

## Software AG reports strong Digital Business growth as subscription shift accelerates

*Digital Business bookings grew 21 percent in the first quarter, with subscription shift driving recurring revenue to 89 percent of overall product revenue*

**Darmstadt, Germany - April 23, 2021:** [Software AG](#) (Frankfurt MDAX®: SOW), today announces financial results for the first quarter of 2021.

**Sanjay Brahmawar, Software AG CEO, commented:** “In the quarter we saw robust results driven by our Digital Business and our ongoing subscription shift. The stream of innovation feeding our hybrid integration, API and IoT platform is enabling our customers to transform their businesses into Truly Connected Enterprises and helping us compete and win in the marketplace. Our ever-strengthening partner ecosystem and sales execution engine give me confidence that we are well on-track to deliver sustainable, profitable growth at Software AG.”

**Dr. Matthias Heiden, Software AG CFO, commented:** “This year is about doubling down on our strategy and investing for growth. With recurring revenue reaching 89 percent of our product revenue total, we are seeing the investments we’ve made increase the predictability and quality of our revenue stream. We remain focused on balancing our investments with prudent cost control to ensure we deliver on our margin ambitions. Today we have reiterated our 2021 guidance and look forward to continuing our growth plan through the rest of the year.”

### **Financial highlights**

- **Digital Business** delivered seventh consecutive quarter of double-digit growth, with bookings up 21 percent and annual recurring revenue (ARR) up 11 percent respectively year-on-year. In the first quarter, Digital Business bookings excluding the migrated maintenance baseline were up 12 percent, year-on-year.
- **Bookings from subscription** grew 50 percent year-on-year and Software-as-a-Service (SaaS) bookings grew 69 percent year-on-year. Subscription and SaaS bookings comprised 81 percent of Digital Business total.
- **Recurring revenue** grew 6 percent and was 89 percent of total product revenue in the first quarter. Subscription and SaaS recurring revenues grew 77 percent and 42 percent respectively.
- **Product revenue** was flat in the Digital Business and combined with impact of the shift to subscription and strong year-on-year comparator in Adabas & Natural (A&N), Group revenue declined 4 percent year-on-year.
- **Operating margin (EBITA, non-IFRS)** of 13.4 percent reflects incremental Helix investment and ongoing technical impact of transformation. 2021 represents margin trough on the way to mid-term ambition of 25+ percent.

- **Full year guidance reconfirmed**, and commitment to 2023 mid-term ambitions reiterated.

### **Strategic highlights**

- **Truly Connected Enterprise vision driving new business success**, with product innovation helping the Group win in the market and create value through digital transformation. During the first quarter the Group delivered 68 new logos and 15 deals larger than €1 million in bookings.
- **Second wave of partnerships complement the Group's own innovation**: Matillion in Data Integration; Automation Anywhere in Hyper-Automation; and with SAP in Industrial IoT.
- **Success from go-to-market investments in key geographies** with launch of North America awareness program; DACH Mittelstand campaign with multimillion-euro pipeline created.
- **Leadership bolstered by tech's best and brightest** as Dawn Colossi joins as new CMO from FocusVision and Nicolas Betdeber-Matibet joins from Tibco as new APJ leader.

*[Unless otherwise stated, all figures are IFRS. Increases at constant currency and rounded.]*

### **Business environment**

Software AG continues to operate in a global market seeing an acceleration towards digital transformation. Its Truly Connected Enterprise vision is responding to a €28 billion market opportunity, with its core Integration and API and IoT & Analytics target addressable markets growing at 10 percent and 26 percent compound annual growth rate (CAGR) respectively to 2024. Software AG's growth in these markets is also double-digit in a period where organizations in many of its most important industry verticals, including banking and financial services, retail, supply chain and logistics, med-tech and manufacturing, are considering their digital transformation programs. The COVID-19 pandemic has strengthened the imperative for businesses to drive towards the ideal of a Truly Connected Enterprise, enabled by the Group's technology which brings its clients real business value. The Group's focused, cloud-enabled and subscription-ready product set continues to resonate strongly in its customer base and is helping it win new agreements in competitive situations. The Group's exposure to those industries most negatively impacted by the pandemic remains low.

