

Press Release

SOFTWARE AG INCREASES PROFITABILITY IN THE FIRST QUARTER 2015

Operating margin reaches a new three-year Q1 high

- Operating margin climbs four percentage points to 25 percent
- Balance sheet turns net cash positive, equity ratio improving to 56 percent
- Optimized Go-to-Market model leads to first positive impacts in USA and various European countries
- Maintenance revenue hits record level at around €100 million
- Extended cloud portfolio released in Q1
- 2015 outlook confirmed based on positive market resonance

[All figures are preliminary and rounded, excluding the divested SAP consulting business]*

Darmstadt, Germany, April 29th, 2015 - Software AG (Frankfurt TecDAX: SOW) today released its financial results (IFRS, preliminary) for the first quarter of 2015. The business development underpins the company's continued value focus through profitable growth. The Group successfully expanded its operating margin by an improved revenue mix and by leveraging efficiencies. Accordingly, the recurring business grew by 12 percent to €99.7 million (Q1 2014: €89.2 million), which marks a new all-time-high of maintenance revenue in a first quarter. At the same time, Software AG managed to increase its profitability: With total product revenue of €146.2 (Q1 2014: 146.2), operating earnings (EBITA, non-IFRS) jumped to €48.1 million (Q1 2014: €43.0 million), which is a 12-percent increase year-on-year. This equals an operating margin of 24.8 percent (Q1 2014: 20.6 percent) - an improvement of more than four percentage points. Operating earnings per share went up 18 percent in the reporting period to €0.40 (Q1 2014: €0.34), reaching a three-year Q1 high. Moreover, Software AG recorded positive developments on the balance sheet, which turned cash positive again. The company's equity ratio increased to 56.3 percent (Q1 2014: 47.4 percent) with shareholders equity growing to €1,105.9 million (Q1 2014: €916.6 million) within one year, which equals an increase of more than 20 percent. Based on solid product revenue, a higher maintenance stream and increasing profitability, as well as initial sales improvements in core markets, and a strong project pipeline, Software AG confirms its outlook for fiscal 2015.

The company also sees the positive customer feedback to its industry-leading product portfolio as a confirmation of its forward-looking strategy. As part of its strategic positioning, Software AG renamed its product-related business lines. The former Business Process Excellence (BPE) business line will now be known as "Digital Business Platform" (DBP). The Enterprise Transaction Systems (ETS) database business will operate as "Adabas & Natural" (A&N). The Consulting business line will keep its name.

Software AG introduced its new *Digital Business Platform* including new cloud offerings at the CeBIT international IT fair in March 2015. This product platform allows customers to significantly accelerate their transformation to a digital enterprise.

Software AG's CEO Karl-Heinz Streibich commented, "Our Q1 business performance shows that our focus on value through recurring revenue growth and profitability, as announced last year, is successful. Optimizing our Go-to-Market has led to initial positive impacts in key markets. Now we will transfer those successes into more countries." He continued, "Renaming our business lines is a further contribution to clearer market communication and strategic positioning."

According to Software AG's CFO Arnd Zinnhardt, "Achieving an operating margin of almost 25 percent right at the beginning of the year marks an excellent outcome. That result is a product of dedicated structural changes over the past months as well as consistent financial discipline. We will continue to focus on profitability, as it provides the foundation for future innovation, and thus growing earnings per share."

Business Line Development

The largest business line **Digital Business Platform (DBP)**, which bundles all Software AG products for the digitization of enterprises, generated €91.0 million (Q1 2014: €95.3 million) in total product revenue in the first quarter of 2015. Around 66 percent (Q1 2014: 54 percent) of the DBP product revenue derived from recurring revenue flows, with €59.9 million (Q1 2014: €51.6 million) in maintenance, considerably up by 16 percent year-on-year. Software AG sees this performance as a clear indication that its strategic measures are effective in a sustainable way. DBP license revenue totaled €31.1 million (Q1 2014: €43.7 million) in the quarter under review. This figure went down from the same period the year before, which had been heavily influenced by one very large transaction. But due to a strong project pipeline, Software AG is optimistic that the second quarter will show a return to DBP license and product revenues growth. Strong business performance in key markets such as the USA and various European countries signifies the initial success of the new product portfolio positioning and the optimization of sales activities. This lays a solid foundation for the rest of the year.

