



IFRS 15 IMPLICATIONS

IOT / CLOUD BUSINESS LINE

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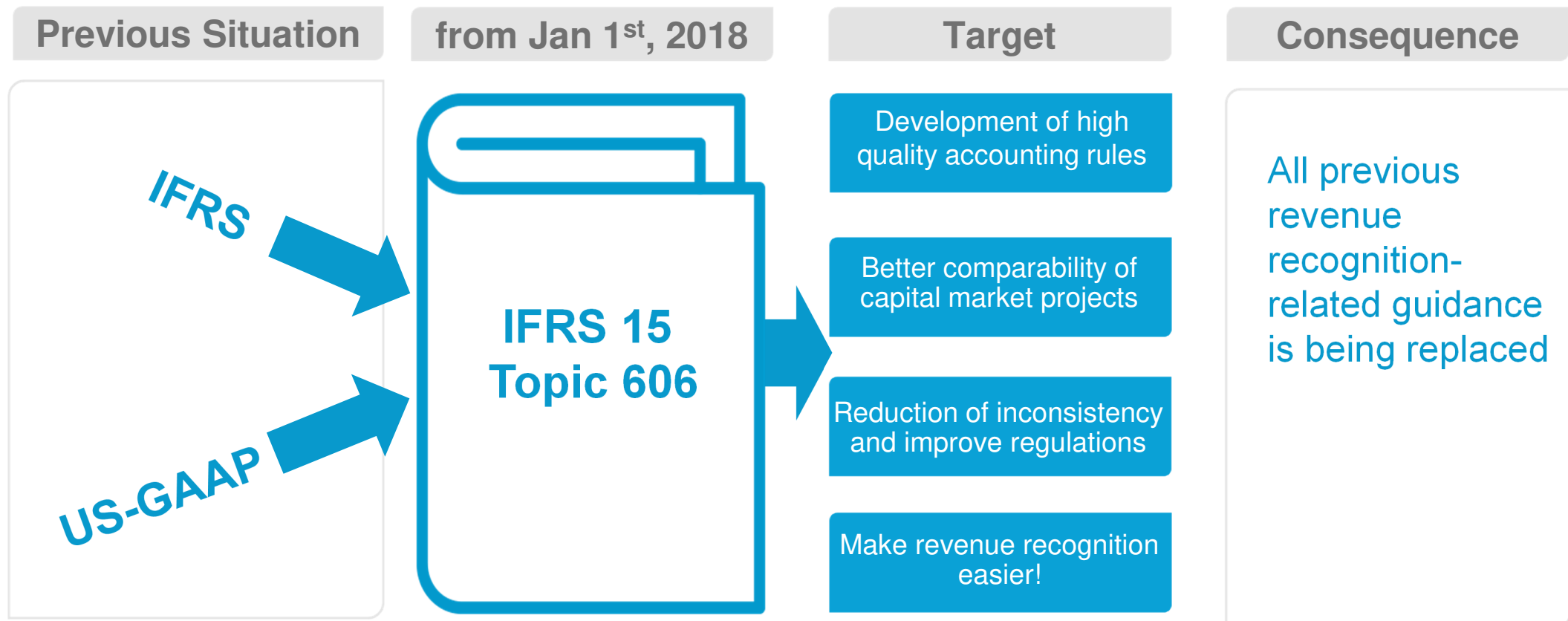


IFRS 15 IMPLICATIONS



INTRODUCTION

IFRS 15 REVENUE FROM CONTRACTS WITH CUSTOMERS



SOFTWARE AG's APPROACH TO IFRS 15

Software AG applies the “modified retrospective approach” to transition to IFRS 15. Consequently the financial statements must be reported as follows:

Financial Statements 2017

	2017	2016
Revenue	Old	Old
Expense	Old	Old
Profit	Old	Old
Assets	Old	Old
.....	Old	Old

IFRS 15

Financial Statements 2018

	2018	2017
Revenue	New	Old
Expense	New	Old
Profit	New	Old
Assets	New	Old
.....	New	Old