### **Leading indicators for growth momentum and pace of subscription shift**

The Group continues to track leading indicators which demonstrate the success of its transformation. These measures showcase elements of the Group's improving performance which are not visible on the basis of its IFRS numbers alone. The Group's **ARR, an important confidence indicator of its future recurring revenue growth potential**, was €522.6 million at the end of the first quarter of 2021, representing 10 percent growth year-on-year, underpinned by the Group's Digital Business where ARR grew double-digit for the seventh consecutive quarter or 11 percent year-on-year to €368.7 million. Recurring revenue in the quarter was €129.7 million, up from €128.7 million in the first quarter of 2020. This represents 89 percent of the Group's total

product revenue, ahead of its 2023 ambition of 85 percent. The **proportion of the bookings within the Group's Digital Business which came from subscription and SaaS** in the first quarter was 81 percent, up from 69 percent in the first quarter of 2020.

### **First quarter 2021 business line performance**

During the first quarter of 2021 Software AG's overall bookings of €88.8 million represented 4 percent growth and were driven by continued strong progress in the Group's **Digital Business**. Digital Business bookings stood at €67.4 million in the quarter, representing 21 percent growth. Other relevant Digital Business bookings dynamics included 34 percent growth in subscription bookings, 71 percent growth in SaaS bookings and an expected decline in bookings from perpetual contracts, which were down 25 percent in the quarter as the Group transitions to a subscription-based business model.

**The Group's A&N** business line performed as expected during the first quarter of 2021, with bookings of €21.4 million reflecting a decline of 28 percent against a very strong comparator period in the first quarter of 2020. This exceptionally strong comparator was due to a large deal in the US government sector with the Office of Personnel Management, and the benefit derived from 2020 being the peak in the A&N customer three-year sales cycle.

### **First quarter 2021 Group revenue and earnings performance**

Software AG's product revenue results continue to see the impact of the Group's shift to subscription, where a greater share of the revenue won by the group is recorded in future periods rather than up front. For the first quarter, product revenue was €146.5 million, or 4 percent lower than the same quarter of 2020 (Q1 2020: €160.9 million).

Software AG's Digital Business delivered €98.9 million of **product revenue**, flat year-on-year compared to the first quarter of 2020. **A&N revenue** in the quarter was €47.5 million, down 12 percent year-on-year. Within that, license revenue was down 33 percent and maintenance revenues increased 1 percent reflecting the ongoing success and relevance of A&N's 2050+ program.

The contribution of **subscription revenue** to the Group's product revenue total grew 77 percent year-on-year while **SaaS product revenue** also grew strongly during the period at 42 percent. Owing to the increasing speed of the Group's shift to subscription, **perpetual license and maintenance revenues** from perpetual licenses were down 45 percent and 11 percent respectively.

Within **Professional Services**, the first quarter saw revenue of €36.7 million, which when adjusted for the sale of the Spanish Professional Services business represented growth of 4 percent. This business benefitted from year-on-year growth in the number of new IoT projects, and also saw significant growth of its segment result which was up 181 percent to €6.4 million during the quarter. This was the result of the improved underlying revenue growth, combined with

the proactive cost and headcount management started in the second quarter of 2020 aligned with pandemic conditions.

In the first quarter, the **Group's total revenue** was €183.1 million. The Group's overall cost base was lower in the quarter due to the sale of its Spanish Professional Services business, as well as short-term COVID-related benefits like lower travel and in-person event expenses. In the first quarter, the Group also saw lower variable compensation in A&N. Against this backdrop, the Group continued to invest in its Helix program, with investments in sales and go-to-market, culture and transformation, product innovation eventually leading to **EBIT** in the first quarter 2021 of €15.3 million, down 34 percent year-on-year, and **operating profit** (EBITA, non-IFRS) of €24.5 million, down 38 percent year-on-year. **Net income** (non-IFRS) was €17.0 million in the quarter (Q1 2020: €27.9 million) or €0.23 per share (Q1 2020: €0.38).

The Group's **free cash flow** saw continued impact by the technical effect of its transformation program on reported revenue, as well as investments which impact overall profitability. In the first quarter free cash flow was €39.8 million, a decline of 23 percent, in line with the expected trajectory for 2021 before the anticipated expansion in 2022 and beyond.

### **Employees**

As of March 31, 2021, Software AG had 4,669 (March 31, 2020: 5,005) employees worldwide (full-time equivalents). When adjusted for a 438 FTE reduction as part of the Group's Spanish Professional Services Business, growth in the Group's employee base would have been 2 percent year-on-year.

### **Guidance and guidance assumptions**

The Group has today reiterated its guidance for the full year 2021. The Group's guidance ranges, at constant currency; except for margin, are:

- Digital Business bookings: +15 percent to +25 percent
- A&N bookings: -30 percent to -20 percent
- Product revenue: 0 percent to +5 percent
- Operating profit margin (EBITA, non-IFRS): 16 percent to 18 percent

The Group confirms mid-term ambitions: €1 billion Group revenue, 25 percent to 30 percent operating margin, 85 percent to 90 percent recurring product revenue and roughly 15 percent Digital Business CAGR in 2023.

