software AG

# HALF-YEAR REPORT

# 2021

# Key Figures

## as of June 30, 2021 and 2020 (IFRS, unaudited)

| in € millions (unless otherwise stated) | H1 2021 | H1 2020 | +/– as % | +/– as % acc[1] | Q2 2021 | Q2 2020 | +/– as % | +/– as % acc[1] |
|---|---|---|---|---|---|---|---|---|
| **Group revenue** | **401.3** | **411.7** | **–3** | **1** | **218.2** | **204.6** | **7** | **10** |
| **Product revenue** | 327.4 | 319.9 | 2 | 6 | 180.9 | 158.9 | 14 | 17 |
| Digital Business | 212.7 | 210.1 | 1 | 5 | 113.7 | 106.6 | 7 | 10 |
| Adabas & Natural (A&N) | 114.7 | 109.8 | 4 | 9 | 67.2 | 52.4 | 28 | 32 |
| Licenses | 109.1 | 91.1 | 20 | 23 | 70.6 | 44.4 | 59 | 63 |
| Maintenance | 198.3 | 214.5 | –8 | –3 | 99.8 | 107.2 | –7 | –4 |
| Software as a Service (SaaS) | 20.0 | 14.2 | 41 | 45 | 10.5 | 7.3 | 44 | 48 |
| **Group bookings** | **215.4** | **200.0** | **8** | **12** | **126.6** | **109.8** | **15** | **18** |
| Digital Business bookings[2] | 153.5 | 139.6 | 10 | 13 | 86.1 | 81.6 | 5 | 8 |
| A&N bookings[2] | 61.9 | 60.2 | 3 | 8 | 40.6 | 28.2 | 44 | 48 |

| | June 30, 2021 | June 30, 2020 | +/– as % | +/– as % acc[1] |
|---|---|---|---|---|
| **Group ARR[3]** | **539.4** | **508.4** | **6** | **8** |
| Digital Business | 380.3 | 355.2 | 7 | 9 |
| A&N | 159.1 | 153.2 | 4 | 6 |

| | H1 2021 | H1 2020 | +/– as % | Q2 2021 | Q2 2020 | +/– as % |
|---|---|---|---|---|---|---|
| **EBIT (IFRS)** | **65.4** | **60.7** | **8** | **50.1** | **31.9** | **57** |
| **EBITA (non-IFRS) (operating profit)** | **85.3** | **81.1** | **5** | **60.8** | **41.4** | **47** |
| as % of revenue | 21.3 | 19.7 | | 27.8 | 20.2 | |
| Digital Business segment earnings | 22.7 | 28.3 | –20 | 20.1 | 14.9 | 34 |
| Segment margin | 10.7 | 13.5 | | 17.7 | 14.0 | |
| A&N segment earnings | 79.6 | 70.8 | 12 | 48.5 | 33.6 | 44 |
| Segment margin | 69.4 | 64.5 | | 72.2 | 64.3 | |
| **Net income (non-IFRS)** | **57.2** | **56.1** | **2** | **40.4** | **28.2** | **43** |
| **Earnings per share (non-IFRS)[4]** | **0.77** | **0.76** | **2** | **0.55** | **0.38** | **43** |
| **Net cash flow from operating activities** | **70.5** | **87.7** | **–20** | **23.5** | **26.2** | **–10** |
| CapEx[5] | 5.6 | 8.4 | –33 | 1.6 | 2.9 | –45 |
| Repayment of lease liabilities | 6.7 | 7.9 | –15 | 3.4 | 3.9 | –13 |
| **Free cash flow** | **58.2** | **71.4** | **–18** | **18.5** | **19.4** | **–5** |
| **Free cash flow per share** | **0.79** | **0.96** | **–18** | **0.25** | **0.26** | **–5** |

| **Balance sheet** | June 30, 2021 | Dec. 31, 2020 | +/– as % |
|---|---|---|---|
| **Total assets** | **2,088.6** | **2,039.9** | **2** |
| Cash and cash equivalents | 542.3 | 480.0 | 13 |
| Net cash | 232.9 | 220.1 | 6 |
| **Employees (FTE)** | **4,696** | **4,700** | **0** |

[1] At constant currency
[2] Definition on p. 50 of the 2020 Annual Report
[3] Annual recurring revenue
[4] Based on weighted average shares outstanding (basic) H1 2021: 74.0 mn/H1 2020: 74.0 mn/Q2 2021: 74.0 mn/Q2 2020: 74.0 mn
[5] Cash flow from investing activities adjusted for acquisitions and investments in debt instruments

Due to rounding, some numbers may not add up exactly to the totals given and percentages may not exactly reflect the absolute figures.

# Accelerating Success

**Product innovation, new partnerships and rewarding customer engagements turn Software AG's growth potential into success and enable it to tap into new market segments and boost its value proposition to customers.**

## 2021+

ACCELERATING GROWTH

**Focus:**
- Right products
- Right markets
- Right resources

**Team:**
- People & culture
- Scaling through partnerships

**Execution:**
- Sharper go-to-market
- Shift to subscription
- Internal simplification
- Systematic productivity gains

## April

**Partnership Success**

- Partnership with **Matillion** enhances webMethods platform with market-leading cloud data integration capabilities

**Product Innovation Success**

- **webMethods** 10.7 simplifies cloud adoption, offers an online community and speeds up application development
- **ARIS** recognized in Everest Group's assessment as one of the leading process mining tools
- **TrendMiner** 2021.R2 puts Machine Learning and AI in the hands of operational experts

**Talent Management Success**

- 350+ leaders have completed the Company's **leadership learning journey** program; now opening up for non-people managers

**Customer Success**

- **Fast Track Services** impressed a U.S.-based electronics manufacturing company looking to optimize its partner's proposed architecture
- **NPS** reached an excellent score of 57 in Q2 in line with record high achieved in Q3 2020

**"Today, nearly 150 business processes are already running through webMethods and its uses are limitless—or at least we haven't found any limits yet!"**
(Département de la Seine-Maritime, France)

**Subscription Success**

- **Daimler** opts for a new three-year global usage agreement for Software AG's Alfabet IT portfolio management solution
- Enhanced automation of subscription management and continued adoption focus on mid-market segment

## June

## Accelerating Toward Mid-Term Goals

| Digital Business Revenue | Recurring Revenue Portion | Total Revenue | Operating Profit Margin (non-IFRS) |
|---|---|---|---|
| **€113.7 mn** | **94%** | **€218.2 mn** | **27.8%** |
| **(Q2 2020: €106.6 mn)** | **(Q2 2020: 92%)** | **(Q2 2020: €204.6 mn)** | **(Q2 2020: 20.2%)** |
| Subscription shift underpins growth of 10 percent | Above 2023 mid-term ambition | Growth of 10 percent indicates growing impact on P&L | A&N deals driving profitability |

# Table of Contents

# Software AG's Share

## Stock Market Performance in the First Half of 2021: Records Hit Despite Pandemic

International stock markets performed well in the first half of 2021 despite lasting global restrictions due to government measures to contain the COVID-19 pandemic. Germany's benchmark DAX index gained more than 13 percent, while the S&P 500 surpassed 4,300 points, hitting a record high. Increased consumption and investments on the heels of lockdowns had a positive impact on the global economy. Inflation concerns triggered by tension over raw material prices were deemed temporary by central banks. Liquidity remained high on stock markets as a result of central banks' continued caution in interest rate policies and bond purchases. Uncertainty will remain in the second half of the year as to how infection rates will develop and the effect any associated restrictions will have on the economy.

## Software AG's Share Price Performance[1]

Software AG's share price started off the year at €33.44 and gained nearly 14 percent to reach €37.94 by June 30, 2021. This growth outperformed the MDAX and TecDAX benchmark indexes, both having gained 11 percent. Software AG's shares hit their low on January 15, 2021 at €31.82 and peaked just before the end of the reporting period at €38.60 on June 28, 2021. Software AG exceeded the German stock market's liquidity requirement with an Xetra average daily trading volume of 175,586.

**Software AG Share Price Performance Compared to MDAX and TecDAX (indexed)**


Source: Inventis service

[1] Market capitalization was €2,807.56 million on June 30, 2021.

## Annual Shareholders' Meeting Again Held Virtually

Software AG's Annual Shareholders' Meeting was held virtually for the second time on May 12, 2021; it was broadcast via Internet. Attendance was even higher than in the previous year (2020: 75 percent) with nearly 77 percent of the Company's share capital represented.

All agenda items were approved by a majority, including the appropriation of profits and a stable dividend of €0.76 (2020: €0.76) per share. The dividend disbursement again totaled €56.2 million. A revised remuneration system for members of the Management Board as well as for members of the Supervisory Board was approved. Furthermore, anticipatory resolutions were passed on the creation of authorized capital, authorization of the issue of warrant and/or convertible bonds and acquisition of treasury shares. Voting results are available to the public on Software AG's website.

## High Degree of Attention from Capital Market

Thanks to its commitment to cultivating relationships with the financial community, Software AG enjoys a high degree of recognition from analysts in Germany and abroad. Sixteen investment banks published analyses and investment recommendations for Software AG in the period under review. Thirteen of them gave Software AG a positive or neutral rating. Analysts' average price target for Software AG was €41.10 following publication of its second-quarter results.

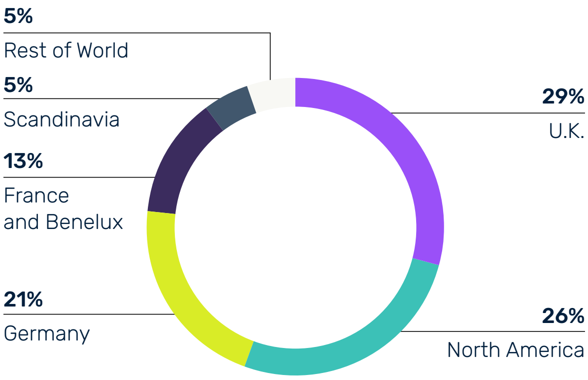
Due to the pandemic, meetings with investors and analysts were held by phone or video conference in the period under review. Capital market conferences in Germany and abroad also took place in digital format in the first half of 2021.

## Shareholder Structure[2]

Software AG's positioning as a value-oriented, but now increasingly also high-growth, investment led to heightened interest among international and growth-oriented shareholders. The Software AG Foundation remains Software AG's largest shareholder.

