

Press Release

**SOFTWARE AG: Q3 FINANCIAL PERFORMANCE MARKS TURNING POINT**

- Operating margin at 30.5 percent, up 2.8 percentage points
- Maintenance revenue stable year-on-year
- ETS: license revenue up 23 percent year-on-year
- BPE: license revenue up 29 percent quarter-on-quarter
- Consulting: segment margin jumped to 11.1 percent, up 9.6 percentage points
- New Digital Business Platform announced
- Full-year outlook confirmed

*[Please note: All figures are preliminary and rounded.]*

Darmstadt, Germany, 10/29/2014 - Software AG (Frankfurt TecDAX: SOW) today released its financial figures (IFRS, preliminary) for the third quarter of 2014. The results show strong improvement in key financials and a turning point for the business development of the current fiscal year and emphasize the company's technology leadership. Software AG solidified its financial foundations and expanded its Business Process Excellence (BPE) portfolio to deliver the first ever end-to-end Digital Business Platform. This new platform enables enterprises across all industries, and public institutions, to accelerate their transformation to a digital enterprise as they have to rapidly adapt to ever changing business environments. The performance of Business Process Excellence (BPE) was marked by improved productivity which led to 29 percent higher license sales, at a lower cost, than in the previous quarter. As expected, BPE revenue remained below the previous year's extraordinarily high level, but the sequential improvement supports Software AG's goal of further expanding the BPE business.

In addition, the Enterprise Transaction Systems (ETS) business line jumped by 23 percent in license revenue year-on-year and almost stabilized its maintenance revenue in the third quarter. Maintenance revenue for both product lines BPE and ETS reached €93.7 million (2013: €93.7 million). After refocusing the Consulting unit on own products the business is back on track achieving a double digit segment margin and contributing a segment result of €5.3 million (2013: €1.0m). Based on these improvements the Group reported EBIT of €49.1 million in Q3 2014 almost doubled the previous quarter's and pushed the operating margin (non-IFRS) to 30.5 percent, an improvement of 7.5 percentage points over Q2 2014 and 2.8 percentage points over the outstanding previous year. Based on the Q3 performance management confirms the full year 2014 targets.

According to CFO, Arnd Zinnhardt, "We achieved an operating margin of more than 30 percent last quarter. This was primarily due to the focus on our product business, financial discipline and the improved efficiency of internal processes. This has created a solid financial foundation for the further strategic development of our business".

Software AG CEO, Karl-Heinz Streibich, commented, "We have taken major steps in the development of our BPE-portfolio, including the launch of our cloud solutions and the announcement of the Digital Business Platform. Today, the company is ideally positioned for the future. Our innovative portfolio is built on the strength and depth of our long term customer

relationships. The feedback from nearly 1,000 attendees at our global customer event in the USA was overwhelmingly positive”.

### Business line performance

The **Business Process Excellence (BPE)** business line, which encompasses integration and process software as well as big data solutions, posted total third-quarter revenue of €96.6 million (2013: €114.3 million). License sales for the quarter were €42.2 million (2013: €61.8 million). The third quarter of last year was impacted by two deals among the largest in the company's history, contributing to the exceptionally high license result. Quarter on quarter license revenue was up 29 percent (Q2: €32.7 million). Third-quarter maintenance revenue was €54.4 million (2013: €52.5 million), which reflects an increase of 4 percent. Quarter on quarter, maintenance revenue was up 5 percent (Q2: €51.9 million).

The **Enterprise Transaction Systems (ETS)** database business posted €61.3 million (2013: €59.0 million) in revenue, which is 4-percent growth year on year. License revenue for this line was up 23 percent to €21.9 million (2013: €17.8 million). Maintenance revenue nearly equaled last year's level achieving €39.3 million (2013: €41.1 million).

The **Consulting** business line generated €47.7 million (2013: €65.2 million) in revenue in the period under review. The sole reason for the decline was the sale of IDS Consulting (SAP service operations) in the second quarter of the current year. Adjusted for this disposal, third-quarter revenue was slightly higher (2013 adjusted for SAP consulting operations: €47.4 million). The segment's earnings improved considerably totaling €5.3 million (2013: €1.0 million).

### Total revenue and earnings performance

Third-quarter 2014 group **maintenance revenue** reflected stability with an equivalent result to last year at €93.7 million (2013 adjusted for IDS Consulting: €93.7million). But as a percentage of total revenue, this long-term, sustainable revenue climbed to 45.5 percent (2013: 42.4 percent).

Third-quarter **total group revenue** was €205.6 million (2013 adjusted for IDS Consulting: €220.8 million). Compared to the second quarter of 2014 (Q2 adjusted for IDS Consulting: €187.7 million), revenue growth of 10 percent was achieved.

Resulting from targeted cost cuts in sales and marketing as well as reduced sales costs in the Consulting business line, third-quarter earnings before interest and taxes (**EBIT**) reached €49.1 million (2013: €49.1 million). This represents an increased EBIT margin of 23.9 percent (2013: 20.6 percent). **Operating income (non-IFRS)** was €62.8 million (2013: €66.3 million); accordingly the operating margin was 30.5 percent (2013: 27.8 percent). **Net income** after taxes in the third quarter was €30.4 million (2013: €31.1 million). Earnings per share were therefore €0.38 (2013: €0.37).

The company's **equity ratio** improved to 54.3 percent (Dec. 31, 2013: 48.4 percent). **Free cash flow** for the nine-month period totaled €85.8 million (2013: €105.6 million).

