

Software AG reports Digital Business reacceleration and reconfirms 2023 ambitions

2022 guidance issued with growth at top and bottom line expected; 2023 growth ambitions reconfirmed.

Darmstadt, Germany – January 27, 2022: [Software AG](#) (Frankfurt MDAX®: SOW) today announces unaudited financial results for the fourth quarter and full year 2021 and issues guidance for the 2022 financial year.

Sanjay Brahmawar, Software AG CEO, commented: *“Our fourth-quarter results show that through Helix we have built a robust springboard for growth in 2022. Our Digital Business reaccelerated significantly with bookings growth of 15 percent and ARR growth of 12 percent. This tells us our cloud-native products are resonating, and our subscription shift is succeeding as we drive towards our 2023 ambitions and €1 billion in revenue. Our team and pipeline are strengthening all the time, and with our M&A plans supported by Silver Lake, I’m excited for what we’ll achieve in 2022 and beyond.”*

Dr. Matthias Heiden, Software AG CFO, commented: *“During 2021 we continued with the bold transformation of our business. Our product revenue is growing and increasing in quality, led by our Digital Business. For the first time, total recurring revenue represented more than three quarters of total Group revenue and reached 92 percent of our product revenue total. With the trough in our profit and cash flow behind us and the bookings momentum coming out of the fourth quarter, I’m full of confidence as we set out to deliver our guidance for 2022 and our future growth plan.”*

[This press release and all information herein is preliminary and unaudited. Unless otherwise stated, all figures are IFRS. Increases at constant currency and rounded.]

Financial highlights

- **Digital Business bookings reaccelerated** with 15 percent growth in the fourth quarter bringing full-year growth to 12 percent.
- **Digital Business ARR rose** to €418.5 million, up 12 percent year-on-year. Group has added €113.1 million to Digital Business ARR since the start of Helix.
- **Full-year total recurring revenue grew** 10 percent year-on-year to 92 percent of total product revenue, and for the first time, reached 75 percent of total Group revenue.
- **Operating margin (EBITA, non-IFRS) ahead of guidance** (EBITA, non-IFRS) at 19.6 percent in 2021 while investment in transformation success continued.

Strategic highlights

- **Cloud-native products drove Digital Business momentum** with high double-digit bookings growth in the fourth quarter from webMethods.io, Cumulocity IoT and ARIS Process Mining.
- **Record year for new logos** with 106 wins in the quarter and 312 in 2021, driven by strength of the execution engine and quality of cloud-native product set.
- **Migration multiplier of 1.4x and increasing renewals impact** show value creation from the shift to subscription.
- Employee survey showed **record engagement score** of 4.14 out of 5 is up 0.22 points from 3.92 last year, and shows workforce fully aligned behind strategy and action plan.

Guidance

- **2022 Guidance ranges issued** as follows:
 - Digital Business bookings growth between 15 percent and 25 percent
 - A&N bookings growth between 0 percent and 5 percent
 - Total product revenue growth between 7 percent and 11 percent
 - Operating margin (EBITA, non-IFRS) between 20 percent and 22 percent
- **2023 ambitions reconfirmed:** €1 billion Group revenue, 25 percent to 30 percent operating profit margin (EBITA, non-IFRS), 85 percent to 90 percent recurring product revenue and roughly 15 percent Digital Business CAGR in 2023.

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. The Group's Integration & API and Business Transformation target addressable markets are growing at 10 percent compound annual growth rate (CAGR) to 2024, while its IoT & analytics target addressable market is growing at 26 percent. Software AG's Digital Business, which directly addresses these markets, has now grown its product revenue in three consecutive quarters. The COVID-19 pandemic has 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 cloud-native, multi-tenant and subscription-ready product set continues to resonate strongly in both its installed and 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 and cash flow growth potential**, was €585.4 million at the end of the fourth quarter, representing 11 percent growth year-on-year. ARR within the Group's Digital Business grew 12 percent year-on-year to €418.5 million. **Recurring revenue** in the quarter was €175.4 million, up from €165.8 million in the fourth quarter of 2020. This full-year number represents 92 percent of the Group's total product revenue, ahead of its 2023 ambition of 85 percent. It also represents 75 percent of the Group's full-year total revenue. The **proportion of the bookings within the Group's Digital Business which came from subscription and SaaS** in both the fourth quarter and full year was 88 percent, up from 84 percent in the fourth quarter of 2020 and 81 percent in the full year 2020.