After deducting the balance held by the Software AG Foundation and the Company's own treasury shares, Software AG's free float is approximately 69 percent.

**Regional Distribution of the Free Float**




Source: IPREO, July 2021

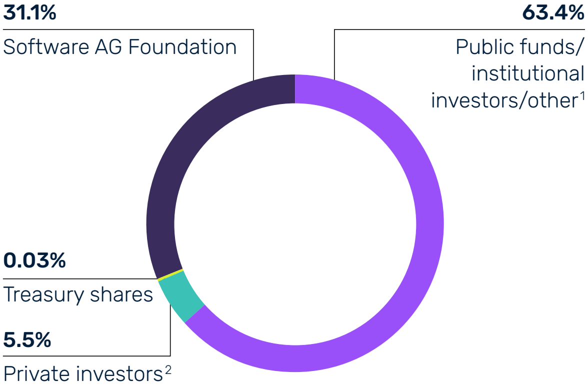
[2] Key investors that exceeded or fell below the disclosure threshold during the period are listed at investors.softwareag.com.

## Top Investors

| Investor | Percentage of share capital |
|---|---|
| Software AG Foundation | 31.1% |
| Schroder Investment Management, LTD | 6.0% |
| Franklin Mutual Advisers, LLC | 3.3% |
| ODDO BHF Asset Management SAS | 3.0% |
| FIL Investment Services (U.K.), LTD | 2.9% |
| BlackRock Fund Advisors | 2.5% |
| Allianz Global Investors GmbH | 2.4% |
| Norges Bank Investment Management (Norway) | 1.9% |
| Harris Associates, L.P. | 1.8% |
| The Vanguard Group, Inc. | 1.8% |
| Kempen Capital Management N.V. | 1.7% |
| Janus Henderson Investors (U.K.) | 1.5% |
| DWS Investment GmbH | 1.4% |
| Lupus alpha Asset Management AG | 1.2% |
| Beutel Goodman & Company, LTD | 1.2% |

Source: IPREO, July 2021

## Shareholder Structure




[1] By deducting Software AG Foundation, treasury shares and private investors from total

[2] Source: Computershare shareholder register, July 2021

# Consolidated Interim Management Report

## Fundamental Aspects of the Group

Software AG began implementing its Helix transformation strategy in the first half of 2019. This strategy defines a five-year path to sustainable profitable growth and is based on three pillars:

**Focus:** Concentrating on key markets offering the best growth opportunities: Germany, North America, England, France, Japan and China; while focusing on the products that serve these markets and can maximize their growth potential.

**Execution:** Implementing a new operating model to optimize Software AG's access to additional channels, enabled by a simplified, clearer go-to-market strategy and improved sales structures. This approach includes Software AG's transition to subscription-based software, benefiting customers and helping the Company sell its products more successfully.

**Team:** Building a specialized global team to drive growth, enabled by the implementation of a matrix model based on products and regions. This will break down functional silos, eliminate inefficient processes and establish a structure of accountability. Cultivating corporate culture is key to lasting success. In addition to talent management, efforts are being intensifed in the areas of diversity and inclusion. A multifaceted, dedicated and talented team remains pivotal to leveraging future opportunities. In addition, Software AG is building a wide-reaching partner ecosystem with continued successes in the first half of 2021.

For more information on the Helix strategy and its individual components, refer to p. 45 onward of the 2020 Annual Report, available on the corporate website (www.SoftwareAG.com).

## Key Company Performance Indicators

One of Software AG's goals is to sustainably increase the value of the Company, focusing on profitable growth and continuously strengthening financial resilience. As part of this strategic realignment, Software AG has added new key performance indicators to the existing ones, which had previously focused primarily on revenue growth and profit margin. The new indicators are used to measure the extent to which the strategic goal of changing from the traditional perpetual license model to new subscription license models is successfully implemented. The focus is primarily on the promising Digital Business segment.

For more information on the Group's financial performance indicators, non-financial performance indicators and specific early warning indicators, refer to pp. 49–52 of the 2020 Annual Report.

# Group Business Summary

## Management's Assessment of the Half-Year Results

During the first half of 2021, we continued to execute our Helix transformation strategy successfully. We delivered cutting-edge products to market, we won new business and we pressed ahead with our ongoing subscription shift. We are extremely pleased that the momentum we have built over two years of bold innovation, investment and teamwork is now translating into impact on our P&L.

The most striking aspect of our second quarter was the 10 percent growth we achieved in Digital Business product revenue. This result is a major landmark for our transformation. Sustainable profitable revenue growth—and particularly Digital Business revenue growth—is the fundamental rationale for our Helix program. We have kept the focus on driving bookings momentum through our subscription shift; and it is a great reflection of the team's effort to see these bookings now translating into revenue momentum. With our sales execution continuously improving, we are confident our top line will continue to build as we tap into the $28 billion Truly Connected Enterprise opportunity we see by 2024.

Our headline financial results further demonstrate our progress: Group bookings were up 12 percent for the half year, and total Group revenue stood at €401.3 million (2020: €411.7 million). Thanks to better-than-expected results in our Adabas & Natural business, we delivered a non-IFRS EBITA margin of 21.3 percent for the half year. This overall performance provides a strong platform on which to build towards our full-year ambitions in the second half of 2021.

We continue to drive our Helix acceleration with a balance across our three growth levers: winning new business, growing business with existing customers as we migrate them to subscription, and capturing the customer lifetime value potential at the moment of subscription renewal. On new business, we achieved an increase of 27 percent year-on-year to 140 (2020: 110) new logos in the first half. On migrations, we continued to shift our existing customer base toward subscription, enabling us to achieve an average contract value multiplier at migration of around 1.4x. On renewals, we are now starting to secure deals which showcase the potential of this revenue stream from 2022 onward. We have a number of early examples of good net retention rates and, with our renewal cohort building into 2022 and 2023, these examples indicate the scale of the customer lifetime value opportunity ahead of us.

Our progress in each of these areas continues to be underpinned by the team's efforts in our three transformation pillars: Focus, Execution and Team.

In **Focus,** we continue to invest in innovations that help our sales organization convert leads into wins. We are seeing strong growth in product families that help customers transform into Truly Connected Enterprises. Over the first half of the year, our iPaaS product bookings increased triple-digit, delivering multi-million euro bookings growth. Our IoT & Analytics family, our API Management Platform and ARIS Process Mining, produced strong double-digit bookings growth, and our ARIS products were recognized in Everest Group's assessment of the best process mining vendors, where we ranked extremely high. All of these mission-critical products help our customers streamline and digitize their operations in the way that best suits them. For example, the continuous stream of quarterly innovation in Trendminer was the key driver behind a successful upsell secured with the large French specialty chemicals business, Arkema.

In **Execution,** we continue to sharpen our sales execution. Through the first half, our digital business bookings conversion rate tracked materially ahead of our 2020 average. In the second quarter, we also saw deal volumes grow in all deal-size bands from €250 thousand through to more than €1 million, making us less reliant on single large transactions. We help our customers on their digital transformation journey by using business process analysis to better understand and simplify operations, find efficiencies and break silos by sharing information in an integrated way across its process, organization, data, risk and systems. We also saw early success with our investment targeting the *Mittelstand* in the DACH region, where we won 18 new deals in the first few months of our program. Through our subscription shift we won a strong expansion deal with the large Australian supermarket chain Woolworths for webMethods, another co-selling success from our partnership with Microsoft, which continues to go from strength to strength. In fact, we are making steady progress with our partner ecosystem overall. The relationships we are building give us an additional route to market which helps us access more of our TAM, and in the case of partnerships that do not involve a co-sell motion, offers us the opportunity of a lower cost of sale and lower cost of customer acquisition. At the end of the first half, our incremental Digital Business bookings from partners represent 13 percent of our Digital Business total. This is up from 7 percent pre-Helix and shows we are making steady progress towards the ambitions we have for our partner ecosystem.

In **Team,** we have been working hard to strengthen and build resilience across our whole organization. Since the start of Helix, we have attracted the best industry talent to our organization. The investment we have made in existing talent since the start of Helix is providing strong leadership succession—which will be crucial as our transformation and subscription business model accelerates out of 2021 and beyond. As of August 1, 2021, Scott Little and Dr. Benno Quade hold new roles in our organization: Scott Little as Chief Revenue Officer (CRO) and Benno Quade as Chief Customer Success Officer (CCO). Together with the members of the Management Board, they will form the newly established Management Team. These appointments strengthen our customer focus and reflect the progress of our Helix transformation. Scott Little served as Global Head of Sales since the beginning of the year and has shown true strength in executing our go-to-market strategy, while Dr. Benno Quade has been with Software AG for ten years in various management roles, most recently as COO go-to-market. Mike Haugen will succeed Scott in taking over as Sales leader for the Americas. We started our fourth run of the Leadership Learning Journey in the second quarter, opening up the program to non-people managers. Just over 350 leaders in the Leadership Learning Journey have gone through this experience, which is more than half of our people managers worldwide. We also intensified our Diversity, Equity and Inclusion (DE&I) endeavors. We have established a dedicated DE&I leadership position and announced our global team of DE&I ambassadors, who will support our diversity and inclusion activities in all parts of our organization. Our whole team's physical and mental wellbeing remain at the front of our minds and, like many responsible global businesses, Software AG has maintained a flexible work policy to limit the risks of COVID-19 to our employees as much as possible.

As we look toward the second half of 2021, we are confident that our pipeline is in the right place to see us deliver on our full year objectives. Even though we are just a few weeks in, we have already built a strong foundation. We are driving with ambition towards the full year, to 2023, and beyond. We are pleased to have recommitted to our full-year guidance ranges and 2023 ambitions.

"Our focus on bookings growth in our Digital Business and the shift to subscription is beginning to positively impact our P&L, delivering double-digit revenue growth in our Digital Business this quarter. These green shoots send a clear signal that our transformation is delivering results, and I am extremely proud of our team for hitting this major milestone. Our innovations in IoT, iPaaS, API management and process mining are driving our sales success, and with improved execution, helped us land a record second quarter for new logos. The increasing consistency of our execution, combined with the pipeline firming up in front of us, underpins my confidence in the second half."
**Sanjay Brahmawar, CEO of Software AG.**

"The continued strength of our Digital Business and our strong quarterly performance in Adabas & Natural have seen us deliver results ahead of market expectations for the second quarter. Our revenue stream continues to increase in quality and predictability, and our balanced approach to investment is helping us grow while meeting our profit commitments. We were therefore happy to reconfirm our full-year guidance for 2021 and recommit to our 2023 ambitions."
**Dr. Matthias Heiden, CFO of Software AG.**

# Financial Performance

## Group Bookings

As part of the Helix strategy, which was launched in 2019, Software AG is increasingly shifting from the perpetual licensing model to subscriptions as well as signing new deals based on subscription or Software as a Service (SaaS). This allows Software AG to better address customers' needs for greater flexibility in the selection of products and usage and allows customers to stretch their investment over time.