## Outlook

Software AG confirms the existing outlook for fiscal year 2014 and expects BPE revenue for fiscal 2014 to approximate last year's level. The decline in revenue in the traditional ETS database business will range between -16 and -9 percent (at constant currency). Software AG expects an operating profit margin (non-IFRS) for fiscal 2014 between 26 and 28 percent (2013: 26.8 percent).

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## Key Figures for Q3 2014 (IFRS, unaudited)

in € millions	Q3/2014	Q3/2013*	Δ in % rounded	Q2/2014*	Δ in % rounded
BPE license	42.2	61.8	-32%	32.7	29%
BPE maintenance	54.4	52.5	4%	51.9	5%
<b>BPE revenue</b>	<b>96.6</b>	<b>114.3</b>	<b>-15%</b>	<b>84.6</b>	<b>14%</b>
<i>as % of total revenue</i>	<i>47%</i>	<i>52%</i>		<i>45%</i>	
ETS license	21.9	17.8	23%	17.4	26%
ETS maintenance	39.3	41.1	-4%	38.3	3%
<b>ETS revenue</b>	<b>61.3</b>	<b>59.0</b>	<b>4%</b>	<b>55.9</b>	<b>10%</b>
<i>as % of total revenue</i>	<i>30%</i>	<i>27%</i>		<i>30%</i>	
License revenue	64.1	79.5	-19%	50.1	28%
Maintenance revenue	93.7	93.7	0%	90.2	4%
Consulting (excluding SAP services)	47.7	47.4	1%	47.2	-14%
<i>as % of total revenue</i>	<i>23%</i>	<i>21%</i>		<i>25%</i>	
<b>Total revenue (excluding SAP services)</b>	<b>205.6</b>	<b>220.8</b>	<b>-7%</b>	<b>187.7</b>	<b>10%</b>
Sales & marketing expenses	-57.5	-72.5	-21%	-64.2	-10%
Research & development expenses	-27.2	-26.1	4%	-26.6	2%
<b>EBIT**</b>	<b>49.1</b>	<b>49.1</b>	<b>0%</b>	<b>25.0</b>	<b>96%</b>
<i>as % of total revenue</i>	<i>24%</i>	<i>21%</i>		<i>13%</i>	
<b>Operating earnings (non-IFRS)***</b>	<b>62.8</b>	<b>66.3</b>	<b>-5%</b>	<b>45.1</b>	<b>39%</b>
<i>as % of total revenue</i>	<i>31%</i>	<i>28%</i>		<i>23%</i>	
<b>Net income (IFRS)</b>	<b>30.4</b>	<b>31.1</b>	<b>-2%</b>	<b>14.2</b>	<b>114%</b>
<b>Earnings per share (in €)</b>	<b>0.38</b>	<b>0.37</b>	<b>3%</b>	<b>0.18</b>	<b>111%</b>
<b>Free cash flow</b>	<b>19.4</b>	<b>33.3</b>	<b>-42%</b>	<b>18.5</b>	<b>5%</b>

\* = revenue adjusted for disposal of IDS Consulting (Q2 2014)

\*\* = consolidated net income + income tax + other tax + financial result

\*\*\* = EBITA adjusted for reduction of acquisition-related product revenue by purchase price allocation, other acquisition effects, share-based payment, restructuring/severance payments and operating income of divested units (IDS) from Q2 2014

### Key Figures for the First Nine Months of 2014 (IFRS, unaudited)

in € millions	9M/2014*	9M/2013*	Δ in % rounded	Δ in % at constant currency
BPE revenue	276.4	296.1	-7%	-4%
<i>as % of total revenue</i>	47%	46%		
ETS revenue	168.3	199.3	-16%	-13%
<i>as % of total revenue</i>	29%	31%		
License revenue	171.5	217.9	-21%	-20%
Maintenance revenue	275.0	277.0	-1%	2%
Consulting (excluding SAP services)	143.5	146.6	-2%	-1%
<i>as % of total revenue</i>	24%	23%		
Total revenue (excluding SAP services)	588.4	642.3	-8%	-6%
Sales & marketing expenses	-191.1	-219.3	-13%	-11%
Research & development expenses	-81.0	-78.5	3%	4%
EBIT**	104.6	135.1	-23%	-18%
<i>as % of total revenue</i>	17%	19%		
Operating earnings (non-IFRS)***	150.9	173.9	-13%	
<i>as % of total revenue</i>	25%	25%		
Net income	63.1	87.1	-28%	
Earnings per share (in €)	0.79	1.03	-23%	
Free cash flow	85.8	105.6	-19%	
	September 30, 2014	December 31, 2013		
Net debt****	101.9	106.9		
Equity ratio as %	54	48		
Employees (FTE)	4,553	5,238		

\* = revenue adjusted for disposal of IDS Consulting (Q2 2014)

\*\* = consolidated net income + income tax + other tax + financial result

\*\*\* = EBITA adjusted for reduction of acquisition-related product revenue by purchase price allocation, other acquisition effects, share-based payment, restructuring/severance payments and operating income of divested units (IDS) from Q2 2014

\*\*\*\* = under consideration of cash and cash equivalents/securities

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#### About Software AG

Software AG (Frankfurt TecDAX: SOW) helps organizations achieve their business objectives faster. The company's big data, integration and business process technologies enable customers to drive operational efficiency, modernize their systems and optimize processes for smarter decisions and better service. Building on over 40 years of customer-centric innovation, the company is ranked as a "leader" in fifteen market categories, fueled by core product families Adabas and Natural, ARIS, Terracotta, webMethods, Alfabet and Apama. Software AG has more than 4,600 employees in 70 countries and had revenues of 973 million in 2013. Learn more at [www.softwareag.com](http://www.softwareag.com)

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