

Press Release

SOFTWARE AG CONTINUES UPWARD TREND IN THE FOURTH QUARTER OF 2014

Improved Q4 operating margin (non IFRS) up 5 percentage points to 36 percent - a five year record high

- Optimized sales structures result in increased profitability
- BPE: License revenue up more than 40 percent quarter-on-quarter
- ETS: Stability of maintenance business further increased
- Consulting: Q4 segment margin up 5 percentage points to 13 percent
- Launch of the first *Digital Business Platform* at Innovation World

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

Darmstadt, Germany, January 28, 2015 - Software AG (Frankfurt TecDAX: SOW) today released its financial results (IFRS, preliminary) for the fourth quarter and 2014 fiscal year. The software company's upward trend noted in the third quarter continued through the end of the year. Key performance indicators further improved substantially from October to December—typically a strong period of the year: License revenue from the Business Process Excellence (BPE) and Enterprise Transaction Systems (ETS) business lines grew over the previous quarter; profitability of the Consulting business rose to 13 percent; and the Q4 Group operating margin (non-IFRS) reached 36 percent - a five year record high.

The ETS database business line reaped the benefits of customer loyalty in the quarter under review. As a result, Software AG further stabilized ETS maintenance revenue during the course of the year. Additionally, ETS licenses in the fourth quarter grew 7 percent year-on-year to total €38.4 million. With this result, ETS product revenue reached the upper end of the target range for 2014.

BPE license revenue demonstrated growth at 43 percent quarter-on-quarter, but was nonetheless down year-on-year at €60.2 million. BPE maintenance revenue improved 7 percent quarter-on-quarter during the period from October to December to reach €57.9 million. Sales efficiency continued to improve from the third quarter of 2014. And despite lower revenues, BPE earnings and its segment margin were up compared to both the previous quarter and the same quarter in 2013.

The Consulting business line achieved a 13-percent segment margin in the fourth quarter, which is 520 basis points better than the previous year. This strong performance is a result of the targeted realignment of the consulting business to focus on Software AG products.

In light of the improved business in the second half of the year, Software AG considers itself to be very well equipped for future profitable growth. The excellence of the company's product portfolio was confirmed by the positive feedback from its clients. In the fourth quarter of 2014, Software AG launched the first *Digital Business Platform* at its international customer event *Innovation World* in the USA. With the platform, customers can develop their own applications to accelerate their transformation to a digital enterprise as they have to rapidly adapt to ever changing business environments.

Karl-Heinz Streibich, CEO of Software AG, stated, "Customer-driven development of the product portfolio, a focus on the core business in our Consulting unit and optimized sales effectiveness

were our strategic priorities in 2014. All of the measures we implemented showed initial successes in the second half of fiscal 2014." He continued, "So we are starting 2015 in an excellent position to further increase Software AG's value."

CFO Arnd Zinnhardt added, "With a fourth-quarter operating margin of about 36 percent, we are among the top performers of our industry. Increasing profitability remains our goal for 2015. And that will serve as the foundation for innovation and expansion—in other words, for Software AG's successful development."

Business Line Development

The **Business Process Excellence (BPE)** business line, which includes integration and process management software as well as big data solutions, posted total revenue of €394.5 million (2013: €422.9 million) in fiscal year 2014. Maintenance revenue for fiscal 2014 was up 6 percent reaching €215.7 million (2013: €202.8 million). Growing maintenance revenue indicates that Software AG's strategic measures are making a sustainable impact. BPE licenses in the fiscal year under review were down at €178.9 million (2013: €220.1 million). The extremely high result reported in 2013 was due to two deals, among the largest in the company's history. BPE license sales charted a promising trajectory during the course of the fiscal year. Quarter-on-quarter, BPE license revenue went up 43 percent in the fourth quarter to €60.2 million (Q3 2014: €42.2 million) and a sizable 84 percent compared to the second quarter (Q2 2014: €32.7 million). The improved financial performance in the second half of the year reflects the company's first successes resulting from optimized sales effectiveness, laying an excellent foundation for fiscal 2015.