## Key Group Figures

### First Quarter 2021 - Key Figures as of March 31, 2021

in € millions (unless otherwise stated)	Q1 2021	Q1 2020	%	% acc <sup>1</sup>
<b>Group Bookings<sup>2</sup></b>	<b>88.8</b>	<b>90.1</b>	<b>-1</b>	<b>+4</b>
<b>Digital business line</b>	<b>67.4</b>	<b>58.0</b>	<b>+16</b>	<b>+21</b>
<b>A&amp;N business line</b>	<b>21.4</b>	<b>32.1</b>	<b>-33</b>	<b>-28</b>
Subscription	46.9	33.1	+42	+50
Software-as-a-Service (SaaS)	13.8	8.4	+63	+69
Perpetual	28.1	48.6	-42	-39
<b>Group Annual Recurring Revenue (ARR)<sup>2</sup></b>	<b>522.6</b>	<b>487.8</b>	<b>+7</b>	<b>+10</b>
<b>Digital business line</b>	<b>368.7</b>	<b>341.0</b>	<b>+8</b>	<b>+11</b>
<b>A&amp;N business line</b>	<b>154.0</b>	<b>146.8</b>	<b>+5</b>	<b>+9</b>
<b>Group Revenue</b>	<b>183.1</b>	<b>207.0</b>	<b>-12</b>	<b>-7</b>
<b>Product revenue</b>	<b>146.5</b>	<b>160.9</b>	<b>-9</b>	<b>-4</b>
<b>Digital business line</b>	<b>98.9</b>	<b>103.5</b>	<b>-4</b>	<b>0</b>
<b>A&amp;N business line</b>	<b>47.5</b>	<b>57.4</b>	<b>-17</b>	<b>-12</b>
Subscription	35.1	20.5	+71	+77
Software-as-a-Service (SaaS)	9.5	6.9	+37	+42
Perpetual maintenance	85.1	101.2	-16	-11
Perpetual licenses	16.7	32.3	-48	-45
<b>EBIT (IFRS)</b>	<b>15.3</b>	<b>28.7</b>	<b>-47</b>	<b>-34</b>
<b>EBITA (non-IFRS) (operating profit)</b>	<b>24.5</b>	<b>39.7</b>	<b>-38</b>	<b>-</b>
<i>as % of revenue (operating margin)</i>	13.4%	19.2%	-	-
<b>Net income (non-IFRS)</b>	<b>17.0</b>	<b>27.9</b>	<b>-39</b>	<b>-</b>
<b>Earnings per share (non-IFRS)<sup>3</sup></b>	<b>0.23</b>	<b>0.38</b>	<b>-39</b>	<b>-</b>
<b>Free cash flow</b>	<b>39.8</b>	<b>52.0</b>	<b>-23</b>	<b>-</b>
<b>Free cash flow per share<sup>3</sup></b>	<b>0.54</b>	<b>0.70</b>	<b>-22</b>	<b>-</b>
<b>Employees (FTE) (in thousands)</b>	<b>4,669<sup>4</sup></b>	<b>5,005</b>	<b>-7</b>	<b>-</b>
<b>thereof Germany</b>	<b>1,317</b>	<b>1,280</b>	<b>+3</b>	<b>-</b>

<sup>1</sup> At constant currency.

<sup>2</sup> Definitions on page 50 of the [2020 Annual Report](#).

<sup>3</sup> Based on weighted average shares outstanding (basic) Q1 2021: 74.0 mn/Q1 2020: 74.0 mn.

<sup>4</sup> Not including 438 FTE from sold Professional Services unit in Spain.

## Conference call

A webcast for financial analysts and media representatives will take place on Friday, April 23, 2021, at 9:30 a.m. CEST (8:30 a.m. BST). Please pre-register to receive dial-in details at [www.softwareag.com/investors](http://www.softwareag.com/investors).

### **About Software AG**

Software AG is the software pioneer of a truly connected world. Since 1969, it has helped 10,000+ organizations use software to connect people, departments, systems and devices. Software AG empowers truly connected enterprises using integration & APIs, IoT & analytics and business & IT transformation. Software AG's products establish a fluid flow of data that allows everything and everyone to work together. The company has about 4,700 employees across more than 70 countries and annual revenue of over €800 million, with the aim of exceeding €1 billion by 2023.

For more information, visit [www.softwareag.com](http://www.softwareag.com). And follow on [LinkedIn](#) and [Twitter](#).

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