The **Adabas & Natural (A&N)** database business line performed extremely well with 8-percent growth to total €55.4 million (Q1 2014: €51.1 million) in revenue in the first quarter. This trend was fueled by high license revenue, up 17 percent to €15.5 million (Q1 2014: €13.3 million), and driven by the company's focus on its existing customer base which proved again to have a high degree of confidence in the mainframe products. Moreover, A&N maintenance revenue increased by 6 percent to €39.8 million (Q1 2014: €37.6 million) due to successful capacity extensions. Although the market for traditional database software is in decline due to its maturity and saturation, Software AG nevertheless successfully developed this high-margin business segment, focusing on customer-centric innovations and continued value generation for A&N customers.

The **Consulting** business line generated €47.7 million (Q1 2014: €48.7 million) in revenue. Following the divestiture of non-strategic business units in the second quarter of last year, segment earnings improved to €3.8 million (Q1 2014: €3.3 million).

Total Revenue and Earnings Performance

Software AG's **total revenue** in the quarter under review was €194.1 million (Q1 2014: €195.1 million). **Product revenue** of both business lines remained stable with €146.2 (Q1 2014: €146.2 million). Up 10 percent from the previous year's all-time high, **maintenance revenue** reached a new Q1 record at €99.7 million (Q1 2014: €89.2 million). As a percentage of total sales, maintenance thus increased to 51 percent (Q1 2014: 46 percent), confirming Software AG's focus on long-term, recurring revenues. Software AG's total **license revenue** was €46.5 million (Q1 2014: €57.0 million).

Operating income (non-IFRS) showed a considerable increase thanks to the company's value focus based on an improved revenue mix, higher efficiencies and active cost management. Software AG generated operating income (non-IFRS) of €48.1 million (Q1 2014: €43.0 million). Accordingly, the **operating profit margin** (non-IFRS) leaped to 24.8 percent (Q1 2014: 20.6 percent) and **operating earnings per share** to 0.40 percent (Q1 2014: 0.34 percent), which is the highest Q1 level since Software AG reports operating margins (non-IFRS). Reported earnings before interest and taxes **EBIT** was €29.3 million (Q1 2014: €30.5 million) in the first quarter. This reflects an EBIT margin of 15.1 percent (Q1 2014: 14.6 percent). **Pre-tax earnings** in the quarter under review were €26.4 million (Q1 2014: €26.0 million).

Software AG's **equity ratio** increased to 56.3 percent (Q1 2014: 47.4 percent) as of March 31, 2015, **shareholders equity** grew to €1,105.9 million (Q1 2014: €916.6 million). The company's balance returned to net liquidity with a net cash position of €4.8 million (Q1 2014: -€132.2 million), a positive swing of €137.0 million. **Free cash flow** improved by 26 percent in the reporting period to €60.3 million (Q1 2014: €47.8 million).

Employees

As of March 31, 2015, Software AG had 4,367 (Q1 2014: 5,108) employees, of which 1,816 (Q1 2014: 2,283) worked in Consulting, 967 (Q1 2014: 1,131) in Sales and Marketing and 962 (Q1 2014: 995) in Research and Development.

Outlook 2015

Based on the financial results of the first quarter of 2015, sales improvements and the market resonance to its portfolio, Software AG confirms its outlook for the 2015 fiscal year. The company anticipates revenue growth of the Digital Business Platform between 6 percent and 12 percent and a revenue decline of Adabas & Natural between -8 percent and -14 percent year-on-year (each at constant currency). Further efficiency increases in sales and marketing and across the organization as a whole will have a positive effect on profitability. Software AG therefore expects an operating profit margin (EBITA, non-IFRS) between 27.5 percent and 28.5 percent.

*Additional Information

All **revenue figures** in this document are excluding divested SAP Consulting activities and including the consideration of currency impacts. The latter had a positive 9 percent impact on total revenue in the reporting quarter. Reported earnings before interest and taxes **EBIT** is calculated as consolidated net income + income tax + other tax + financial result. **Operating earnings** (EBITA, non-IFRS) is calculated as 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 the second quarter 2014.

About Software AG

Based on the strength of its over 45 year technology leadership track record in enterprise data management and applications development, Software AG (Frankfurt TecDAX: SOW) today offers the world's first Digital Business Platform. Recognized as a leader by the industry's top analyst firms, Software AG helps to combine existing systems on premise and in the cloud into a single platform to optimize business and satisfy customers. With Software AG's Digital Business Platform, any business can rapidly build and deploy adaptive applications to address real-time market opportunities, can maximize the value of Big Data, make better decisions with Streaming Analytics, achieve more with the Internet of Things, and respond faster to shifting regulations and threats with Intelligent Governance Risk & Compliance. The world's top brands trust Software AG to help them rapidly innovate, differentiate and win in the digital world. Software AG has more than 4,300 employees around the globe and generated revenues of more than US\$1 billion in 2014. Learn more at www.softwareag.com

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