

Software AG delivers double-digit revenue growth in its Digital Business

*Subscription transformation underpins Digital Business revenue growth of 10 percent
Combined with strong Adabas & Natural performance, second quarter Group product revenue grows
17 percent*

Darmstadt, Germany – July 21, 2021: [Software AG](#) (Frankfurt MDAX®: SOW), today announces financial results for the second quarter of 2021.

Sanjay Brahmawar, Software AG CEO, commented: “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.”

Dr. Matthias Heiden, Software AG CFO, commented: “The continued strength of our Digital Business and our strong quarterly performance in Adabas & Natural has 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.”

Financial highlights

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

- **Product revenue** in the Digital Business grew 10 percent in the second quarter and 5 percent first half reflecting strong transformation progress. Combined with a strong quarter for Adabas & Natural (A&N) this led to total product revenue growing 17 percent in the second quarter and 6 percent in the first half.
- **Bookings** in the Digital Business grew 8 percent in the second quarter and 13 percent in the first half. A&N second quarter bookings growth of 48 percent led to first half growth of 8 percent.
- **Digital Business Subscription Momentum** with 94 percent of second quarter bookings from subscription and Software as a Service (SaaS). Annual recurring revenue (ARR) up 9 percent year-on-year. Recurring revenue growth drove overall product revenue growth in the first half, reaching 91 percent of our product revenue total.
- **Operating margin (EBITA, non-IFRS)** of 27.8 percent for the quarter and 21.3 percent for the half year represents a strong performance and reflects better than expected results in A&N.
- **Full-year guidance reconfirmed** and commitment to 2023 ambitions reiterated

Strategic highlights

- **Truly Connected Enterprise vision enabling sales success:** Innovation in Integration Platform as a Service (iPaaS) and API Management led to high double-digit growth in these product areas. Strong Business Transformation demand also drove Process Mining to double-digit growth. Market impact, industry recognition and customer feedback drove product net promoter score (NPS) to +57.
- **Investments in sales execution delivering early returns:** 140 new logos in the first half following a record second quarter of 72 (Q2 2020: 54; 1H 2020: 110). Migration deals continue to be executed with a multiplier of around 1.4x. Average deal volumes grew in all deal-size bands from €250,000 through to €1 million+.
- **Progressive development in scaling through the Group's partner ecosystem:** Incremental bookings from partners were 13 percent of Digital Business total, up from 7 percent pre-Helix. Continued success with cloud partners Microsoft and AWS, with major wins from both relationships in the second quarter.
- **Internal talent bolsters executive leadership:** Scott Little appointed Chief Revenue Officer and Dr. Benno Quade appointed Chief Customer Success Officer, effective from August 1, 2021. Both form part of extended Management Team together with the members of the Management Board. Mike Haugen appointed SVP Sales and head of the Americas.

Business environment

Software AG continues to operate in a global market accelerating towards digital transformation. Its Truly Connected Enterprise vision is responding to a €28 billion market opportunity, with the Group's 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 Digital Business, which directly addresses these markets, grew 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 accelerating their digital transformation programs. As evidenced by its recent success in med-tech, the Group continues to generate repeatable and scalable technology solutions for these exciting markets. The COVID-19 pandemic has also strengthened the imperative for businesses to drive towards the ideal of a Truly Connected Enterprise, particularly as they grapple with changes to the working locations, practices and needs of their employees. As a result, the Group's focused, cloud-enabled and subscription-ready product set continues to resonate strongly in its potential customer base and is helping it regularly win new agreements in competitive situations.

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 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 €539.4 million at the end of the second quarter, representing 8

percent growth year on year. ARR within the Group's Digital Business grew 9 percent year-on-year to €380.3 million. **Recurring revenue** in the quarter was €169.1 million, up from €146.4 million in the second quarter of 2020. This represents 94 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 second quarter was 94 percent, up from 88 percent in the second quarter of 2020.