Software AG now reports a higher portion of revenue distributed across the entire term of the license rather than up front as in previous periods. Current sales performance is presented as bookings so as to reflect the true momentum of the business. This metric illustrates the contract value within a reporting period and—for better comparability—is calculated based on a standardized term of three years, which represents the average term of agreement.

Recurring revenue is generated during the term of SaaS and subscription-based agreements. The overall objective is to achieve a higher degree of revenue predictability and quality. The annual recurring revenue (ARR) metric is a key confidence indicator of future recurring revenue potential. It refers to the annualized contract value of active agreements in the recurring product business until the end of a reporting period.

Software AG accelerated its transformation in the first half of 2021 and continues to make large strides along this path of transformation. A key milestone was met in the second quarter with double-digit product revenue growth at constant currency in the Digital Business. This represents bookings growth having translated into higher revenue and the first positive effects on P&L.

Group bookings rose in the first half of the year by 12 percent at constant currency to €215.4 million (2020: €200.0 million), driven by strong momentum in the Digital Business and better-than-expected performance in A&N.

## Total Revenue

A result of the Group's consistent shift to a stronger focus on the subscription and SaaS sales model is that a higher proportion of revenue is generated over time. Group revenue totaled €401.3 million (2020: €411.7 million) in the first half of 2021. This represents a 1 percent increase at constant currency. This result was due to product revenue growth of 6 percent to €327.4 million (2020: €319.9 million).

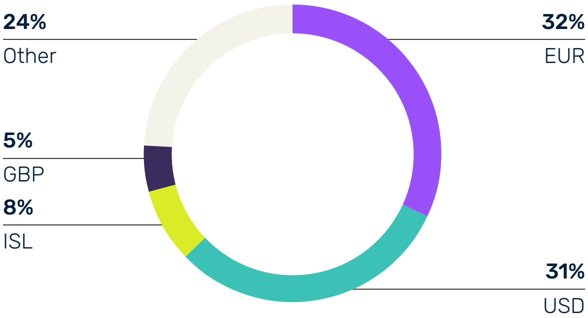
The contribution of subscription revenue to the Group's product revenue total increased 89 percent year-on-year in the first half of 2021. SaaS product revenue also demonstrated robust growth at 47 percent at constant currency. Owing to the accelerated speed of the Group's shift to subscription, revenue from perpetual licenses and the associated maintenance was down 34 percent and 11 percent respectively in the first half of 2021.

## Exchange Rate Effects

Exchange rate effects had an impact of –4 percent on Software AG's Group revenue in the first half of 2021. These effects correspond to a decrease of €15.2 million compared to revenue at constant exchange rates. Exchange rate effects had a similarly negative impact on all types of revenue, the highest being the negative amount of €9.1 million on product revenue from perpetual licenses and maintenance. The corresponding exchange rate effect was due primarily to the change in the relationship of the euro to the U.S. dollar during the first half of 2021.

### Currency Split in First Half of 2021

32% revenue in euros
68% revenue in foreign currency



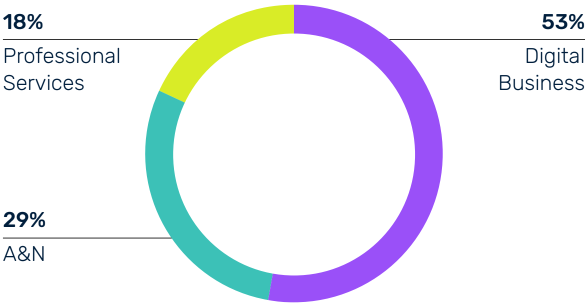

The percentage of Software AG's revenue in foreign (non-euro) currency is more than twice as high as that in euros due to its global focus and operations in 70 countries. At 68 percent (2020: 66 percent), the share of total revenue generated in foreign currency in the first half of 2021 was 2 percentage points higher than in the previous year. The share of revenue in euros decreased accordingly to 32 percent. The U.S. dollar continued to account for the largest portion of revenue outside the eurozone at 31 percent, which approximated the prior-year level (2020: 32 percent).

## Revenue and Earnings by Business Line (Segment Report)

Software AG's total Group revenue was €401.3 million (2020: €411.7 million) in the first half of 2021 and can be broken down by business line as follows:

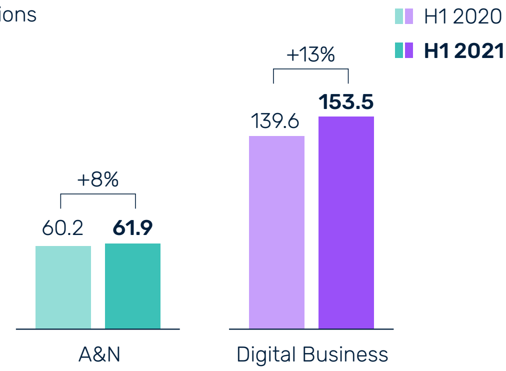
- The high-growth Digital Business segment accounted for 53 percent (2020: 51 percent) of Group revenue
- A&N accounted for 29 percent (2020: 27 percent) of revenue
- Professional Services generated 18 percent (2020: 22 percent) of total revenue, although this was affected by the sale of the Professional Services unit in Spain on June 30, 2020

### Revenue Split




### Group Bookings[1]

in € millions




### Digital Business

The Digital Business segment includes all Software AG products for business transformation; integration and API management; as well as cloud and IoT projects. With these products, Software AG serves high-growth markets and helps companies solve complex and critical problems.

Digital Business bookings totaled €153.5 million (2020: €139.6 million) in the first half of 2021, which marks a 13 percent increase at constant currency. The proportion of Digital Business bookings from subscriptions was 68 percent, which reflects an increase of 25 percent at constant currency. SaaS bookings accounted for 21 percent of Digital Business bookings and were thus above the 15 percent guidance set at Capital Markets Day in February 2021. Year-on-year, SaaS bookings gained 22 percent at constant currency.

[1] At constant currency

With respect to the bookings-to-revenue conversion rate, 45 percent of Digital Business bookings converted to product revenue in 2021 to date. This is exactly on target with full-year planning.

Bookings growth translated to revenue growth. At €212.7 million (2020: €210.1 million), total revenue in this segment grew 5 percent at constant currency year-on-year.

Annual recurring revenue (ARR) in the Digital Business was €380.3 million (2020: €355.2 million), which represents growth of 9 percent year-on-year.

Compared with the previous year, the cost of sales rose by 23 percent at constant currency to €28.7 million (2020: €23.7 million). This was due to the effects of SaaS revenue on hosting costs and cloud operations. R&D expenses reflect Software AG's strategy of targeted investments in high-potential fields. In the first half of 2021, these expenses, including Cloud & IoT, were €58.4 million. The segment margin decreased from 13.5 percent in 2020 to 10.7 percent due to these ongoing investments.

**Adabas & Natural**

Bookings in the Adabas & Natural segment increased 8 percent at constant currency to €61.9 million (2020: €60.2 million) in the first half of the year. This is due to the strong growth of A&N bookings in the second quarter, driven by the closure of slipped deals from the first quarter and deals pulled forward from the third quarter pipeline. It cannot be assumed that this level of performance will repeat in the second half of the year; the Group therefore still expects to deliver full-year revenue at constant currency at approximately 2019 levels.

In the first half of the year, 74 percent of A&N bookings converted to product revenue. This is higher than the expected guidance of 68 percent for the full fiscal year and is due to a higher proportion of long-term subscriptions in the second quarter compared to previous quarters.

The proportion of A&N bookings attributable to SaaS and subscriptions increased to 60.7 percent (2020: 35.7 percent) in the first half of 2021.

The segment reported revenue growth of 9 percent at constant currency to €114.7 million (2020: €109.8 million). Revenue from perpetual licenses declined 33 percent to €17.5 million (2020: €26.9 million) due to the Company's shift to subscriptions. Subscription-based revenue, by contrast, more than doubled to reach €33.0 million (2020: €12.7 million).

The cost of sales in the A&N business line dropped moderately from €4.7 million to €4.3 million. R&D expenses saw a €0.6 million decrease to €15.6 million. This business line is currently experiencing a shift toward younger developers who will lead A&N into the next generation (Adabas & Natural 2050+ program).

A&N segment earnings grew 19 percent at constant currency to €79.6 million (2020: €70.8 million). Its margin increased to 69.4 percent (2020: 64.5 percent). This strong performance illustrates the lasting confidence customers have in the Adabas & Natural 2050+ program as well as the necessity to safeguard their business-critical A&N systems. It is also an indicator of the resonance of Software AG's additional innovative offerings such as cloud containerization and moving workloads to zIIP special processors by IBM.

**Professional Services**

Professional Services generated €73.9 million (2020: €91.5 million) in revenue in the first half of 2021. Adjusted for the sale of the Spanish Professional Services unit, this reflects 6 percent growth. On this basis, Professional Services delivered profit growth of 67 percent to €13.9 million (2020: €8.7 million) in the first half of 2021, which is strong performacne given the ongoing pandemic-related restrictions.

The cost of sales in Professional Services decreased from €74.4 million to €53.7 million due to the sale of the Spanish Professional Services unit.

## Earnings Performance

Software AG's **cost of sales** totaled €91.7 million (2020: €106.8 million) in the first half of 2021. The 12 percent decrease year-on-year was due primarily to the sale of the Spanish Professional Services unit. **Gross profit** was up 6 percent to €309.6 million (2020: €304.8 million). Software AG's **gross profit margin** reached 77.1 percent (2020: 74.1 percent).

