

Q1 2017 QUARTERLY STATEMENT

Software AG Accelerates Growth in its Digital Business

- **DBP License revenue up 18 percent, DBP product revenue up 12 percent in Q1**
- **North America: Continuously strong performance in the world's largest technology market**
- **Germany: Multiple major Internet of Things (IoT) and Industry 4.0 customer projects boost the digital business performance**
- **Acquisition of Industrial Internet specialist Cumulocity further strengthens Software AG's technology leadership**
- **Profitability remains on a high level**
- **Full confirmation of outlook 2017**

Revenue

- **Licenses:** Revenue at €46.3 million
- **Products:** Revenue at €153.5 million
- **Total revenue:** at €205.9 million

153.5
MILLION EURO
**PRODUCT
REVENUE**



Segments

- **Digital Business Platform:** €105.6 million in revenue and 28.4 percent segment margin
- **Adabas & Natural:** €48.0 million in revenue and 64.6 percent segment margin
- **Consulting:** €52.3 million in revenue and 10.5 percent segment margin



DBP
PRODUCT REVENUE
**>€100-MN
-BENCHMARK**

Earnings

- **EBIT:** at €41.5 million
- **Operating EBITA (non-IFRS):** at €56.3 million
- **Operating profit margin (non-IFRS):** 27.3 percent

27.3%
OPERATING PROFIT
MARGIN



Key Developments in the First Quarter

Expansion of the Management Board: In January 2017, Software AG announced that Dr. Stefan Sigg as new Chief Research & Development Officer would join the Management Board of Software AG as another member as of April 1, 2017. With this reinforcement, the Group is focusing on the further development of technological innovation in the rapidly growing market for digital solutions - driven by the megatrends of Industrie 4.0 and the Internet of Things (IoT).

Growing Importance of new Industrial Internet and Cloud markets: Software AG's core IoT software services enable companies to integrate, analyze and process huge amounts of data generated by smart business, smart products or smart factories. In recent months, Software AG has announced new strategic IoT and Industry 4.0 partnerships with industry leaders such as Bosch, Dell, Octo Telematics and Huawei. At the end of January 2017 Software AG also announced a collaboration with Google.

Cancellation of treasury shares, share buyback and increase in the dividend: On March 6, 2017, Software AG announced the cancellation of 2,600,000 treasury shares and a decision to buy back shares to a volume of up to €100 million (without ancillary costs). The Management Board and the Supervisory Board of Software AG will propose to the Annual General Meeting on May 17, 2017 an increase in the dividend to the record level of 0.60 (0.55) Euro per share for the 2016 financial year. As a result, Software AG continues its shareholder-friendly policies with record dividends and share buybacks.

Development and integration of the Zementis software for Predictive Analytics: In December 2016 Software AG acquired the US-based Artificial Intelligence company Zementis. With software for Artificial Intelligence (AI) and Machine Learning, Software AG further expanded its IoT technology leadership. In March 2017, the company announced that it would integrate the highly-efficient Zementis software for Predictive Analytics with mainframe environments and Adabas & Natural enterprise applications. In batch and real-time transactions, Zementis Predictive Analytics dramatically reduces the complexity, cost, and time required to run models based on AI and Machine Learning.

"Made in Digital Germany": The CeBIT presence of Software AG from March 20 to 24, 2017 was under the motto of the Industry 4.0 initiative "Made in Digital Germany". The company therefore appealed to the broad industrial base in Europe to strengthen its own innovative power through cooperation with the European software industry, thereby driving digital global economy adoption. Only co-innovation and close cooperation between industry and IT can ensure the future of Germany and Europe as successful manufacturing locations.

Acquisition of Industrial Internet Specialist Cumulocity: At the end of March 2017, Software AG announced the acquisition of Cumulocity GmbH, headquartered in Düsseldorf. The company develops innovative IoT solutions and offers customers through its IoT cloud platform the easy connection of networked devices and sensors. Cumulocity's IoT integration into Software AG's leading product portfolio allows companies to integrate their IT applications easier, faster, and more effectively with operational IoT devices. For Software AG, the acquisition of Cumulocity is a further step towards the expansion of its technology leadership in the IoT sector.