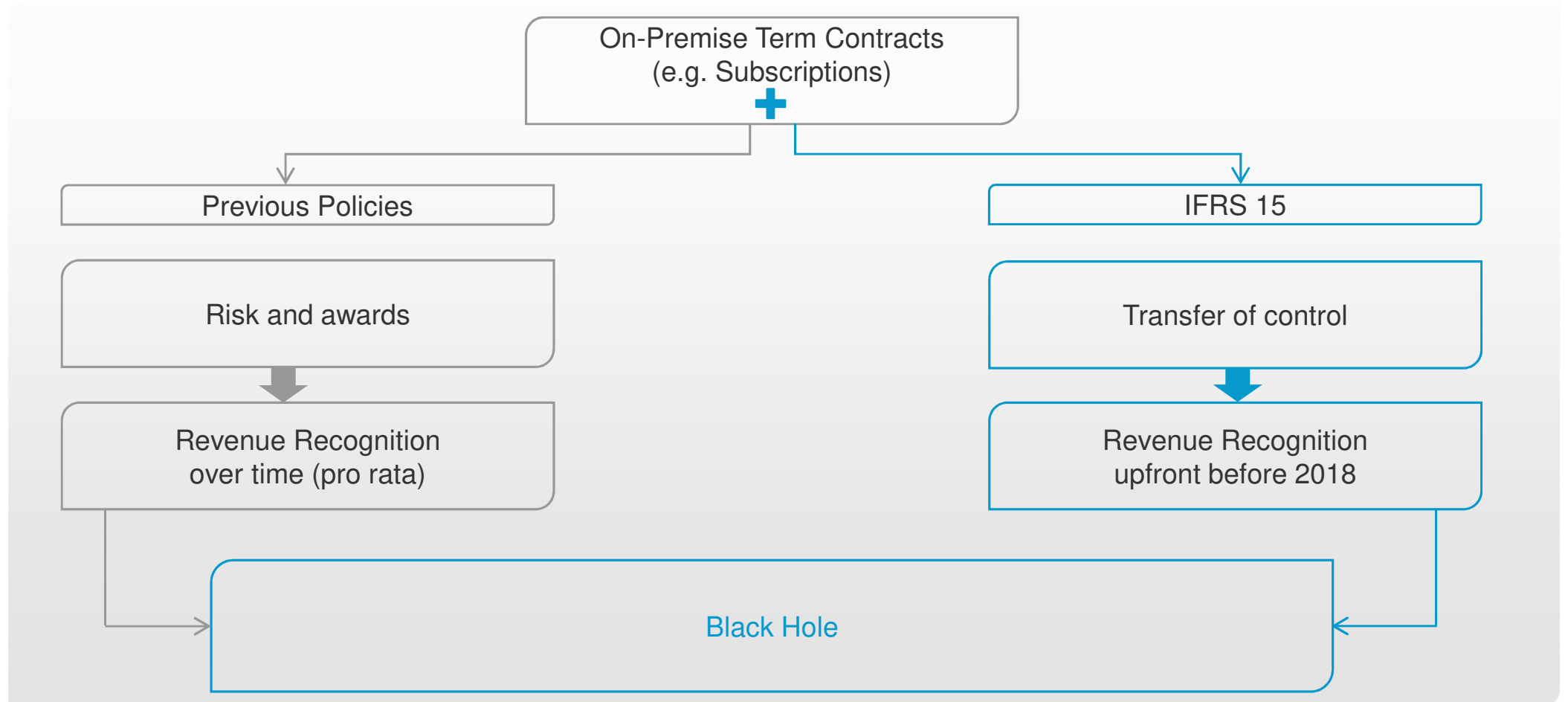
- In principle: relevant only for contracts which reach into 2018
- Differences between previous IFRS rules and IFRS 15 only relevant for a minority of contracts.
- Potential impacts are:
 - Revenue will never be recognised at all (Black Hole)
 - Revenue or expense will be recognised twice (Double Dip)

Old = previous policies / New = IFRS 15 policies

Disclosures in the notes to the 2018 Financial Statements will provide information how the 2018 revenues would have looked like under IFRS “old”.