Due to targeted investments as part of the Helix transformation, R&D expenses in the first half of 2021 stayed high at €74.0 million (2020: €73.8 million). Sales and Marketing expenses amounted to €127.3 million, compared to €130.5 million in the previous year. In addition to an intensified focus on new business and the shift to subscription, continuous customer care was also a top priority in order to maximize customer lifetime value. From a regional perspective, Software AG's focus was on awareness campaigns in North America and its German Mittlestand initiative in DACH. General and administrative expenses rose year-on-year by 6 percent at constant currency to €40.2 million (2020: €38.8 million).

**Earnings before interest and taxes (EBIT)**[1] totaled €65.4 million (2020: €60.7 million), which represents an increase of 18 percent at constant currency. This Group metric benefited from higher-than-expected revenue and slightly lower costs than anticipated.

Software AG's **operating EBITA (non-IFRS)**[1] grew 5 percent from €81.1 million in the previous year to €85.3 million in the first half of 2021, which resulted in an **operating margin (non-IFRS)**[1] of 21.3 percent (2020: 19.7 percent). This put Software AG's margin for the first six months of the year above its forecast range for the full year. This growth was primarily due to the strong margin performance in the second quarter resulting not only to pandemic-related savings, e.g., on travel, but mainly to A&N's strong performance.

Software AG reported a **net financial expense** of €689 thousand (2020: income of €2.2 million). In addition to a continued decrease in deposit interest, this expense was due largely to higher interest expenses in connection with a syndicated loan taken out to ensure sufficient financing for planned acquisitions. Software AG's income taxes totaled €19.3 million (2020: €18.4 million) with a total imputed tax rate of 33.0 percent (2020: 33.3 percent).

The Group's **net income** grew 4 percent to €43.4 million (2020: €41.9 million) year-on-year resulting in unchanged earnings per share (basic) at €0.58 (2020: €0.56).

## Financial Position

Net cash from operating activities was down €17.2 million from €87.7 million in the previous year to €70.5 million in the first half of 2021. Overall, Software AG's statement of cash flows reflects the implementation of the Helix strategy.

Cash flow from investing activities went up to €12.6 million in inflows compared with outflows of €8.5 million in the previous year. This resulted mainly from diversification in connection with asset management.

Cash outflows from financing activities amounted to €9.3 million compared with €78.0 million in the same period of the previous year. This was largely attributable to the repayment of current financial liabilities in the amount of €6 million.

Cash and cash equivalents were €542.3 million (2020: €507.9 million) as of June 30, 2021 compared with €480.0 million at the beginning of the year. Free cash flow decreased to €58.2 million in the first six months of the year compared with €71.4 million in the same period in the previous year. This drop was primarily due to the planned increase in expenses in the areas of Sales and Marketing as well as R&D in connection with implementation of the Helix strategy. The free cash flow to revenue ratio was 15 percent (2020: 17 percent) and free cash flow to net income was 134 percent (2020: 170 percent). Accordingly, free cash flow per share was €0.79 (2020: €0.96) in the period under review.

## Balance Sheet

Software AG's balance sheet remained robust. As of June 30, 2021, total assets amounted to €2,088.6 million compared with €2,066.8 million as of the previous year's reporting date and €2,039.9 million as of December 31, 2020.

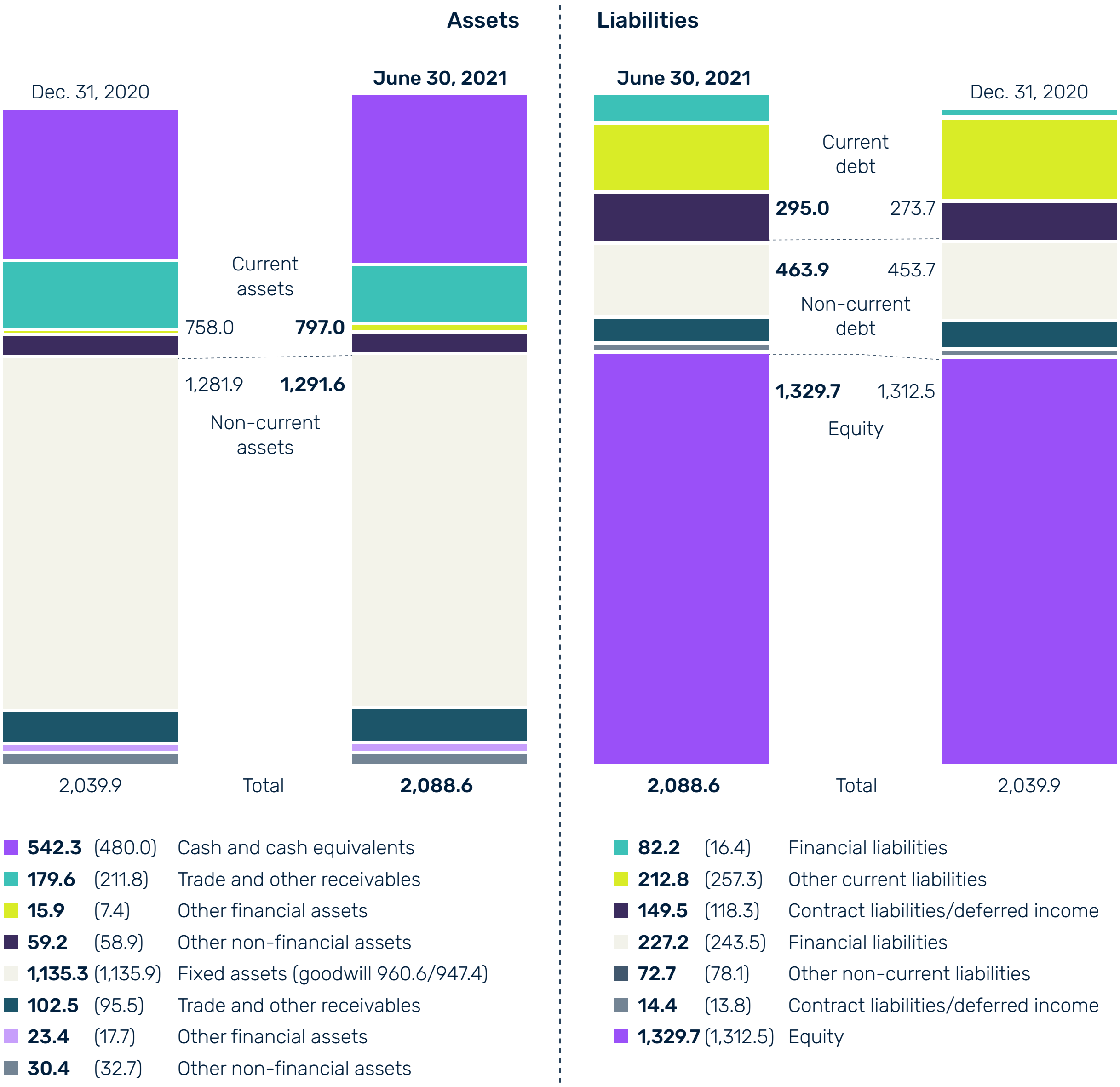
[1] For definition, refer to p. 50 of the 2020 Annual Report.

In **assets,** current assets were up €38.9 million from €758.0 million as of December 31, 2020 to €797.0 million as of June 30, 2021. This development is the net result of the following changes in balance sheet items:

Cash and cash equivalents increased €62.3 million from €480.0 million at the beginning of the year to €542.3 million. This is the net result of the following cash flow developments: Net cash flow from operating activities was €70.5 million (2020: €87.7 million). That amount was offset by cash outflows from investing activities in the amount of €12.6 million (2020: €8.5 million) and by cash outflows from financing activities in the amount of €9.3 million (2020: €78.0 million). The cash outflows from financing activities consisted primarily of the dividend disbursement for fiscal 2020 in the amount of €56.6 million, repayment of current financial liabilities in the amount of €6.0 million and repayment of lease liabilities in the amount of €6.7 million. Those were offset by new non-current financial liabilities totaling €60.0 million. Furthermore, cash and cash equivalents went up by €13.7 million due to positive exchange rate effects.

### Balance Sheet Structure

in € millions



Current other financial assets increased by €8.5 million from €7.4 million at the end of 2020 to €15.9 million. This resulted largely from short-term investments in investment funds.

Current trade receivables, contract assets and other receivables decreased primarily due to seasonal trends in the business and Software AG's active working capital management. They went down by €32.2 million, or 15 percent, from €211.8 million as of December 31, 2020 to €179.6 million as of June 30, 2021.

Current income tax receivables decreased by €5.8 million from €30.2 million as of December 31, 2020 to €24.4 million, due primarily to repaid and reduced tax prepayments in Germany.

Current other non-financial assets were up by €6.1 million from €28.7 million to €34.8 million, due mainly to the €9.9 increase in prepayments for future expenses and other effects.

Non-current assets increased by €9.7 million from €1,281.9 million as of December 31, 2020 to €1,291.6 million as of June 30, 2021.

Non-current intangible assets went down by €7.2 million from €99.3 million as of the end of last year to €92.1 million as of June 30, 2021. This decline resulted from ongoing amortization of the item and, to a lesser extent, from the offsetting impact of exchange rates.

Goodwill increased by €13.2 million from €947.4 million at the end of last year to €960.6 as of June 30, 2021, due to positive exchange rates with the U.S. dollar, British pound sterling and Israeli shekel.

Non-current other financial assets increased by €5.7 million from €17.7 million to €23.4 million. This rise resulted primarily from price increases in reinsurance rates for pension commitments and from the higher value of hedging instruments relating to share-based remuneration instruments. This increased value resulted from the rise in Software AG's share price in the first half of 2020 and hedges on the new Long Term Incentive Plan 2021 (LIP 2021) introduced in the second quarter of 2021.

Non-current trade receivables increased by €7.0 million, or 7 percent, from €95.5 million as of December 31, 2020 to €102.5 million as of June 30, 2021. This increase resulted primarily from the sales model shift from perpetual licenses to subscriptions. Perpetual licenses are usually paid for earlier, while subscriptions are typically paid over the course of their term and therefore at a later point in time.

In **liabilities,** current financial liabilities went up by €65.8 million from €16.4 million at the beginning of the year to €82.2 million as of June 30, 2021. This increase was due primarily to the reclassification of non-current financial liabilities to current financial liabilities.

Due to the decrease in operating expenses compared with the second half of the previous year, current trade and other payables fell by €7.2 million from €47.0 million as of December 31, 2020 to €39.8 million as of June 30, 2021.