Management's Assessment of the First Quarter Results

An increasing number of large companies are relying on Software AG's leading technology to drive their digital transformations. Additionally, the IoT and Industry 4.0 adoption boosted the performance of the company's largest business line – the Digital Business Platform (DBP). With a DBP license revenue jump of 18 percent (15 percent at constant currency) and increased product revenues of 12 percent (9 percent at constant currency), Software AG strongly demonstrated its increasing relevance and digital leadership. Driven by a strong performance in North America, the global early adopter market, and propelled by new Industry 4.0 projects in Germany, DBP product revenue exceeded the €100 million benchmark for the first time in a first quarter. Reflecting the company's growing success in the IoT market and extending its technology leadership, Software AG acquired the Industrial Internet specialist Cumulocity at the end of Q1. Cumulocity's cloud-based platform integrates IT applications with physical devices (Operational Technology). Moreover, Software AG's database business Adabas & Natural (A&N) grew by 8 percent (2 percent at constant currency) in maintenance revenue demonstrating stability and a high degree of customer loyalty as seen in 2016. The Consulting business division also developed very positively and recorded revenue growth of 9 percent (7 percent at constant currency) and a double digit segment margin. This development underlines the successful transformation of the company into a strategic partner for major enterprises

delivering high value digital consulting services. With an overall stable revenue performance, the Group continued to maintain its profitability at a very high level: the operating profit margin (EBITA, non-IFRS) was 27.3 percent, exceeding expectations. Based on these positive business developments in Q1 and the depth of the project pipeline for the rest of the year, Software AG fully confirms its outlook for the year 2017.

“The outstanding success of the Digital Business Platform in Q1 validates our strategic focus on profitable growth. We entered the year as we finished the previous one: with strong momentum. This positive trend is also evidence that enterprises recognize how important it is to invest in leading Internet of Things and Industry 4.0 technologies”, said Karl-Heinz Streibich, CEO of Software AG. “Digital transformation has become the maxim of all industries and, internationally, we are taking a pioneering role in driving digitalization through strategic co-innovation partnerships with world market leaders such as Bosch, Dürr, Dell, Huawei and others” continued Streibich.

“In the first quarter of 2017, we further expanded revenue in our growth segment while maintaining our operating profit margin at a consistently high level. Revenue growth and thus increase in profitability remain our declared priorities. We also successfully advanced the development of our leading portfolio through the strategic innovation-driven acquisition of Cumulocity in the first quarter. Therefore, we have established an excellent and strong starting position for the rest of the year and beyond,” commented CFO Arnd Zinnhardt.

Business Line Development

In the **Digital Business Platform (DBP)** segment, license revenues of €38.4 million (Q1 2016: €32.7 million) were generated in the first quarter, an increase of 18 percent (15 percent at constant currency) compared to the previous year. Maintenance revenue rose to €67.2 million (Q1 2016: €61.9 million) in the same period, 9 percent (6 percent at constant currency) higher than in the previous year. Accordingly, the DBP product revenue (licenses + maintenance) amounted to a total of €105.6 million (Q1 2016: €94.5 million) in the first quarter—an increase of 12 percent (9 percent at constant currency).

The **Adabas & Natural (A&N)** division improved its maintenance revenues to €40.1 million (Q1 2016: €37.0 million), an increase of 8 percent (2 percent at constant currency) compared to the previous year. The positive development of maintenance revenues underscores the stability of the business and high level of loyalty of the A&N customer base. A further stabilizing factor was the company's “Adabas & Natural 2050+” innovation program which provides support and digital innovations for customers beyond the year 2050. With this program, Software AG is contributing, in the long term, to protecting its customers' investments and actively modernizing their IT landscapes. Measured against the extraordinarily strong 2016 first quarter, A&N product sales declined to €47.9 million (Q1 2016: €63.4 million). The main reason was the license sales development which as expected was lower, reaching €7.8 million (Q1 2016: €26.4 million). While Q1 2016 performance was driven by extraordinarily early capacity expansions and contract renewals, Q1 2017 reflects a normal seasonal license revenue development. Therefore, the company remains confident in delivering its A&N total year revenue guidance.

Sales in the **Consulting** division rose to €52.3 million (Q1 2016: €48.0 million) in the first quarter, an improvement of 9 percent (7 percent at constant currency). The segment contribution margin increased to 10 percent (Q1 2016: 4 percent).