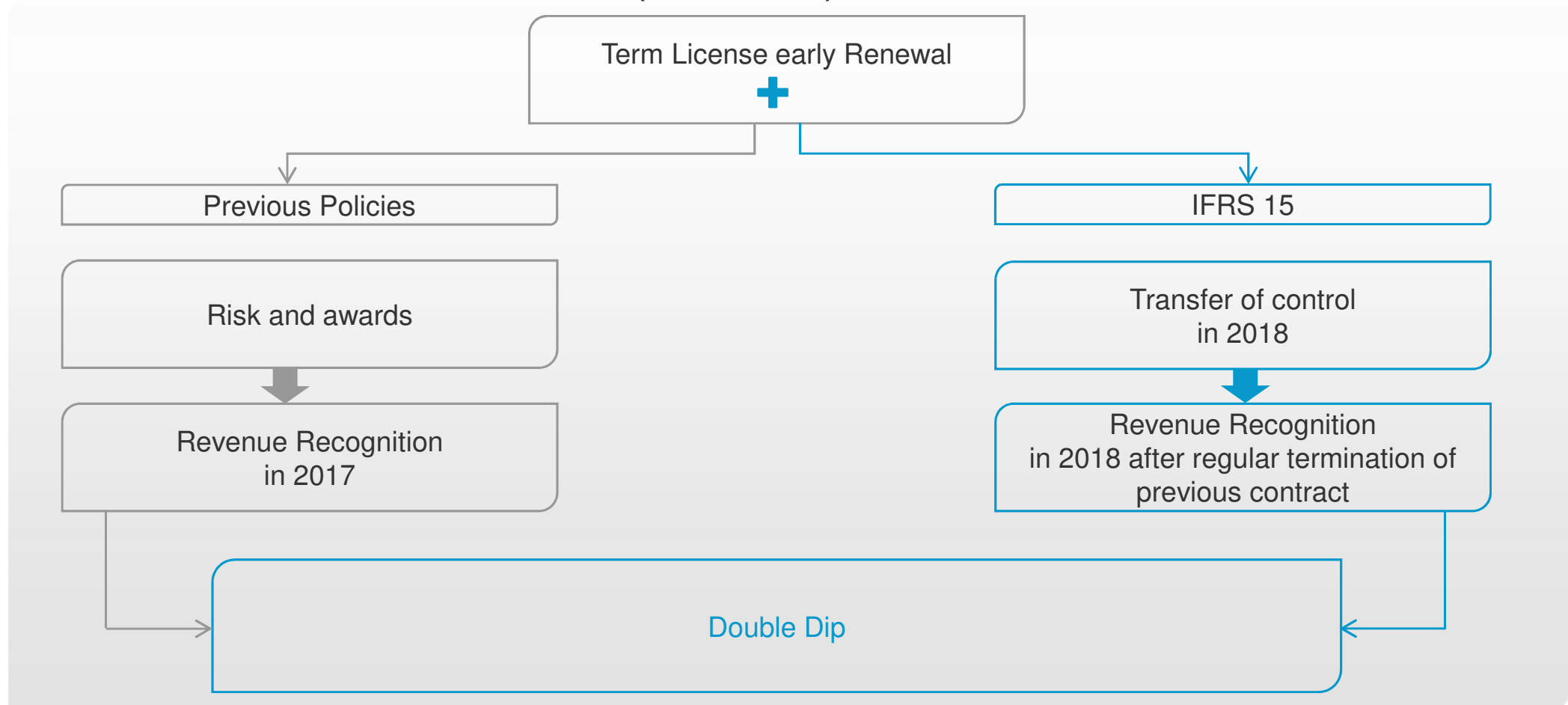
EFFECTS RESULTING FROM CHANGES IN IFRS RULES