The **Enterprise Transaction Systems (ETS)** database business line generated €245.3 million (2013: €274.5 million) in the fiscal year under review. This is a 9-percent drop at constant currency, which is at the upper end of the forecast target range. This development is in line with the company's projection that the traditional database software market in general is in decline due to its maturity and saturation. Maintenance revenue was €153.7 million (2013: €166.3 million) in 2014, while licenses generated €91.0 million (2013: €107.4 million). The company managed to continually increase ETS product revenue during the year. With €77.0 million in product revenue, the fourth quarter demonstrated a significant 26-percent increase over the previous quarter (Q3 2014: €61.2 million).

The **Consulting** business line generated €218.0 million (2013: €275.3 million) in revenue in the 2014 fiscal year. The reason for the decrease was the sale of non-strategic business units in the second quarter of the 2014. Taking this portfolio overhaul into account, fiscal-year revenue at €195.8 million was nearly on par with the previous year (2013: €199.6 million). The segment result of the business line was up substantially at €16.9 million (2013: €9.3 million) with an 8-percent (2013: 3-percent) margin. The most notable earnings growth was in the fourth quarter of 2014—with a 13 percent margin following a margin of 11 percent in the third quarter.

Total Revenue and Earnings Performance in 2014

Software AG's **total revenue** for fiscal 2014 was €857.8 million (2013: €972.7 million; adjusted for divestments: €897.1 million).

At €371.3 million, **total maintenance revenue** for fiscal 2014 approximated last year's level (2013: €375.6 million). As a percentage of total sales, maintenance thus went up to 43.2 percent (2013: 38.6 percent), confirming Software AG's focus on sustainable revenues. The company's **license revenue** was €270.1 million (2013: €330.1 million) due to a weaker first half-year in 2014.

Fiscal 2014 **EBIT** was €176.0 million (2013: €205.5 million). This represents a return on sales of 21 percent (2013: 21 percent). As a result of the company's focus on profitable growth in the second half of 2014, its EBIT margin leaped to 24 percent in the third quarter and to 29 percent in the fourth. The **operating income** (non-IFRS) showed a similar development: Down from the year before in the first half of 2014, increased sales efficiency and proactive cost management subsequently led to a significant rise in profitability in the second half of the year. Software AG's operating income (non-IFRS) was therefore €151.2 million in the second half of 2014, which was slightly up year-on-year (H2 2013: €150.1 million). Accordingly, operating return on sales (non-IFRS) for the period increased by 400 basis points to 33 percent. **Net income after taxes** in fiscal 2014 totaled €110.6 million (2013: €134.0 million). Earnings per share were €1.39 (2013: €1.60).

Employees

As of December 31, 2014, Software AG had 4,421 (2013: 5,238) employees, of which 1,821 (2013: 2,347) were in Consulting, 993 (2013: 1,180) worked in Sales and Marketing and 968 (2013: 998) in Research and Development.

2015 Outlook

Based on the positive financial performance in the second half of 2014, the initiated Go-To-Market improvements and the expanded leading product offering, Software AG expects between 6 and 12 percent growth in BPE revenue for fiscal 2015 year-on-year (at constant currency; current exchange rates could result in revenue growth of between 10 and 16 percent). The company expects to make further progress in the stability of its ETS customer base and anticipates ETS revenue of -8 to -14 percent year-on-year at constant currency (here too current exchange rates could have a positive effect on stated numbers). Efficiency improvements in sales and marketing, as well as for the company as a whole, will continue to have a positive impact on profitability in fiscal 2015. Software AG forecasts an operating profit margin (EBITA, non-IFRS) of between 27.5 and 28.5 percent and accordingly, based on the assumption that there will be no further non-operational charges, an increase in EBIT margin according to IFRS by 1.0 to 2.0 percentage points.