Fourth quarter and full-year 2021 business line bookings performance

Software AG's **Group bookings** of €195.1 million in the fourth quarter and €517.7 million in the full year represented 1 percent and 6 percent growth respectively (Q4 2020: €188.2 million; FY 2020: €489.7 million). Bookings in the Group's **Digital Business** grew 15 percent year-on-year to €164.8 million in the fourth quarter (Q4 2020: €138.4 million). At the end of December, the Group saw delays with two deals due to real-world personal factors on the client side, and those deals have now closed. Had these deals closed as expected, the Group's full-year Digital Business bookings growth of 12 percent to €406.0 million would have been within its guidance range (FY 2020: €360.6 million).

The Group's **A&N** business line delivered another good performance and met increased guidance. Bookings of €30.3 million during the fourth quarter and €111.7 million for the full year represented expected declines of 40 percent and 11 percent respectively (Q4 2020: €49.8 million; FY 2020: €129.0 million).

Fourth quarter and full-year 2021 Group revenue and earnings performance

Software AG reported €234.6 million in **total revenue** in the fourth quarter and €833.8 million in the full year (Q4 2020: €237.8 million; FY 2020: €834.8 million). This represented a decline in constant currency of 4 percent in the fourth quarter and growth of 1 percent in the full year.

Product revenue growth was 3 percent in the full year to €684.0 million (FY 2020: €671.1 million). Product revenue declined 6 percent in the fourth quarter to €194.6 million due to the expected decline in A&N bookings during the quarter (Q4 2020: €201.0 million).

Digital Business product revenue saw growth of 3 percent in the fourth quarter to €143.3 million, representing a third consecutive quarter of growth (Q4 2020: €135.2 million). This represents a strong performance particularly given the 61 percent increase in SaaS bookings in the fourth quarter, which convert to revenue less quickly than subscription bookings. In the full year, Digital Business product revenue saw growth of 5 percent to €469.5 million (FY 2020: €448.4 million). **A&N** product revenue was €51.3 million in the fourth quarter, an expected decline of 24 percent and €214.5 million in the full year, down 2 percent.

The contribution of **subscription and SaaS revenue** to the Group's product revenue total was 48 percent in the fourth quarter and 42 percent in the full year, up from 39 percent and 28 percent in the fourth quarter and full year 2021 respectively.

Within **Professional Services**, the fourth quarter saw revenue growth of 4 percent. Stated revenue was down 8 percent in the full year, however, when adjusted for the sale of the Spanish Professional Services business in the second quarter of 2020, revenue growth would have been 4 percent in the full year. Professional Services delivered profit growth of 109 percent to €8.4 million in the fourth quarter and of 59 percent to €27.8 million in the full year (Q4 2020: €3.9 million; FY 2020: €17.7 million).

The Company's **EBIT** was €32.2 million in the fourth quarter and €122.1 million in the full year (Q4 2020: €50.8 million; FY 2020: €136.4 million). The Group's **operating EBITA** (non-IFRS) was at €45.2 million in the fourth quarter and €163.8 million in the full year (Q4 2020: €62.5 million; FY 2020: €177.0 million), giving Software AG an operating EBITA (non-IFRS) margin of 19.3 percent in the fourth quarter and 19.6 percent in the full year (Q4 2020: 26.3 percent, FY 2020: 21.2 percent).

The Group's **free cash flow** in the fourth quarter was €17.7 million (Q4 2020: 12.1 million). This benefitted from continued strong cash collection in the quarter. In the full year, the Group's free cash flow was €91.4 million (FY 2020: €87.6 million), showing 4 percent growth as the Group exits its transformation-led cashflow trough.