BLACK HOLE REVENUES



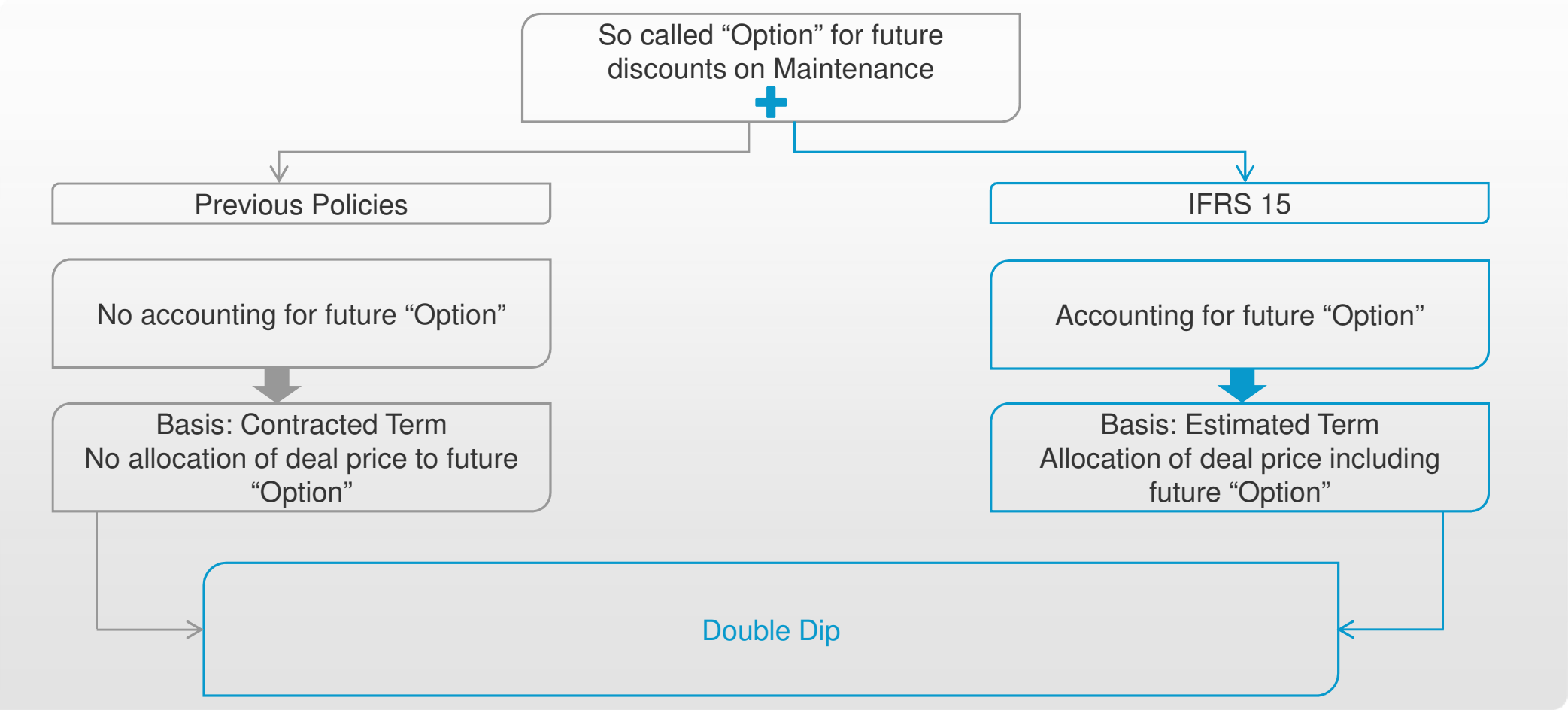
EFFECTS RESULTING FROM CHANGES IN IFRS RULES

DOUBLE DIP REVENUES (TYPE 1)



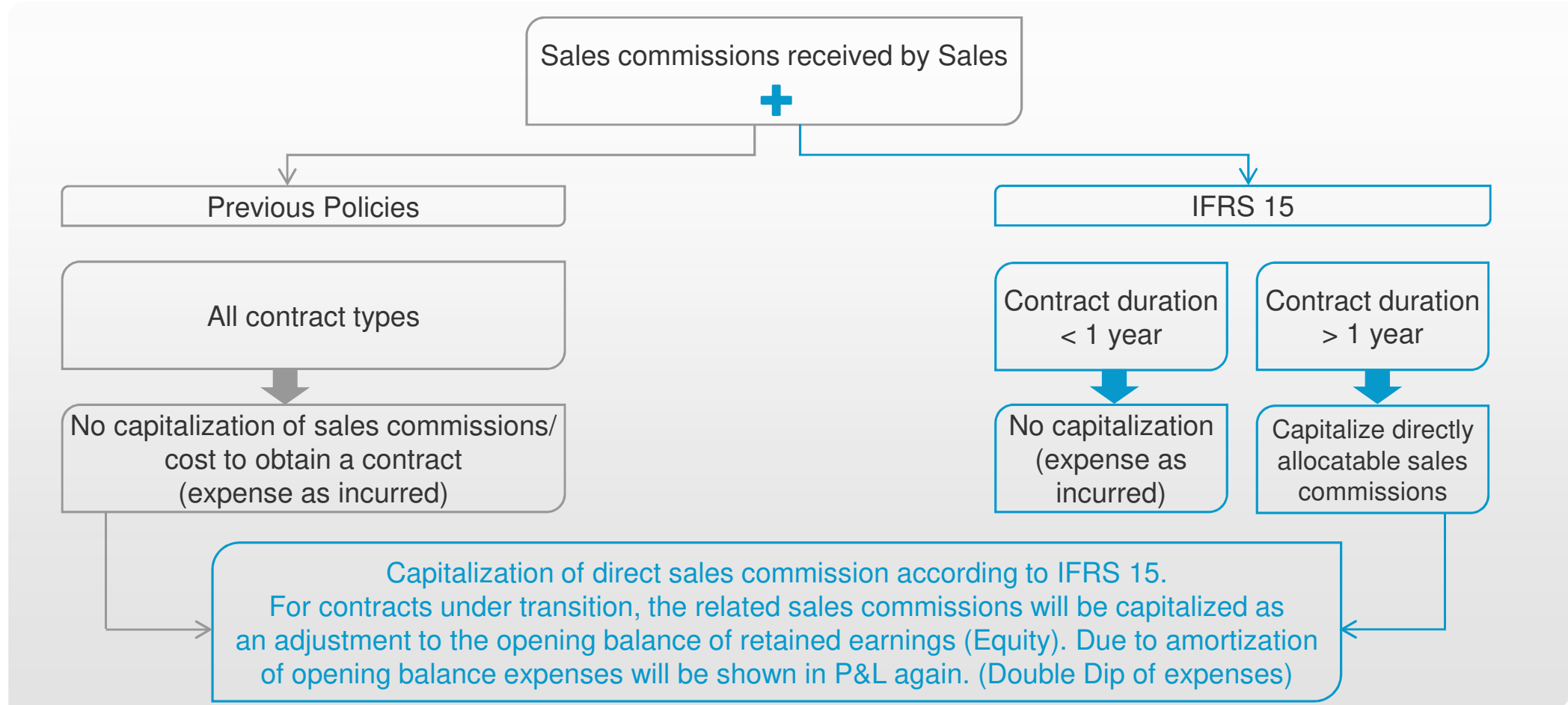
EFFECTS RESULTING FROM CHANGES IN IFRS RULES