Second quarter and first half 2021 business line bookings performance

Software AG's Group bookings of €126.6 million in the second quarter and €215.4 million in the first half represented 18 and 12 percent growth respectively (Q2 2020: €109.8 million; H1 2020: €200.0 million), driven by continued strong momentum in the Group's **Digital Business** and better-than-expected performance in **A&N**. Digital Business bookings stood at €86.1 million in the quarter and €153.5 million in the first half, representing 8 and 13 percent growth respectively (Q2 2020: €81.6 million; H1 2020: €139.7 million).

The Group's **A&N** business line delivered strong performance primarily driven by the closure of slipped deals from the first quarter and large deals pulled forward from the third quarter pipeline. Bookings of €40.6 million during the second quarter and €61.9 million during the first half represented growth of 48 percent and 8 percent respectively (Q2 2020: €28.2 million; H1 2020: €60.2 million). Much of A&N's second quarter bookings growth was driven by subscription, with subscription bookings growing from €20 million in the second quarter of 2020 to €31.5 million in the second quarter of 2021. This level of performance is not expected to repeat in the second half and the Group still expects to deliver full year results in line with 2019 levels.

Second quarter and first half 2021 Group revenue and earnings performance

Software AG reported €218.2 million in **total revenue** for the second quarter and €401.3 million for the first half of 2021 (Q2 2020: €204.6 million; H1 2020: €411.7 million). This represented constant currency growth of 10 percent and 1 percent respectively. This strong revenue performance was driven by **product revenue** growth of 17 percent in the second quarter to €180.9 million, and 6 percent in the first half of 2021 to €327.4 million (Q2 2020: €158.9 million; H1 2020: €319.9 million).

The contribution of **subscription revenue** to the Group's product revenue total grew 95 percent year-on-year in the second quarter and 89 percent in the first half, while **SaaS product revenue** also grew strongly during the second quarter at 47 percent and over the first half at 44 percent. Owing to the increasing speed of the Group's shift to subscription, **perpetual license** and **maintenance revenues** from perpetual licenses were down 5 percent and 12 percent respectively in the second quarter, and 34 percent and 11 percent over the first half of 2021.

Within **Professional Services**, the second quarter saw revenue of €37.3 million, which when adjusted for the sale of the Spanish Professional Services business represented growth of 7 percent. During the first half Professional Services revenue was €73.9 million, which on an adjusted basis was growth of 6 percent. On this single-digit adjusted revenue growth Professional Services delivered profit growth of 24 percent to €7.5 million in the second quarter and 67 percent in the first half to €13.9 million (Q2 2020: €6.3 million; 1H 2020: €8.7 million).

The Company's **EBIT** of €50.1 million in the second quarter and of €65.4 million in the first half of 2021 was ahead of market expectations as the Group benefited from higher-than-expected revenue and slightly lower costs than anticipated (Q2 2020: €31.9 million; H1 2020: €60.7 million). The Group's operating EBITA (non-IFRS) was at €60.8 million in the second quarter and €85.3 million in the first half (Q2 2020: €41.4 million; H1 2020: €81.1 million), giving Software AG an operating EBITA (non-IFRS) margin of 27.8 percent in the second quarter and 21.3 percent in the first half (Q2 2020: 20.2 percent, H1 2020: 19.7 percent).

The Group's free cash flow in the second quarter was €18.5 million, a decline of 5 percent year-on-year. In the first half the Group's cash flow was €58.2 million, a decline of 18 percent. 2021 will be the trough in the Group's cash flow before expansion in 2022 and beyond.

Employees

As of June 30, 2021, Software AG had 4,696 employees worldwide (full-time equivalents; June 30, 2020: 4,642). With the 2020 comparator adjusted for a 438 FTE reduction due to the sale of the Group's Spanish Professional Services Business, this represents growth in the Group's employee base of 1 percent year on year.

Guidance

The Group has reconfirmed 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 (EBITA, non-IFRS), 85 percent to 90 percent recurring product revenue and roughly 15 percent Digital Business CAGR in 2023.