Current other non-financial liabilities decreased by €35.4 million from €138.2 million as of December 31, 2020 to €102.8 million as of June 30, 2021. This drop was due mainly to the customary seasonal disbursement of variable remuneration components from the previous year in the first half of 2021.

Due to the high proportion of maintenance business, current contract liabilities and deferred income, which include the volume of future maintenance revenue, grew to €149.5 million compared with €118.3 million as of December 31, 2020. This 26 percent increase was mainly due to this balance sheet item's development during the course of the year. Because customers pay the largest percentage of their annual maintenance fees in the first quarter, deferred income is typically highest at the end of the first quarter and decreases with each successive quarter until reaching its lowest point at the end of the year.

Non-current financial liabilities decreased by €16.3 million from €243.5 million at the end of 2020 to €227.2 million as of June 30, 2021 due to the balance of new loans in the amount of €60.0 million and reclassifications to current financial liabilities.

Deferred tax liabilities fell by €4.2 million from €8.0 million to €3.8 million due to lower netting with stable deferred tax receivables. The lower netting with deferred tax receivables was due mainly to lower tax loss carryforwards in individual national subsidiaries.

Software AG's **shareholders' equity** as of June 30, 2021 was €1,329.7 million compared with €1,312.5 million at the end of 2020, representing an increase of €17.2 million. In relation to total assets, the **equity ratio** decreased slightly to 63.7 percent compared with 64.3 percent on December 31, 2020. This decrease in equity ratio was due mainly to the €48.6 million increase in total assets and liabilities compared with December 31, 2020, which resulted largely from the €49.5 million rise in current and non-current financial liabilities and the €62.3 million rise in cash and cash equivalents.

## Employees

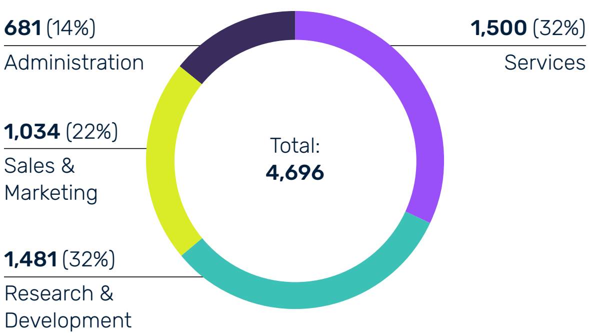
As of June 30, 2021, the Software AG Group employed 4,696 people (full-time equivalents, FTEs), compared to 4,700 at the end of 2020. The figure as of June 30, 2020—adjusted by 438 FTEs from the sold Spanish Professional Services unit—was 4,642 employees. This reflects a 1 percent increase in the number of employees year-on-year. Software AG has positioned itself globally as an attractive employer. Its most recent employee engagement score of 3.9 (out of 5) from an employee survey conducted at the end of 2020 illustrates a year-on-year improvement of 8 percent and translates to an indication of the Company's commitment to its employees through the pandemic.

By functional area, the number of employees in Professional Services at the end of June 2021 showed a slight increase at 1,500 FTEs (Dec. 31, 2020: 1,490). The number of employees in Sales and Marketing also rose slightly to 1,034 (Dec. 31, 2020: 1,027). By contrast, R&D posted a moderate decline in the number of employees at 1,481 FTEs (Dec. 31, 2020: 1,494) as did Administration at 681 FTEs (Dec. 31, 2020: 689) at the end of the first half of the year.

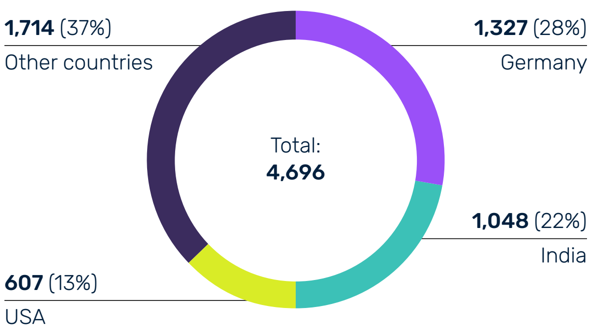
For the Group as a whole, 310 new employees were onboarded in the first half of the year. The recruiting process was entirely virtual due to COVID-19.

The international structure of Software AG's staff reflects the global nature of its business operations. The regional distribution of Software AG Group employees as of June 30, 2021 was as follows: 1,327 in Germany (Dec. 31, 2020: 1,314), 1,048 in India (Dec. 31, 2020: 1,043) and 607 in the USA (Dec. 31, 2020: 629). A total of 1,714 (Dec. 31, 2020: 1,714) people were employed in countries other than those mentioned above.

**Headcount by Function**[1]




**Headcount by Region**[1]




[1] FTE in accordance with P&L structure as of June 30, 2021. For more information including average and absolute figures, please refer to Note [12] on p. 36.

## Opportunity and Risk Report

Software AG's 2020 Annual Report contains a comprehensive Opportunity and Risk Report (see p. 116) which describes specific risks that could have a negative impact on business and financial performance or assets and financial position. It also describes key opportunities for Software AG. There were no significant changes to the risk and opportunity situation of the Software AG Group in the first half of 2021 as compared to the risks and opportunities identified in the 2020 Annual Report.

Software AG's risk management was and continues to be optimized based on the extended requirements of the updated IDW PS 340 (new version) auditing standard. This includes more frequent assessments of risk expectation values throughout the year—taking into account interdependencies between individual strategic risks. Furthermore, the Company's risk-bearing capacity metric is also being adapted. The respective determined risk expectation values are compared to this revised risk-bearing capacity metric and, if necessary, further measures to reduce the Software AG Group's overall strategic risk are initiated.

Because the risk of cyber attacks grew steadily in the first half of 2021, ongoing optimization of the necessary preventative measures remained a high priority. Software AG continued working to identify risks in connection with the cyber incident of October 2020 and communicating with data protection authorities and affected individuals in the first half of 2021. These activities, including notifying customers, partners and suppliers, are expected to be completed in the third quarter of 2021.

The pace of digitization accelerated significantly in the global economy due to the COVID-19 pandemic. This led and is leading to a further shortage of IT specialists in the job market, which caused a sharp intensification of the talent war in the first half of 2021, especially in the USA and India. More IT specialists are leaving Software AG for lifestyle changes and improved benefits. Therefore, the rate of staff turnover increased. Software AG is currently developing a strategy to reduce turnover and win new talent for the Company.

The impact of the COVID-19 pandemic on the development of large national economies is gradually diminishing with the progress of vaccinations. The sectors most affected by the pandemic are general services, personal care services, retail (excluding grocery stores), tourism, restaurants, hotels and airlines. With the exception of airlines, the economic development of Software AG's customer base has not been significantly impacted by the pandemic. The effects of the COVID-19 pandemic on Software AG were therefore quite minor. A consistent remote work concept enabled operations to continue without any major interruptions. A dedicated safety and hygiene plan was developed and implemented at all open offices. Software AG was able to deliver customers its full range of Professional Services remotely. Because there were no significant outages in the customer base, no major defaults on receivables arose. Future business potential with the customer base remained unchanged as well. Cost-cutting measures taken by many customers early in the pandemic have been reduced considerably in the meantime. Customers had been limiting their investments to only those software products critical to their business processes. As a provider of many such products, Software AG continued signing deals even during the most difficult stage of the pandemic. There were some individual cases of delayed projects due to customers' shortened hours or resource cutbacks. This mainly impeded business with new customers, as well as new business with existing customers (new projects with additional software). Existing risks in connection with receivables represented a value in the mid single-digit million euros and therefore did not present a threat to the going concern of the Company as defined by section 91 (2) of the German Stock Corporation Act.

Key business opportunities for Software AG's future business have also emerged from the crisis. The COVID-19 pandemic forced many companies and government agencies to drastically accelerate their digitization activities. Software AG's products are necessary for digitization, which will lead to significant business opportunities in the medium term.

Software AG employs a business continuity management system with external ISO 22301 certification. It consists of best-practice processes, crisis management teams and IT back-up systems at various locations. It enabled and enables the Company to keep all main business-critical processes running and, with its Support Center, to help customers keep their business-critical processes running as well.

Internally, Software AG dealt thoroughly with the impact of the COVID-19 pandemic on its financial performance at the beginning of the crisis. But the health of employees and delivering on operational commitments to customers and suppliers remained its highest priorities.

Thanks to Software AG management's focus on crisis management measures and the largely stable customer base, overall, no strategic risks associated with the COVID-19 pandemic arose that jeopardized the Company. Uncertainty around the progression of the pandemic remains, nevertheless. Since restrictions have been lifted, infection rates have started rising again, and new virus variants could worsen the situation.

## Outlook

Software AG has confirmed its outlook released on January 27, 2021 for the 2021 fiscal year. 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 margin (EBITA, non-IFRS): 16 percent to 18 percent

The Group also confirms its mid-term ambitions for 2023: €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.