DOUBLE DIP REVENUES (TYPE 2)



EFFECTS RESULTING FROM CHANGES IN IFRS RULES

CAPITALIZATION OF COSTS TO OBTAIN A CONTRACT



IFRS 15 HARMONIZES LICENSE REVENUE RECOGNITION SIMPLIFIES GO TO MARKET

Leading criteria for Revenue Recognition: **Transfer of control** of the promised goods or services!

REVENUE RECOGNITION	Old	New
Perpetual license	Upfront	Upfront
Term license (lease type contracts)	<i>Pro rata</i>	<i>Upfront</i>
Term license (sales type contracts)	Upfront	Upfront
Subscription (license portion)	<i>Pro rata</i>	<i>Upfront</i>
SaaS (Public Cloud)	Pro rata	Pro rata
Usage based license	as used	as used
Maintenance	Pro rata	Pro rata
Services	as provided	as provided

Changes from IFRS „old“ to IFRS 15 - No changes / [Changes](#)

REVENUE AND EARNINGS IMPACT ESTIMATION

DUE TO IFRS 15 IMPLEMENTATION AS OF JAN 1st, 2018

Effects

Certain futures “Options” especially for maintenance and contracts with early renewals

➔ Double Dip

Capitalization of costs to obtain a contract.

Amortization and new capitalization offset each other, net P&L impact expected to be immaterial

“Subscription” contracts reaching into 2018 for which customer received control before 2018

➔ Black Hole

All other changes from old GAAP to IFRS 15 are estimated as not material

Estimated impacts

P&L

Revenues	no material impact	(~ + 0.5%)
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Expense	no material impact	(~ +/- 0%)
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Balance sheet

- Other non-financial assets	no material impact
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- Deferred revenue	no material impact
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- Equity/ Retained earnings	no material impact
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IoT / CLOUD BUSINESS LINE

