially among larger contracts which have been up for renewal in 2023. As a result, revenue has benefited from higher first-time recognition impacts based on the respective IFRS accounting rules. While temporary deviations like this, impacted by a few large-volume license changes, are within the usual range, the Group's long-term expectations for the underlying business, based on a continuing stable A&N customer base, remain unchanged.

Group revenue and earnings performance

Software AG reported €312.6 million in total revenue for the fourth quarter of 2023 (Q4 2022: €319.2 million). This represents a decline of 2 percent or growth of 1 percent at constant currency. Full-year Group revenue grew 3 percent or 6 percent at constant currency to €1,000.3 million (FY 2022: €973.6 million).

Group product revenue in the fourth quarter decreased by 1 percent or increased by 2 percent at constant currency to €273.0 million (Q4 2022: €276.4 million). For the full year, Group product revenue totaled €843.7 million (FY 2022: €811.0 million), reflecting growth of 4 percent or 7 percent at constant currency, reaching the lower end of the guidance range.

Subscriptions and SaaS accounted for 70 percent (Q4 2022: 68 percent) of Group product revenue in the fourth quarter and for 65 percent for the full year (FY 2022: 56 percent).

Digital Business product revenue grew 14 percent or 17 percent at constant currency in the fourth quarter to €203.9 million (Q4 2022: €179.6 million). Over the full year, Digital Business product revenue landed at €597.1 million (FY 2022: €559.9 million), representing an increase of 7 percent or 9 percent at constant currency.

A&N product revenue was €69.1 million in the fourth quarter (Q4 2022: €96.8 million), down by -29 percent or 25 percent at constant currency. Over the full year, A&N product revenue decreased by 2 percent or increased by 3 percent at constant currency to €246.6 million (FY 2022: €251.1 million).

Within Professional Services, the fourth quarter saw revenue decline by 7 percent or 3 percent at constant currency to €39.6 million (Q4 2022: €42.8 million). For the full year, Professional Services revenue decreased by 4 percent to €156.6 million (FY 2022: €162.6 million) and delivered gross profit of €25.4 million (FY 2022: €34.7 million).

Software AG's EBIT totaled €12.1 million in the fourth quarter (Q4 2022: €38.2 million) and €74.8 million over the full year (FY 2022: €93.5 million). The Group's operating EBITA (non-IFRS) amounted to €59.8 million in the fourth quarter (Q4 2022: €73.7 million), giving Software AG an operating margin (EBITA, non-IFRS) of 19.1 percent, down 4 percentage points year-on-year (Q4 2022: 23.1 percent). For the full year, operating EBITA (non-IFRS) was €196.3 million (FY 2022: €193.9 million), resulting in an operating margin (EBITA, non-IFRS) of 19.6 percent, down 0.3 percentage points year-on-year (FY 2022: 19.9 percent). This performance has been mainly impacted by the aforementioned temporary A&N development which has ultimately led to exceeding the targeted guidance range of 16 to 18 percent for 2023. Additionally, during 2023 the Group has successfully pursued its goal to lower costs through various efficiency and productivity initiatives and will continue to do so in 2024.

The Group's free cash flow totaled €-15.9 million in the fourth quarter (Q4 2022: €-10.2 million) and €-13.1 million (FY 2022: €-1.1 million) for the full year. This development has been mainly driven by one-off costs coming from consultancy and transaction fees in the context of the takeover by Silver Lake.

Employees

As of December 31, 2023, the Group had 4,707 employees worldwide (FTEs); (December 31, 2022: 4,996). This represents a decrease in the Group's employee base of 289, or down 6 percent year-on-year.

Business Update

Following the agreement to sell the webMethods and StreamSets businesses to IBM announced on December 18th, 2023, Software AG will continue, with the support of Silver Lake, to drive innovation and growth in the future.

Software AG will announce its guidance for the current fiscal year separately at a later date.

Delisting Offer & Squeeze Out

Following its announcement on December 18th, 2023, Mosel Bidco SE, a holding company controlled by funds managed or advised by Silver Lake, launched a delisting offer on January 26th, 2024 to acquire all outstanding shares of Software AG at a price of EUR 32.00 per share after receiving the approval of BaFin. Silver Lake currently owns approximately 93.33% of Software AG shares. The Delisting Offer is not subject to any offer conditions and will close after an acceptance period of four weeks by the end of February 23rd, 2024. Software AG's Management Board and the Supervisory Board will issue a joint reasoned statement where they will comment on the content of the Delisting Offer following their respective thorough review of the offer document. The publication of the joint reasoned statement is expected no earlier than February 6th, 2024.