Total Revenue and Earnings Development

In the quarter under review, Software AG recorded stable **total turnover** of €205.9 million (Q1 2016: €206.2 million). The Group's **maintenance revenue** developed very positively reaching €107.2 million (Q1 2016: €98.9 million), an increase of 8 percent (5 percent at constant currency). As a result of the expected weaker development in the A&N license business, the Group's **license revenue** of €46.3 million (Q1 2016: €59.1 million) was below the previous year's figure in the quarter under review. Accordingly, the company's **product sales** (licenses + maintenance) totaled €153.5 million (Q1 2016: €158.0 million) in the first quarter.

Due to €5.1 million higher investments of €92.2 million (Q1 2016: €87.1 million) in research and development as well as sales and marketing, the company's earnings before interest and taxes **EBIT** amounted to €41.5 million (Q1 2016: €45.3 million) in the first quarter. This corresponds to an **EBIT margin** of 20.2 percent (Q1 2016: 22.0 percent). The **operating EBITA** (non-IFRS) reached €56.3 (Q1 2016: €59.1 million). The **operating profit margin** (non-IFRS) of 27.3 percent (Q1 2016: 28.7 percent) continued to be on a very high level. The **net result** reached €27.3 million (Q1 2016: €29.5 million), while **earnings per share** (non-IFRS) amounted to €0.49 (Q1 2016: €0.51).

The **equity ratio** was 61 percent (Q1 2016: 59 percent). The **operating cash flow** reached previous year's record high and amounted to €61.7 million (Q1 2016: €61.9 million). Due to a one-time property investment in Q1, the **free cash flow** of €43.3 million (Q1 2016: €60.5 million) was below last year's record level.

Employees

As of March 31, 2017, Software AG employed a total of 4,486 (Q1 2016: 4,299) employees (full-time equivalents), of which 1,891 (Q1 2016: 1,853) in consulting and service, 1,122 (Q1 2016: 1,011) in research and development, 863 (Q1 2016: 833) in Sales and Marketing as well as 610 (Q1 2016: 602) in Administration.

2017 Outlook

Software AG confirms its forecast for fiscal year 2017 and expects a currency-adjusted increase in DBP sales of between 5 and 10 percent. In the A&N segment, the company expects a currency-adjusted decline of 2 to 6 percent compared to the previous year. The Group also expects a high operating profit margin (EBITA, non-IFRS) of 30.5 to 31.5 percent.

2017 Outlook			
	FY 2016 (in € millions)	FY 2017 Outlook (as of January 26, 2017)	Q1 2017 (as of March 31, 2017)
Product Revenue Digital Business Platform	441.4	+5% to +10%*	+9%*
Product Revenue Adabas & Natural	233.9	-2% to -6%*	-29%*
Operating profit margin (EBITA, non-IFRS)**	31.2%	30.5% to 31.5%	27.3%

* At constant currency

** Before adjusting for non-operating factors (see non-IFRS results)

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KEY FIGURES

(IFRS, unaudited)

as of March 31, 2017

in € millions (unless otherwise stated)	Q1 2017	Q1 2016	Δ as %	Δ as % acc*
Revenue	205.9	206.2	0%	-3%
DBP business line	105.6	94.5	12%	9%
A&N business line	48.0	63.5	-24%	-29%
Licenses	46.3	59.1	-22%	-24%
Maintenance	107.2	98.9	8%	4%
Operating EBITA (non-IFRS)	56.3	59.1	-5%	
<i>as % of revenue</i>	27.3%	28.7%		
DBP segment earnings	30.0	23.8	26%	23%
<i>Segment margin</i>	28.4%	25.2%		
A&N segment earnings	31.0	44.8	-31%	-36%
<i>Segment margin</i>	64.6%	70.6%		
Net income (non-IFRS)	37.3	38.7	-4%	
Earnings per share (non-IFRS)**	0.49	0.51	-4%	
Operating Cash Flow	61.7	61.9	0%	
CapEx***	18.4	1.4		
Free Cash Flow	43.3	60.5	-28%	
Balance sheet	Mar. 31, 2017	Dec. 31, 2016		
Total assets	1,961.9	1,957.2		
Cash and cash equivalents	362.3	374.6		
Net cash / (net debt)	75.0	73.1		
Employees (FTE)	4,486	4,471		