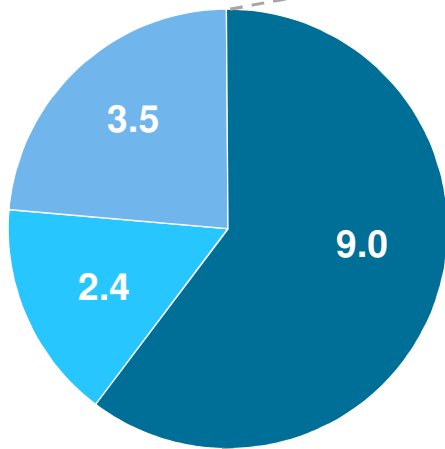


IoT / CLOUD BUSINESS LINE

REVENUES in m€

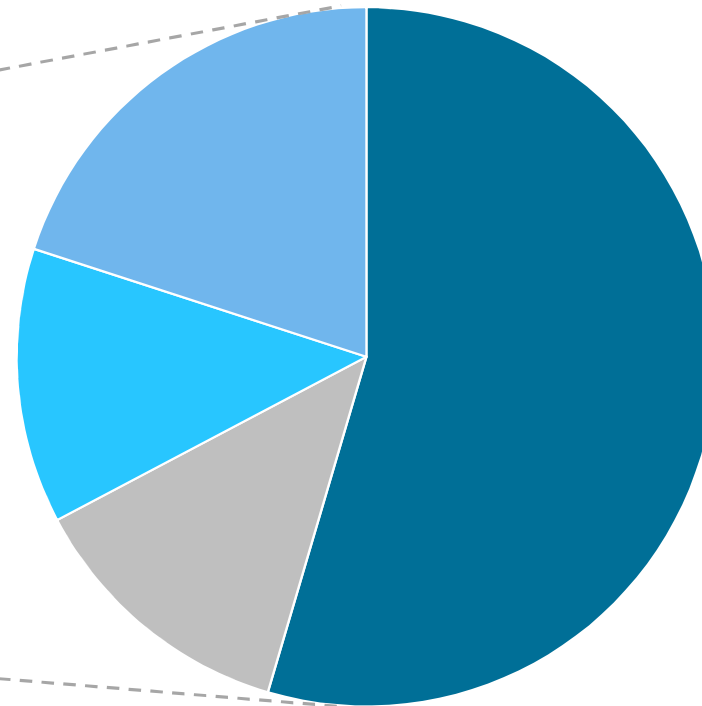
2017 Actuals

14.9 m€



2018 Outlook

25 - 30 m€



- SaaS
- Usage Based
- Maintenance
- Non-Recurring

IoT / CLOUD BUSINESS LINE

INCLUDES IN GENERAL THE FOLLOWING REVENUES

- 1 Transactions that include Cumulocity (*IoT connectivity*) and/or Zementis (*artificial intelligence*) products
- 2 Other products for IoT use cases
- 3 Usage based revenue (e.g. connected devices, data volume)
- 4 Software as a Service (SaaS) based contracts

ARR – ANNUAL RECURRING REVENUE COMPONENTS

Term- / Subscription License

- Rented on-premises software (**Term / Subscription**) is installed on systems of the customer and customer takes possession of the software
- Even though IFRS 15 provides upfront License Revenue Recognition - for **ARR** purposes the respective monthly / quarterly pro-rata amount will be used due to its recurring character

Software as a Service (SaaS)

- Revenue from Software as a Service contracts including License, Maintenance and Hosting components net of one-time effects

Maintenance

- Maintenance from Perpetual and Term-/ Subscription contracts recognized for the respective period net of one-time effects

Usage Based

- Revenues from software usage (measured by number of connected devices, exchanged data volume etc.) in a given period of time

ARR – ANNUAL RECURRING REVENUE

DEFINITION

Annualized* Total Contract Value (TCV) from active IoT / Cloud customers:

- Term-/ Subscription licenses
- Maintenance from Term-/ Subscription and Perpetual licenses
- Software as a Service (SaaS)
- Usage based licenses**

* TCV of active contracts at period end (net of one-time effects) divided by contract duration in months, times 12

** Monthly revenue recognised from usage based license contracts at period end times 12

ARR – ANNUAL RECURRING REVENUE

CALCULATION EXAMPLE FOR INSTRUCTION ONLY

	REVENUE			MRR*		ARR
	Quarter	Month 1	Month 2	Month 3		Total
Software as a Service (SaaS)	25	7	8	10	<i>x 12 months</i>	120
Usage Based	9	1	3	5		60
Maintenance	57	18	19	20		240
Term- / Subscription License	72	N/A	N/A	2**		24
						444

* Monthly recurring revenue

** Pro forma revenue from TCV of active contracts at period end divided by contract duration in months, times 12

DIGITAL BUSINESS PLATFORM (INCLUDING IoT / CLOUD)

LAYOUT EXTERNAL REPORTING

<i>(in €m)</i>	Q1 2018	Q1 2017	Δ%	Δ% acc
License				
Maintenance				
SaaS / Usage Based				
Total Revenue				
Cost of Sales				
Sales & Marketing				
R&D				
Segment Result				
<i>Margin in %</i>				
ARR (Annual Recurring Revenue)				

IoT / CLOUD

LAYOUT EXTERNAL REPORTING

<i>(in €m)</i>	Q1 2018	Q1 2017	Δ%	Δ% acc
License				
Maintenance				
SaaS/ Usage Based				
Total Revenue				
ARR (Annual Recurring Revenue)				