Conference call

A webcast for financial analysts and media representatives will take place on Wednesday, July 21, 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.

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. And follow on [LinkedIn](#) and [Twitter](#).

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Key Group Figures

Second Quarter 2021 – Key Figures as of June 30, 2021

| in € millions (unless otherwise stated) | Q2 2021 | Q2 2020 | % % | % acc ¹ | H1 2021 | H1 2020 | % % | % acc ¹ |
|---|--------------|--------------|------------|-----------------------|--------------|--------------|------------|-----------------------|
| Group Bookings² | 126.6 | 109.8 | +15 | +18 | 215.4 | 200.0 | +8 | +12 |
| Digital Business line | 86.1 | 81.6 | +5 | +8 | 153.5 | 139.7 | +10 | +13 |
| A&N business line | 40.6 | 28.2 | +44 | +48 | 61.9 | 60.2 | +3 | +8 |
| Subscription | 94.5 | 73.8 | +28 | +32 | 141.5 | 106.9 | +32 | +37 |
| Software as a Service (SaaS) | 18.1 | 18.3 | -2 | 0 | 31.8 | 26.8 | +19 | +21 |
| Perpetual licences | 14.0 | 17.7 | -21 | -19 | 42.1 | 66.3 | -36 | -34 |
| Group Annual Recurring Revenue (ARR)² | 539.4 | 508.4 | +6 | +8 | - | - | - | - |
| Digital business line | 380.3 | 355.2 | +7 | +9 | - | - | - | - |
| A&N business line | 159.1 | 153.2 | +4 | +6 | - | - | - | - |
| Group Revenue | 218.2 | 204.6 | +7 | +10 | 401.3 | 411.7 | -3 | +1 |
| Product revenue | 180.9 | 158.9 | +14 | +17 | 327.4 | 319.9 | +2 | +6 |
| Digital Business line | 113.7 | 106.7 | +7 | +10 | 212.7 | 210.2 | +1 | +5 |
| A&N business line | 67.2 | 52.4 | +28 | +32 | 114.7 | 109.8 | +4 | +9 |
| Subscription | 73.0 | 38.4 | +90 | +95 | 108.0 | 58.9 | +83 | +89 |
| Software as a Service (SaaS) | 10.5 | 7.3 | +44 | +47 | 20.0 | 14.2 | +41 | +44 |
| Perpetual maintenance | 85.6 | 100.7 | -15 | -12 | 170.7 | 201.9 | -15 | -11 |
| Perpetual licenses | 11.8 | 12.6 | -6 | -5 | 28.6 | 44.8 | -36 | -34 |
| EBIT (IFRS) | 50.1 | 31.9 | +57 | +65 | 65.4 | 60.7 | +8 | +18 |
| EBITA (non-IFRS) (operating profit) | 60.8 | 41.4 | +47 | - | 85.3 | 81.1 | +5 | - |
| <i>as % of revenue (operating margin)</i> | <i>27.8</i> | <i>20.2</i> | - | - | <i>21.3</i> | <i>19.7</i> | - | - |
| Net income (non-IFRS) | 40.4 | 28.2 | +43 | - | 57.2 | 56.1 | +2 | - |
| Earnings per share € (non-IFRS)³ | 0.55 | 0.38 | +43 | - | 0.77 | 0.76 | +2 | - |
| Free cash flow | 18.5 | 19.4 | -5 | - | 58.2 | 71.4 | -18 | - |
| Free cash flow per share³ € | 0.25 | 0.26 | -5 | - | 0.79 | 0.96 | -18 | - |
| Employees (FTE)⁴ (in thousands) | 4,696 | 4,642 | +1 | - | - | - | - | - |
| thereof Germany | 1,327 | 1,271 | +4 | - | - | - | - | - |

¹ At constant currency.

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

³ Based on weighted average shares outstanding (basic) Q2 2021: 74.0 mn/Q2 2020: 74.0 mn.

⁴ Not including 438 FTE from sold Professional Services unit in Spain.