* acc = at constant currency

** Based on weighted average shares outstanding (basic) Q1 2017: 75.9m / Q1 2016: 76.2m

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

CONSOLIDATED INCOME STATEMENT

(IFRS, unaudited)

for the first quarter 2017

in € thousands	Q1 2017	Q1 2016	Δ as %
Licenses	46,253	59,070	-22%
Maintenance	107,238	98,925	8%
Services	52,059	47,886	9%
Other	389	348	12%
Total revenue	205,939	206,229	0%
Costs of sales	-55,035	-56,046	-2%
Gross profit	150,904	150,183	0%
Research and development expenses	-29,816	-27,511	8%
Sales, marketing and distribution expenses	-62,418	-59,564	5%
General and administrative expenses	-18,464	-19,210	-4%
Other taxes	-1,957	-1,335	47%
Operating earnings	38,249	42,563	-10%
Other income / expenses, net	1,323	1,448	-9%
Financing expenses, net	-193	-476	-59%
Earnings before income taxes	39,379	43,535	-10%
Income taxes	-12,061	-14,069	-14%
Net income	27,318	29,466	-7%
Thereof attributable to shareholders of Software AG	27,255	29,429	-7%
Thereof attributable to non-controlling interests	63	37	
Earnings per share (€, basic)	0.36	0.39	-8%
Earnings per share (€, diluted)	0.36	0.38	-6%
Weighted average number of shares outstanding (basic)	75,894,196	76,231,631	-
Weighted average number of shares outstanding (diluted)	75,919,581	76,589,691	-

CONSOLIDATED BALANCE SHEET

(IFRS, unaudited)

as of March 31, 2017

Assets (in € thousands)	Mar. 31, 2017	Dec. 31, 2016
Current assets	618,913	641,989
Cash and cash equivalents	362,288	374,611
Other financial assets	19,244	13,488
Trade receivables and other receivables	202,380	220,966
Other non-financial assets	22,503	20,286
Income tax receivables	12,498	12,638
Non-current assets	1,342,987	1,315,228
Intangible assets	165,483	149,420
Goodwill	966,174	936,606
Property, plant and equipment	75,420	75,559
Other financial assets	37,051	45,957
Trade receivables and other receivables	71,106	84,905
Other non-financial assets	262	291
Income tax receivables	7,660	6,988
Deferred tax receivables	19,831	15,502
Total Assets	1,961,900	1,957,217

Equity and Liabilities (in € thousands)	Mar. 31, 2017	Dec. 31, 2016
Current liabilities	562,907	467,626
Financial liabilities	187,079	101,467
Trade payables and other liabilities	36,571	39,695
Other non-financial liabilities	92,569	121,817
Other provisions	54,950	50,959
Income tax liabilities	22,473	28,224
Deferred income	169,265	125,464
Non-current liabilities	195,621	292,796
Financial liabilities	100,198	200,049
Trade payables and other liabilities	4,136	4,195
Other non-financial liabilities	416	381
Other provisions	12,863	24,793
Provisions for pensions and similar obligations	41,734	42,215
Deferred tax liabilities	26,962	13,498
Deferred income	9,312	7,665
Equity	1,203,372	1,196,795
Share capital	76,400	79,000
Capital reserves	23,682	23,682
Retained earnings	1,107,987	1,145,374
Other reserves	23,573	19,789
Treasury shares	-28,879	-71,596
Attributable to shareholders of Software AG	1,202,763	1,196,249
Non-controlling interests	609	546
Total Equity and Liabilities	1,961,900	1,957,217

CONSOLIDATED STATEMENT OF CASH FLOWS

(IFRS, unaudited)