### Outlook for Fiscal Year 2021

| | FY 2020 in € millions | Outlook FY 2021 as of Jan. 27, 2021 as % |
|---|---|---|
| Digital Business bookings | 360.7 | +15 to +25[1] |
| Adabas & Natural bookings | 129.0 | −30 to −20[1] |
| Total product revenue | 671.1 | 0 to +5[1] |
| Operating margin (EBITA, non-IFRS)[2] | 21.2 | 16 to 18 |

[1] At constant currency
[2] Before adjusting for non-operating factors (refer to the non-IFRS earnings definition from p. 49 of the 2020 Annual Report)

# Consolidated Interim Financial Statements

## Consolidated Income Statement

**for the six months ended June 30, 2021 and 2020 (IFRS, unaudited)**

| in € thousands | H1 2021 | H1 2020 |
|---|---|---|
| **Licenses** | **109,067** | **91,101** |
| Maintenance | 198,284 | 214,536 |
| Software as a Service (SaaS) | 20,010 | 14,232 |
| Services | 73,930 | 91,577 |
| Other | 3 | 209 |
| **Total revenue** | **401,294** | **411,655** |
| | | |
| Cost of sales | –91,725 | –106,819 |
| **Gross profit** | **309,569** | **304,836** |
| | | |
| Research and development expenses | –74,022 | –73,777 |
| Sales, marketing and distribution expenses | –127,296 | –130,490 |
| General and administrative expenses | –40,189 | –38,765 |
| Other income | 9,106 | 13,367 |
| Other expenses | –11,758 | –14,492 |
| Other taxes | –2,051 | –2,507 |
| **Operating income** | **63,359** | **58,172** |
| Financing income | 2,606 | 4,836 |
| Financing expenses | –3,295 | –2,679 |
| **Net financial income/expenses** | **–689** | **2,157** |
| **Earnings before income taxes** | **62,670** | **60,329** |
| | | |
| Income taxes | –19,281 | –18,434 |
| **Net income** | **43,389** | **41,895** |
| thereof attributable to shareholders of Software AG | 43,229 | 41,785 |
| thereof attributable to non-controlling interests | 160 | 110 |
| | | |
| Earnings per share in € (basic) | 0.58 | 0.56 |
| Earnings per share in € (diluted) | 0.58 | 0.56 |
| | | |
| Weighted average number of shares outstanding (basic) | 73,979,889 | 73,979,889 |
| Weighted average number of shares outstanding (diluted) | 73,979,889 | 73,979,889 |

# Statement of Comprehensive Income

**for the six months ended June 30, 2021 and 2020 (IFRS, unaudited)**

| in € thousands | H1 2021 | H1 2020 |
|---|---|---|
| **Net income** | **43,389** | **41,895** |
| Currency translation differences from foreign operations | 30,424 | –15,647 |
| Net gain/(loss) from cash flow hedges | 1,523 | 1,359 |
| Currency translation gain/loss from net investments in foreign operations | 0 | 1 |
| **Items to be reclassified to the income statement if certain conditions are met** | **31,947** | **–14,287** |
| Net gain/(loss) from equity instruments designated to measurement at fair value through other comprehensive income | –44 | –72 |
| Net actuarial gain/loss on pension obligations | –1,490 | 2,472 |
| **Items not to be reclassified to the income statement** | **–1,534** | **2,400** |
| **Gain/loss recognized in equity** | **30,413** | **–11,887** |
| **Total comprehensive income** | **73,802** | **30,008** |
| thereof attributable to shareholders of Software AG | 73,642 | 29,898 |
| thereof attributable to non-controlling interests | 160 | 110 |

# Consolidated Balance Sheet

**as of June 30, 2021 and December 31, 2020 (IFRS, unaudited)**

## Assets

| in € thousands | June 30, 2021 | Dec. 31, 2020 |
|---|---|---|
| **Current assets** | | |
| Cash and cash equivalents | 542,268 | 479,982 |
| Other financial assets | 15,850 | 7,368 |
| Trade receivables, contract assets and other receivables | 179,617 | 211,790 |
| Other non-financial assets | 34,831 | 28,692 |
| Income tax receivables | 24,412 | 30,207 |
| | **796,978** | **758,039** |
| **Non-current assets** | | |
| Intangible assets | 92,138 | 99,282 |
| Goodwill | 960,553 | 947,370 |
| Property, plant and equipment | 76,197 | 82,349 |
| Investment property | 6,363 | 6,917 |
| Other financial assets | 23,377 | 17,742 |
| Trade receivables, contract assets and other receivables | 102,529 | 95,500 |
| Other non-financial assets | 7,497 | 7,136 |
| Income tax receivables | 12,250 | 11,114 |
| Deferred tax receivables | 10,672 | 14,458 |
| | **1,291,576** | **1,281,868** |
| **Total Assets** | **2,088,554** | **2,039,907** |

**as of June 30, 2021 and December 31, 2020 (IFRS, unaudited)**

## Equity and Liabilities

| in € thousands | June 30, 2021 | Dec. 31, 2020 |
| --- | --- | --- |
| **Current liabilities** | | |
| Financial liabilities | 82,179 | 16,415 |
| Trade and other payables | 39,784 | 47,050 |
| Other non-financial liabilities | 102,828 | 138,172 |
| Other provisions | 39,910 | 38,825 |
| Income tax liabilities | 30,306 | 33,293 |
| Contract liabilities/deferred income | 149,541 | 118,295 |
| | **444,548** | **392,050** |
| **Non-current liabilities** | | |
| Financial liabilities | 227,227 | 243,519 |
| Trade and other payables | 181 | 139 |
| Other non-financial liabilities | 1,132 | 1,209 |
| Other provisions | 9,120 | 11,077 |
| Provisions for pensions and similar obligations | 56,227 | 55,439 |
| Income tax liabilities | 2,204 | 2,135 |
| Deferred tax liabilities | 3,839 | 8,049 |
| Contract liabilities/deferred income | 14,378 | 13,765 |
| | **314,308** | **335,332** |
| **Equity** | | |
| Share capital | 74,000 | 74,000 |
| Capital reserves | 22,580 | 22,580 |
| Retained earnings | 1,328,742 | 1,341,738 |
| Other reserves | –95,359 | –125,772 |
| Treasury shares | –757 | –757 |
| **Attributable to shareholders of Software AG** | **1,329,206** | **1,311,789** |
| **Non-controlling interests** | **492** | **736** |
| | **1,329,698** | **1,312,525** |
| **Total Equity and Liabilities** | **2,088,554** | **2,039,907** |

# Consolidated Statement of Cash Flows

### for the six months ended June 30, 2021 and 2020 (IFRS, unaudited)

| in € thousands | H1 2021 | H1 2020 |
|---|---|---|
| Net income | 43,389 | 41,895 |
| Income taxes | 19,281 | 18,434 |
| Net financial income/expense | 689 | –2,157 |
| Amortization/depreciation of non-current assets | 20,370 | 20,337 |
| Other non-cash income/expense | –198 | 2,054 |
| Changes in receivables and other assets | 17,337 | 30,957 |
| Changes in payables and other liabilities | –11,634 | –3,432 |
| Income taxes paid | –17,761 | –22,599 |
| Interest paid | –3,694 | –2,682 |
| Interest received | 2,676 | 4,888 |
| **Net cash flow from operating activities** | **70,455** | **87,695** |
| Proceeds from the sale of property, plant and equipment/intangible assets | 120 | 1,170 |
| Purchase of property, plant and equipment/intangible assets | –2,330 | –6,246 |
| Proceeds from the sale of non-current financial assets | 118 | 0 |
| Purchase of non-current financial assets | –3,432 | –3,297 |
| Proceeds from the sale of current financial assets | 8,698 | 276 |
| Purchase of current financial assets | –17,857 | –523 |
| Net proceeds from disposals of assets held for sale | 2,132 | 128 |
| **Net cash flow from investing activities** | **–12,551** | **–8,492** |

**for the six months ended June 30, 2021 and 2020 (IFRS, unaudited)**

| in € thousands | H1 2021 | H1 2020 |
|---|---|---|
| Dividends paid | –56,629 | –342 |
| Proceeds/payments for current financial liabilities | –5,987 | –44,750 |
| Repayment of lease liabilities | –6,699 | –7,946 |
| New non-current financial liabilities | 60,000 | 0 |
| Repayment of non-current financial liabilities | –3 | –25,001 |
| **Net cash flow from financing activities** | **–9,318** | **–78,039** |
| Change in cash and cash equivalents | 48,586 | 1,164 |
| Change in cash and cash equivalents from currency translation | 13,700 | –6,938 |
| **Net change in cash and cash equivalents** | **62,286** | **–5,774** |
| Cash and cash equivalents at beginning of period | 479,982 | 513,632 |
| **Cash and cash equivalents at end of period** | **542,268** | **507,858** |
| **Free cash flow** | **58,232** | **71,376** |

# Consolidated Statement of Changes in Equity

## for the six months ended June 30, 2021 and 2020 (IFRS, unaudited)

| in € thousands | Subscribed capital | | Capital reserves | Retained earnings |
|---|---|---|---|---|
| | Common shares outstanding (no.) | | | |
| **Equity as of Jan. 1, 2020** | **73,979,889** | **74,000** | **22,580** | **1,302,257** |
| **Total comprehensive income** | | | | **41,785** |
| **Transactions with shareholders** | | | | |
| Dividend payment | | | | |
| Other changes | | | | –1 |
| **Transactions between shareholders** | | | | |
| **Equity as of June 30, 2020** | **73,979,889** | **74,000** | **22,580** | **1,344,041** |
| **Equity as of Jan. 1, 2021** | **73,979,889** | **74,000** | **22,580** | **1,341,738** |
| **Total comprehensive income** | | | | **43,229** |
| **Transactions with shareholders** | | | | |
| Dividend payment | | | | –56,225 |
| Other changes | | | | |
| **Transactions between shareholders** | | | | |
| **Equity as of June 30, 2021** | **73,979,889** | **74,000** | **22,580** | **1,328,742** |

| Other reserves | | | | Treasury shares | Attributable to shareholders of Software AG | Non-controlling interests | Total |
|---|---|---|---|---|---|---|---|
| Currency translation differences from foreign operations | Net gain/loss on remeasuring financial assets | Net actuarial gain/loss on pension obligations | Currency translation gain/loss from net investments in foreign operations | | | | |
| 4,718 | –8,432 | –44,513 | 6,923 | –757 | 1,356,776 | 679 | 1,357,455 |
| –15,647 | 1,287 | 2,472 | 1 | | 29,898 | 110 | 30,008 |
| | | | | | | | |
| | | | | | 0 | –342 | –342 |
| | | | | | –1 | | –1 |
| | | | | | 0 | | 0 |
| –10,929 | –7,145 | –42,041 | 6,924 | –757 | 1,386,673 | 447 | 1,387,120 |
| –73,395 | –8,340 | –50,961 | 6,924 | –757 | 1,311,789 | 736 | 1,312,525 |
| 30,424 | 1,479 | –1,490 | 0 | | 73,642 | 160 | 73,802 |
| | | | | | | | |
| | | | | | –56,225 | –404 | –56,629 |
| | | | | | 0 | | 0 |
| | | | | | 0 | | 0 |
| –42,971 | –6,861 | –52,451 | 6,924 | –757 | 1,329,206 | 492 | 1,329,698 |

# Notes to the Consolidated Interim Financial Statements

## General

### [1] Basis of Presentation

Software AG's condensed and unaudited consolidated interim financial statements (half-year financial statements) as of June 30, 2021 were prepared in accordance with the reporting standards of the International Accounting Standards Board (IASB) and the International Financial Reporting Standards (IFRS), as applicable in the European Union (EU). The IFRS applicable as of June 30, 2021 were observed, as were the corresponding interpretations of the International Financial Reporting Interpretations Committee (IFRIC).