Employees

As of December 31, 2021, Software AG had 4,819 employees worldwide (full-time equivalents; December 31, 2020: 4,700). This represents an increase in the Group's employee base of 119, or up 3 percent year-on-year.

Conference calls

A webcast for **investors and financial analysts** will take place on Thursday, January 27, 2022, at 9:30 a.m. CET (8:30 a.m. GMT). Please pre-register to receive dial-in details at [Result Center \(softwareag.com\)](https://www.softwareag.com).

A webcast for the **media** will take place on Thursday, January 27, 2022, at 11:00 CET (10:00 GMT). Please contact petra.laubert@softwareag.com to receive dial-in details.

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 more than 4,800 employees across more than 70 countries and annual revenue of over €800m. It is committed to its ambition of exceeding €1 billion of revenue and reaching an operating profit margin (EBITA, non-IFRS) of between 25 percent to 30 percent in 2023.

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Key Group Figures¹

Fourth Quarter 2021 – Key Figures as of December 31, 2021

in € millions (unless otherwise stated)	Q4 2021	Q4 2020	% %	% acc ¹	FY 2021	FY 2020	% %	% acc ²
Group Bookings³	195.1	188.2	+4	+1	517.7	489.7	+6	+6
Digital Business line	164.8	138.4	+19	+15	406.0	360.6	+13	+12
A&N business line	30.3	49.8	-39	-40	111.7	129.0	-13	-11
Subscription	133.4	118.2	+13	+9	348.6	276.4	+26	+26
Software as a Service (SaaS)	33.5	20.4	+64	+61	84.1	68.6	+23	+23
Perpetual	28.2	49.5	-43	-44	85.0	144.7	-41	-41
Group Annual Recurring Revenue (ARR)³	585.4	508.1	+15	+11	-	-	-	-
Digital business line	418.5	358.7	+17	+12	-	-	-	-
A&N business line	166.9	149.3	+12	+8	-	-	-	-
Group Revenue	234.6	237.8	-1	-4	833.8	834.8	0	+1
Product revenue	194.6	201.0	-3	-6	684.0	671.1	+2	+3
Digital Business line	143.3	135.2	+6	+3	469.5	448.4	+5	+5
A&N business line	51.3	65.8	-22	-24	214.5	222.6	-4	-2
Subscription	80.4	62.8	+28	+24	246.0	151.2	+63	+63
Software as a Service (SaaS)	12.6	9.1	+38	+35	44.1	31.3	+41	+42
Perpetual maintenance	82.4	93.9	-12	-15	336.0	390.2	-14	-13
Perpetual licenses	19.2	35.2	-45	-46	57.9	98.4	-41	-41
EBIT (IFRS)	32.2	50.8	-37	-	122.1	136.4	-10	-
EBITA (non-IFRS) (operating profit)	45.2	62.5	-28	-	163.8	177.0	-8	-
<i>as % of revenue (operating margin)</i>	<i>19.3</i>	<i>26.3</i>	<i>-</i>	<i>-</i>	<i>19.6</i>	<i>21.2</i>	<i>-</i>	<i>-</i>
Net income (non-IFRS)	34.8	50.0	-30	-	114.2	125.4	-9	-
Earnings per share € (non-IFRS)⁴	0.47	0.67	-31	-	1.54	1.69	-9	-
Free cash flow	17.7	12.1	+46	-	91.4	87.6	+4	-
Free cash flow per share⁴ €	0.24	0.16	+46	-	1.24	1.18	+4	-
Employees (FTE) (in thousands)	4,819	4,700	+3	-	-	-	-	-
thereof Germany	1,385	1,314	+5	-	-	-	-	-

¹ All figures are preliminary and unaudited. Due to rounding, numbers may not add up precisely.

² At constant currency.

³ Definitions on page 50 of the [2020 Annual Report](#).

⁴ Based on weighted average shares outstanding (basic) Q4 2021: 74 mn / Q4 2020: 74 mn.