Under the investment agreement with Silver Lake dated April 21st, 2023, Software AG has undertaken to support Silver Lake's taking-private strategy and, therefore, is prepared to file a delisting application to Frankfurt Stock Exchange in order to revoke the admission of Software AG Shares to trading on its regulated market and on the regulated unofficial market of the Berlin Stock Exchange (Berlin Second Regulated Market). The delisting will become effective only after the end of the acceptance period.

Additionally, Silver Lake, as the majority shareholder, is seeking a merger of Software AG into Mosel Bidco SE, as announced on January 19th, 2024. In connection with the merger, the shares held by remaining shareholders of Software AG (minority shareholders) shall be transferred to Mosel Bidco SE in return for an appropriate cash compensation (so-called merger squeeze-out). The amount of the cash compensation will be announced by Silver Lake at a later date, and will be assessed by an independent, court-appointed appraiser. Software AG will now take the necessary measures to enable the General Meeting to resolve on the transfer of the shares of the minority shareholders of Software AG to Mosel Bidco SE.

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.

For more information, also follow on [LinkedIn](#) and [X](#).

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Key Figures

[All figures are preliminary, unaudited and, unless otherwise stated, based on IFRS.]

in € millions (unless otherwise stated)	FY 2023	FY 2022	+/- as %	+/- as % acc ¹	Q4 2023	Q4 2022	+/- as %	+/- as % acc ¹
Group revenue⁶	1,000.3	973.6	3	6	312.6	319.2	-2	1
Product revenue⁶	843.7	811.0	4	7	273.0	276.4	-1	2
thereof Digital Business ⁶	597.1	559.9	7	9	203.9	179.6	14	17
thereof Adabas & Natural (A&N) ⁶	246.6	251.1	-2	3	69.1	96.8	-29	-25
thereof Licenses ⁶	361.6	329.9	10	14	150.3	150.6	0	3
thereof Maintenance ⁶	383.7	405.3	-5	-2	96.2	103.3	-7	-3
thereof Software as a Service ⁶	98.4	75.8	30	33	26.5	22.4	18	22
	December 31, 2023	December 31, 2022	+/- as %	+/- as % acc¹				
Group ARR	755.7	700.2	8	10				
Digital Business ARR ²	557.7	516.4	8	10				
A&N ARR ²	198.0	183.8	8	11				
	FY 2023	FY 2022	+/- as %	Q4 2023	Q4 2022	+/- as %		
Operating EBITA (non-IFRS)⁶	196.3	193.9	1	59.8	73.7	-19		
Operating EBITA (non-IFRS) margin ⁶ as %	19.6	19.9		19.1	23.1			
Digital Business segment earnings ⁶	73.5	48.4	52	48.4	27.1	79		
Segment margin ⁶ as %	12.3	8.6		23.8	15.1			
A&N segment earnings ⁶	183.5	174.3	5	50.3	73.1	-31		
Segment margin ⁶ as %	74.4	69.4		72.8	75.5			
EBIT⁶	74.8	93.5	-20	12.1	38.2	-68		
Net income (non-IFRS)⁶	-26.4	64.4	-141	17.3	7.0	148		
Earnings per share (non-IFRS)^{3,6} in €	-0.36	0.87	-141	0.23	0.09	148		
Operating cash flow	-1.4	18.4	-108	-11.5	-4.0	188		
CapEx ⁴	-1.7	-7.5		-1.8	-2.5			
Repayment of lease liabilities	-10.0	-12.0		-2.6	-3.7			
Free cash flow	-13.1	-1.1	1,091	-15.9	-10.2	56		
Free cash flow per share in €	-0.18	-0.01	1,091	-0.21	-0.14	56		
	December 31, 2023	December 31, 2022	+/- as %					
Balance sheet								
Total assets	2,364.6	2,678.4	-12					
Cash and cash equivalents	140.0	427.1	-67					
Net cash position ⁵	-293.5	-240.0	22					
Employees (FTE)	4,707	4,996	-6					

¹ At constant currency.

² Annual recurring revenue.

³ Based on weighted average shares outstanding (basic) FY 2023: 74.0 mn / FY 2022: 74.0 mn.; Q4 2023: 74.0 mn / Q4 2022: 74.0 mn.

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

⁵ Net cash position includes cash and cash equivalents less financial liabilities.

⁶ In Q4 2023 the Group changed its revenue recognition policy on determining significant financing components. The comparative information and growth rates are presented on a restated basis.

Disclaimer

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