Software AG is a registered stock corporation under German law with registered offices in Darmstadt. It is the principal parent company of a Group that is globally active in the fields of software development, licensing and maintenance as well as IT services. The functional currency of Software AG is the euro.

The consolidated financial statements of Software AG are expressed in thousands of euros unless otherwise stated. Software AG waived a voluntary audit and a review of the consolidated interim financial statements (half-year report).

### [2] Scope of Consolidation

**Changes in the consolidated Group**

There were no changes in the consolidated Group in the first six months of fiscal 2021.

| | Germany | Foreign | Total |
|---|---|---|---|
| **January 1, 2021** | **10** | **65** | **75** |
| Additions | 0 | 0 | 0 |
| Disposals (including mergers) | 0 | 0 | 0 |
| **June 30, 2021** | **10** | **65** | **75** |

## [3] Accounting Policies

The same accounting policies were applied to the consolidated interim financial statements as were applicable to the consolidated financial statements as of December 31, 2020. For more detailed information on accounting policies, refer to Note 3 to the consolidated financial statements for fiscal 2020 on pp. 173–182 of the 2020 Annual Report. These half-year statements were prepared in accordance with IAS 34: Interim Financial Reporting.

## [4] Disposal Groups/Groups of Assets and Liabilities Held to Sell

Net sale price receivables from the sale of the Software AG Spain services business in the amount of €2,132 thousand, which were reported in other financial assets as of December 31, 2020 and were still outstanding as of that date, were paid in full in January 2021.

# Notes to the Consolidated Balance Sheet

## [5] Intangible Assets/Goodwill

Goodwill amounted to €960,553 thousand as of June 30, 2021, an increase of 13,183 thousand compared to December 31, 2020. This change is due to exchange rate effects.

## [6] Equity

### Share capital

Software AG's share capital totaled €74,000 thousand (Dec. 31, 2020: €74,000 thousand) as of June 30, 2021. Software AG's share capital is divided into 74,000,000 (Dec. 31, 2020: 74,000,000) registered shares. Each share entitles its holder to one vote.

### Dividend

Pursuant to the proposal of the Management Board and the Supervisory Board, the Annual Shareholders' Meeting resolved on May 12, 2021 to appropriate €56,224 thousand (2020: €56,224 thousand) to a dividend payout from the net retained profits of €113,764 thousand reported by Software AG, the controlling Group company, in 2020. This corresponded to a dividend of €0.76 (2020: €0.76) per share. A total amount of €57,540 thousand (2020: €77,255 thousand) was carried forward.

### Acquisition of treasury shares

As of June 30, 2021, Software AG held 20,111 (Dec. 31, 2020: 20,111) treasury shares representing an interest of €20,111 (Dec. 31, 2020: €20,111), or 0.03 percent (Dec. 31, 2020: 0.03 percent) of the share capital.

Pursuant to the Annual Shareholders' Meeting resolution from May 12, 2021, the Company is authorized until May 11, 2026 to purchase Software AG shares totaling a maximum of 10 percent of the share capital at the time of the resolution. The shares purchased, together with other treasury shares that the Company has already purchased and still holds or that are attributable to it in accordance with sections 71d and 71e of the German Stock Corporation Act, may not account for more than 10 percent of the respective share capital at any time.

Software AG did not acquire treasury shares in the first half of 2021 or the first half of 2020 nor did the balance of treasury shares change.

# Other Disclosures

## [7] Segment Reporting

### Notes on segment reporting

Segmentation is in accordance with the internal control of the Group. In addition to the leading indicators consisting of bookings, annual recurring revenue (ARR), share of subscription and Software as a Service (SaaS) bookings in total bookings (as a percentage), and share of recurring product revenue in total product revenue (as percentage), internal control also focuses on lagging indicators, specifically product revenue at constant currency for the two product segments (for more information, please refer to the Consolidated Interim Management Report). Margins and earnings are controlled largely at Group level. Of considerably less importance are the segments' contributions and earnings at secondary level of control. Software AG reports on the following three segments:

- **Digital Business**
  (webMethods product suite for integration, API management and microservices; Cumulocity and TrendMiner for IoT and analytics; ARIS and Alfabet for business transformation)
- **Adabas & Natural**
  (A&N: data management with the Adabas and Natural product families)
- **Professional Services**
  (implementation of Software AG products)

The segment contribution does not include the amortization expense associated with the purchase of intangible assets through acquisitions. These charges are therefore shown separately under reconciliation. This presentation corresponds with internal control and reporting lines (management approach). The majority of sales and marketing expenses are classified based on revenue percentage. A focus on absolute earnings contributions therefore only makes sense in certain scenarios given the interdependency between the two product segments. Research and development expenses are assigned to the segments based on expense components directly attributable to the R&D department as well as the overhead coded to R&D. They have no direct impact on internal control.

The table below shows the segment data for the first half of 2021:

## Segment Report for the six months ended June 30, 2021 and 2020 (IFRS, unaudited)

| | Digital Business | | | Adabas & Natural | | |
|---|---|---|---|---|---|---|
| in € thousands | H1 2021 IFRS | H1 2021 acc[1] | H1 2020 IFRS | H1 2021 IFRS | H1 2021 acc[1] | H1 2020 IFRS |
| Subscription licenses | 51,964 | 52,928 | 34,856 | 28,510 | 29,806 | 11,406 |
| Subscription maintenance | 23,115 | 23,927 | 11,341 | 4,457 | 4,659 | 1,332 |
| Perpetual maintenance | 106,525 | 111,171 | 131,728 | 64,187 | 67,514 | 70,135 |
| SaaS | 20,008 | 20,555 | 14,204 | 2 | 2 | 28 |
| **Annual recurring revenue** | **201,612** | **208,581** | **192,129** | **97,156** | **101,981** | **82,901** |
| Perpetual licenses | 11,048 | 11,609 | 17,968 | 17,545 | 18,067 | 26,871 |
| **Product revenue** | **212,660** | **220,190** | **210,097** | **114,701** | **120,048** | **109,772** |
| Services | 0 | 0 | 88 | 0 | 0 | 0 |
| Other | 0 | 0 | 0 | 0 | 0 | 209 |
| **Total revenue** | **212,660** | **220,190** | **210,185** | **114,701** | **120,048** | **109,981** |
| Cost of sales | –28,677 | –29,161 | –23,711 | –4,339 | –4,530 | –4,728 |
| **Gross profit** | **183,983** | **191,029** | **186,474** | **110,362** | **115,518** | **105,253** |
| Sales, marketing and distribution expenses | –102,888 | –106,571 | –100,594 | –15,186 | –15,844 | –18,201 |
| **Segment contribution** | **81,095** | **84,458** | **85,880** | **95,176** | **99,674** | **87,052** |
| Research and development expenses | –58,411 | –58,000 | –57,539 | –15,611 | –15,600 | –16,238 |
| **Segment earnings** | **22,684** | **26,458** | **28,341** | **79,565** | **84,074** | **70,814** |
| General and administrative expenses | | | | | | |
| Other income | | | | | | |
| Other expenses | | | | | | |
| Other taxes | | | | | | |
| **Operating income** | | | | | | |
| Financing income | | | | | | |
| Financing expenses | | | | | | |
| **Net financial income/expenses** | | | | | | |
| **Earnings before income taxes** | | | | | | |
| Income taxes | | | | | | |
| **Net income** | | | | | | |

[1] At constant currency

| Professional Services | | | Reconciliation | | Total | | |
|---|---|---|---|---|---|---|---|
| **H1 2021 IFRS** | **H1 2021 acc**[1] | **H1 2020 IFRS** | **H1 2021 IFRS** | **H1 2020 IFRS** | **H1 2021 IFRS** | **H1 2021 acc**[1] | **H1 2020 IFRS** |
| 0 | 0 | 0 | 0 | 0 | 80,474 | 82,734 | 46,262 |
| 0 | 0 | 0 | 0 | 0 | 27,572 | 28,586 | 12,673 |
| 0 | 0 | 0 | 0 | 0 | 170,712 | 178,685 | 201,863 |
| 0 | 0 | 0 | 0 | 0 | 20,010 | 20,557 | 14,232 |
| **0** | **0** | **0** | **0** | **0** | **298,768** | **310,562** | **275,030** |
| 0 | 0 | 0 | 0 | 0 | 28,593 | 29,676 | 44,839 |
| **0** | **0** | **0** | **0** | **0** | **327,361** | **340,238** | **319,869** |
| 73,930 | 76,266 | 91,489 | | | 73,930 | 76,266 | 91,577 |
| 3 | 3 | 0 | | | 3 | 3 | 209 |
| **73,933** | **76,269** | **91,489** | **0** | **0** | **401,294** | **416,507** | **411,655** |
| –53,706 | –55,307 | –74,354 | –5,003 | –4,026 | –91,725 | | –106,819 |
| **20,227** | **20,962** | **17,135** | **–5,003** | **–4,026** | **309,569** | | **304,836** |
| –6,332 | –6,499 | –8,462 | –2,890 | –3,233 | –127,296 | | –130,490 |
| **13,895** | **14,463** | **8,673** | **–7,893** | **–7,259** | **182,273** | | **174,346** |
| 0 | 0 | 0 | 0 | 0 | –74,022 | | –73,777 |
| **13,895** | **14,463** | **8,673** | **–7,893** | **–7,259** | **108,251** | | **100,569** |
| | | | | | –40,189 | | –38,765 |
| | | | | | 9,106 | | 13,367 |
| | | | | | –11,758 | | –14,492 |
| | | | | | –2,051 | | –2,507 |
| | | | | | **63,359** | | **58,172** |
| | | | | | 2,606 | | 4,836 |
| | | | | | –3,295 | | –2,679 |
| | | | | | **–689** | | **2,157** |
| | | | | | **62,670** | | **60,329** |
| | | | | | –19,281 | | –18,434 |
| | | | | | **43,389** | | **41,895** |

## [8] Contingent Liabilities

The carrying amount of collateral received was €125 thousand (2020: €135 thousand) as of June 30, 2021.