for the first quarter 2017

in € thousands	Q1 2017	Q1 2016
Net income	27,318	29,466
Income taxes	12,061	14,069
Net financial income/expense	193	476
Amortization/depreciation of non-current assets	10,661	10,037
Other non-cash income/expense	591	-4,794
Changes in receivables and other assets	24,279	15,896
Changes in payables and other liabilities	3,137	11,533
Income taxes paid/received	-16,455	-14,649
Interest paid	-2,323	-2,130
Interest received	2,280	1,969
Net cash provided by operating activities	61,742	61,873
Proceeds from the sale of property, plant and equipment/intangible assets	146	90
Purchase of property, plant and equipment/intangible assets	-18,671	-1,585
Proceeds from the sale of non-current financial assets	98	133
Purchase of non-current financial assets	-14	-38
Proceeds from the sale of current financial assets	4,000	0
Purchase of current financial assets	-464	-15,000
Payment for acquisitions, net	-49,420	0
Net cash used in investing activities	-64,325	-16,400
Repurchase of treasury shares	-24,525	0
Proceeds and payments from current financial liabilities	10,838	3,335
Proceeds from non-current financial liabilities	0	40,000
Repayment of non-current financial liabilities	-561	-3,081
Net cash provided by/used in financing activities	-14,248	40,254
Change in cash and cash equivalents from cash relevant transactions	-16,831	85,727
Currency translation adjustment	4,508	-2,575
Net change in cash and cash equivalents	-12,323	83,152
Cash and cash equivalents at the beginning of the period	374,611	300,567
Cash and cash equivalents at the end of the period	362,288	383,719
Free Cash Flow	43,301	60,473

SEGMENT REPORT

(IFRS, unaudited)

for the First Quarter 2017

in € thousands	A&N		DBP		Consulting		Reconciliation		TOTAL	
	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016	Q1 2017	Q1 2016
Licenses	7,824	26,418	38,429	32,652	0	0	0		46,253	59,070
Maintenance	40,033	37,029	67,205	61,896	0	0	0		107,238	98,925
Product revenue	47,857	63,447	105,634	94,548	0	0	0		153,491	157,995
Services	0	0	0	0	52,059	47,886	0		52,059	47,886
Other	155	187	14	10	220	151	0		389	348
Total revenue	48,012	63,634	105,648	94,558	52,279	48,037	0		205,939	206,229
Cost of sales	-2,844	-3,185	-7,139	-8,276	-41,836	-41,767	-3,216	-2,818	-55,035	-56,046
Gross profit	45,168	60,449	98,509	86,282	10,443	6,270	-3,216	-2,818	150,904	150,183
Sales, Marketing & Distribution expenses	-8,050	-10,289	-44,824	-40,398	-4,980	-4,399	-4,564	-4,478	-62,418	-59,564
Segment contribution	37,118	50,160	53,685	45,884	5,463	1,871	-7,780	-7,296	88,486	90,619
Research and development expenses	-6,090	-5,397	-23,726	-22,114	0	0	0	0	-29,816	-27,511
Segment earnings	31,028	44,763	29,959	23,770	5,463	1,871	-7,780	-7,296	58,670	63,108
General and administrative expenses									-18,464	-19,210
Other taxes									-1,957	-1,335
Operating earnings									38,249	42,563
Other income / expenses, net									1,323	1,448
Net financial income / expenses									-193	-476
Earnings before income taxes									39,379	43,535
Income Taxes									-12,061	-14,069
Net income									27,318	29,466

STATEMENT OF COMPREHENSIVE INCOME

(IFRS, unaudited)

for the First Quarter 2017

in € thousands	Q1 2017	Q1 2016
Net income	27,318	29,466
Currency translation differences from foreign operations	4,519	-22,270
Net gain/loss on remeasuring financial assets	-148	2,252
Currency translation gain/loss from net investments in foreign operations	-595	-1,796
Items to be reclassified to the income statement if certain conditions are met	3,776	-21,814
Net actuarial gain/loss on pension obligations	8	10
Items not to be reclassified to the income statement	8	10
Other comprehensive income	3,784	-21,804
Total comprehensive income	31,102	7,662
Thereof attributable to shareholders of Software AG	31,039	7,625
Thereof attributable to non-controlling interests	63	37

Safe Harbor Statement

This document includes 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.

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ABOUT SOFTWARE AG

The digital transformation is changing enterprise IT landscapes from inflexible application silos to modern software platform-driven IT architectures which deliver the openness, speed and agility needed to enable the digital real-time enterprise. Software AG offers the first end-to-end Digital Business Platform, based on open standards, with integration, process management, in-memory data, adaptive application development, real-time analytics and enterprise architecture management as core building blocks. The modular platform allows users to develop the next generation of application systems to build their digital future, today. With over 45 years of customer-centric innovation, Software AG is ranked as a leader in many innovative and digital technology categories. Software AG has 4,500 employees, is active in 70 countries and had revenues of €872 million in 2016. Learn more at www.softwareag.com.