Medium-Term Development By 2020

Software AG anticipates further margin growth over the next five years. Its operating profit margin (EBITA, non-IFRS) will increase from its present level of 27.9 percent (FY 2014) to

between 32 and 35 percent by 2020 based on the current business model. This will be achieved primarily through organic growth in the BPE business line, continued productivity improvements in sales and a growing contribution from an expanded ecosystem of partners. It is also expected that organic growth in BPE licenses, annually increasing by high single/low double-digit percentage rate, will be supported by a positive development of total Group maintenance revenues.

Disclaimer

This document contains forward-looking statements based on the beliefs of Software AG management. 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 intend or assume any obligation to update these forward-looking statements. This document constitutes neither an offer nor recommendation to subscribe or buy in any other way securities of Software AG or any of the companies that are members of the Group at present or in the future, nor does it form part of such an offer and it should not be understood as such. This document does not constitute an offer of sale of securities in the United States of America. Securities may not be offered or sold in the United States of America without registration or exemption from registration in accordance with the U.S. Securities' Act of 1933 in its currently valid form.

Key Figures (IFRS, unaudited) for Q4 2014 compared to Q3 2014

in € millions	Q4/2014	Q3/2014	Δ in % as pro forma at constant currency	Δ in % as stated
BPE revenue	118.1	96.6	+21	+22
BPE licenses	60.2	42.2	+41	+43
BPE maintenance	57.9	54.3	+5	+7
ETS revenue	77.0	61.3	+25	+26
ETS licenses	38.4	21.9	+74	+75
ETS maintenance	38.4	39.3	-3	-2
License revenue	98.6	64.2	+53	+54
Maintenance revenue	96.4	93.6	+1	+3
Product revenue	195.0	157.8	+22	+24
Consulting	52.2	47.7	+9	+9
Total revenue	247.3	205.6	+19	+20
Sales & marketing expenses	-71.9	-57.4	-	+25
Research & development expenses	-28.1	-27.2	-	+3
EBIT*	71.4	49.1	-	+45
<i>as % of total revenue</i>	28.9%	23.9%		
Operating earnings (non-IFRS)**	88.4	62.8	-	+41
<i>as % of total revenue</i>	35.7%	30.5%		
Net income	47.4	30.4	-	+56
Earnings per share (in €)	0.60	0.38	-	+58
Free cash flow	47.0	19.4	-	+142

* = 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 Consulting) from Q2 2014.

Key Figures (IFRS, unaudited) for Q4 2014 compared to Q4 2013

in € millions	Q4/2014	Q4/2013	Δ in % as pro forma at constant currency	Δ in % as stated
BPE revenue	118.1	126.7	-10	-7
BPE licenses	60.2	73.6	-21	-18
BPE maintenance	57.9	53.1	+6	+9
ETS revenue	77.0	75.2	0	+2
ETS licenses	38.4	36.0	+4	+7
ETS maintenance	38.4	39.0	-3	-2
License revenue	98.6	110.9	-13	-10
Maintenance revenue	96.4	93.5	+2	+5
Product revenue	195.0	204.4	-7	-5
SAP Consulting	0	16.7	-	-
Consulting (without divestments)	52.2	52.9	-3	-1
Total revenue (without divestments)	247.3	254.8	-5	-3
Sales & marketing expenses	-71.9	-80.8	-	-11
Research & development expenses	-28.1	-29.4	-	-4
EBIT*	71.4	70.4	-	+1
<i>as % of total revenue</i>	28.9%	25.9%		
Operating earnings (non-IFRS)**	88.4	83.8	-	+5
<i>as % of total revenue</i>	35.7%	30.8%		
Net income	47.4	46.9	-	+1
Earnings per share (in €)	0.60	0.57	-	+5
Free cash flow	47.0	53.5	-	-12

* = 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 Consulting) from Q2 2014.

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 fourteen market categories, fueled by core product families Adabas and Natural, ARIS, Terracotta, webMethods, Alfabet and Apama. Software AG has more than 4,400 employees in 70 countries and had revenues of 858 million in 2014. Learn more at www.softwareag.com

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