## [9] Seasonal Influences

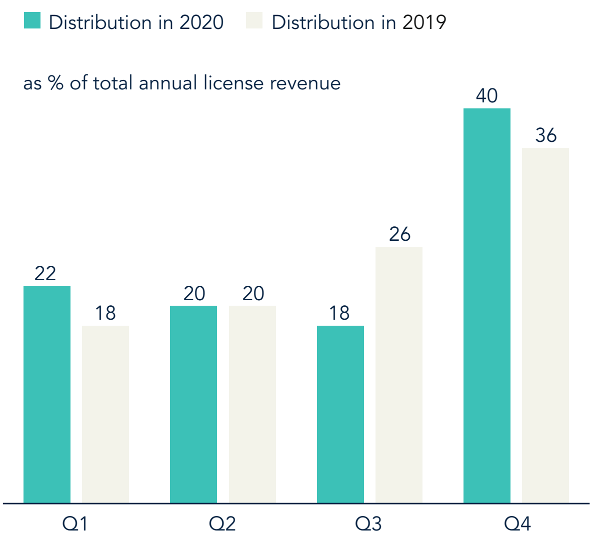
Revenue and pre-tax earnings were distributed over fiscal year 2020 as follows:

| in € thousands | Q1 2020 | Q2 2020 | Q3 2020 | Q4 2020 | 2020 |
|---|---|---|---|---|---|
| License revenue | 46,688 | 44,413 | 38,869 | 87,247 | 217,217 |
| as % of license revenue for the year | 22 | 20 | 18 | 40 | 100 |
| Total revenue | 207,046 | 204,609 | 185,358 | 237,833 | 834,846 |
| as % of revenue for the year | 25 | 25 | 22 | 28 | 100 |
| Earnings before taxes | 28,715 | 31,614 | 24,437 | 48,818 | 133,584 |
| as % of earnings for the year | 21 | 24 | 18 | 37 | 100 |

Based on historical data, the revenue and earnings distribution from 2020 is not fully representative. The distribution of revenue and earnings is regularly affected by large individual deals and is thus difficult to predict.

The following graph illustrates the development of license revenues in 2020 and 2019:

**License revenue in 2020 and 2019**




## [10] Litigation

A number of legal actions have been have been filed with the Regional Court of Saarbrücken in connection with the control and profit transfer agreement with IDS Scheer AG. In these proceedings, the petitioners are seeking an increase in their cash settlements and annual compensatory payments. Software AG considers the objections to valuation to be groundless. The Regional Court of Saarbrücken ruled on June 6, 2018 to reject the plaintiffs' appeal. Multiple plaintiffs filed complaints against the decision within the appeal period. There were no significant developments regarding this case in the first half of 2021.

In connection with the merger of IDS Scheer AG and Software AG, a large number of legal challenges were filed with the Regional Court of Saarbrücken, in which the plaintiffs seek a legal review of the set exchange ratio and cash compensation. Software AG considers the objections to valuation to be groundless. In its decision of March 15, 2013, the Regional Court of Saarbrücken determined that the market value ratio method be employed for valuation and that cash compensation in the amount of €7.22 plus interest for every share held by outside shareholders be paid. This could result in a maximum risk of approximately €7.6 million plus interest. Software AG appealed the decision. The court-ordered expert witness submitted a report in the third quarter of 2017. Software AG took a detailed position on the report in the fourth quarter of 2017. The court resolved on January 12, 2018 that the expert witness must appear for a hearing to explain the report and make additions to it prior to the appointment. The expert witness concluded in his supplementary report from May 25, 2021 that the ruling of the regional court was not tenable if the market value ratio is applied and the earnings values in the report at first instance must be corrected. With respect to valuation of Software AG, the expert witness ultimately considers an EBIT margin of 25 percent to be appropriate for the period of detailed planning and 20 percent for perpetual annuity. The resulting additional payment would amount to €7.33 per share, or a total of €7.7 million plus interest. This is slightly worse than the calculation of the exchange ratio based on the market value method, for which the regional court had ruled at first instance. Software AG does not deem the supplementary report accurate due to fundamental errors and will compile a private report. According to an externally commissioned forecast on the outcome of the proceedings, it is likely that a further report will be compiled. Provisions were increased and set up based on the estimated probable actual resource outflow.

The Spanish cartel authority (Comisión Nacional de los Mercados y la Competencia, CNMC) searched the offices of Software AG España, S.A. Unipersonal (Software AG Spain) on October 28 and 29, 2015 on the suspicion of an inadmissible anti-competitive agreement. On April 25, 2016, the CNMC published on its website that it was initiating antitrust proceedings against 11 companies, including Software AG Spain. CNMC extended the case to three additional companies on October 19, 2017. CNMC is accusing Software AG Spain of inadmissible price fixing and covert tenders. Following a hearing on June 12, 2018, the CNMC ruled on July 31, 2018 to impose a penalty on 11 companies, including Software AG Spain. The penalty for Software AG Spain was €6 million, which was paid by court order on January 28, 2019. Software AG appealed the agency's decision and submitted its concluding argument on May 23, 2019. A decision is not expected until the second half of 2021 due to COVID-19-related delays.

After a customer of Software AG in the USA, Shelby County, Tennessee, requested exemption from possible claims filed against the county and/or its employees by Software AG in 2017 and 2018, Software AG Cloud Americas, Inc. was added as a defendant in a class-action lawsuit in the U.S. District Court for the Western District of Tennessee ("Tennessee District Court") on January 18, 2019. The backdrop to this are various lawsuits against a customer of Software AG, Shelby County, Tennessee. Although the class-action lawsuit has not yet been been admitted by the courts and is currently in the early discovery phase, mediation between all parties took place in December 2020. The parties subsequently elaborated the terms of a settlement, which was finalized as of June 30, 2021, but has yet to receive the required approval by the Tennessee District Court. If approved by the court, the share of the settlement to be paid by Software AG would be limited to 5.5 percent and would be covered in full by insurance.

The risk evaluation for other litigation and legal risks was updated; and provisions were set up based on a new calculation of the probable actual resource outflow.

Provisions for litigation totaled €13,259 thousand (Dec. 31, 2020: €12,141 thousand) as of June 30, 2021.

In addition, contingent liabilities in the amount of €42,349 thousand as of June 30, 2021 (Dec. 31, 2020: €46,939 thousand) existed. But since a resource outflow was not sufficiently likely as of the balance sheet date, no provisions were set up. Those relate to individual lawsuits and €26,618 thousand (Dec. 31, 2020: €24,400 thousand) in tax-related risks.

## [11] Stock Option Plans

Software AG has various stock option plans for members of the Management Board, managers and other Group employees. All plans as of June 30, 2021 are described in detail in Note 37 on pp. 224–229 of Software AG's 2020 Annual Report.

Rights under Long Term Incentive Plan 2021 (LIP 2021) were allocated to members of the Management Board in May 2021.

The LIP replaces the existing and also long-term Management Incentive Plan (MIP). The rights have a term of four years. The LIP consists of two equally weighted portions or virtual stock options: value right 1 (VR 1) and value right 2 (VR2). The amount of payment for the rights (VR 1) depends on outperformance of Software AG's share relative to the MDAX price index. The amount of payment for the rights (VR 2) is linked to a target achievement factor based on the average achievement of targets for revenue, profit margin and annual recurring revenue (ARR). A total of 130,890 (VR 1) rights and 264,085 (VR 2) rights were allocated. The fair value on the date of award was €11.46 for the (VR 1) rights and €5.68 for the (VR 2) rights.

Share-based remuneration resulted in a total expense of €3,804 thousand (H1 2020: €5,285 thousand) in the first half of 2021.

The rights granted under management incentive plans in previous years changed as follows in the first six months of the 2021 fiscal year:

### Management Incentive Plan 2020

The rights granted under Management Incentive Plan 2020 changed as follows in the first six months of the fiscal year:

| **Balance as of Dec. 31, 2020** | **644,455** |
|---|---:|
| Granted | 0 |
| Exercised | 0 |
| Expired | –76,368 |
| **Balance as of June 30, 2021** | **568,087** |

### Management Incentive Plan 2019

The rights granted under Management Incentive Plan 2019 changed as follows in the first six months of the fiscal year:

| **Balance as of Dec. 31, 2020** | **330,808** |
|---|---:|
| Granted | 0 |
| Exercised | –44,694 |
| Expired | –42,894 |
| **Balance as of June 30, 2021** | **243,220** |

### Management Incentive Plan 2018

The rights granted under Management Incentive Plan 2018 changed as follows in the first six months of the fiscal year:

| **Balance as of Dec. 31, 2020** | **547,449** |
|---|---:|
| Granted | 0 |
| Exercised | 0 |
| Expired | –306,707 |
| **Balance as of June 30, 2021** | **240,742** |

## [12] Employees

In the first half of 2021, the average number of employees (part-time employees are counted on a pro rata basis only) by area of activity was as follows:

| | **June 30, 2021** | **June 30, 2020** |
|---|---:|---:|
| Maintenance and Services | 1,496 | 1,728 |
| Sales and Marketing | 1,033 | 985 |
| R&D | 1,478 | 1,449 |
| Administration | 675 | 664 |
| | **4,682** | **4,826** |

In absolute terms (part-time employees are counted in full), the Group employed 4,879 (2020: 4,811) people as of June 30, 2021.

## [13] Changes and Information Regarding Corporate Bodies

John Schweitzer, Chief Revenue Officer, resigned from his seat on the Management Board as of January 13, 2021. In addition to his existing responsibilities, Sanjay Brahmawar assumed responsibility for the CRO's divisions. Software AG announced on June 15, 2021 that the appointment of Dr. Stefan Sigg, Chief Product Officer, to the Management Board and his contract would be renewed for another five years, until March 31, 2027.

No further changes occurred on the Management Board or Supervisory Board between January 1, 2021 and June 30, 2021.

## [14] Events After the Balance Sheet Date

There were no events that occurred between June 30, 2021 and the date of release of this half-year report that were of significance to the consolidated financial statements.

**Date and authorization for issue**

Software AG's Management Board approved the consolidated financial statements on August 12, 2021.

**Responsibility statement**

To the best of our knowledge, and in accordance with the applicable reporting principles, the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group. The Combined Management Report includes a fair review of the development and performance of the business and the position of the Company and Group, together with a description of the principal opportunities and risks associated with the expected development of the Company and Group.

Darmstadt, August 12, 2021

Software AG

S. Brahmawar

Dr. E. Frank

Dr. Matthias Heiden

Dr. S. Sigg

# Additional Information

## Financial Calendar

For the latest information on events and roadshows, please visit: SoftwareAG.com/financialcalendar.

## Publication Credits

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