

Letter from the CEO

The fourth quarter of 2022 marked Software AG's seventh consecutive quarter of Digital Business product revenue growth as well as the end of a fiscal year for which we delivered on our full-year guidance. The successes over four years of Helix transformation now form the basis for evolution of the strategy going forward.

**DEAR LADIES AND GENTLEMEN,
DEAR SHAREHOLDERS,**

On behalf of the Management Board, I am pleased to present our 2022 Annual Report. We delivered a strong fourth quarter and a full year 2022 in line with or, in the case of Adabas & Natural (A&N), ahead of our guidance ranges, despite ongoing macro challenges. Our successes are the result of four years of root-and-branch transformation and form the basis on which we will start to evolve our strategy going forward.

This evolution starts with five strategic priorities for 2023. We will double down on cloud, intensify our focus on application and data integration to leverage rising market opportunity, and increase our competitive success. We will also specialize our sales force and focus more on partnerships. Furthermore, we will increase operational efficiency to become a leaner organization. With demand for Software as a Service (SaaS) accelerating and our cloud integration portfolio going from strength to strength, these areas will be major themes. We will also scale our business efficiently, sharpen our sales execution, and deepen our commitment to cost management in the face of macroeconomic uncertainty. Doing so will help us become more efficient, productive, and profitable as we scale.

OUR 2022 PERFORMANCE: 10 PERCENT ORGANIC ARR GROWTH— CONTINUED TRANSFORMATION PROGRESS DRIVING GROWTH

During 2022, we delivered strong financial performance despite ongoing challenges in the macroeconomic environment. Organic bookings in our Digital Business saw consistent growth of 15 percent in the fourth quarter to €197.6 million, bringing full-year bookings to €478.9 million. This represented 12 percent growth year-on-year, in line with guidance. With the addition of StreamSets, our acquisition in data integration, which we closed mid-April 2022, bookings in the Group's Digital Business were €555.6 million for the full year, up 29 percent. On an organic basis, total revenue was €292.0 million in the fourth quarter and €930.8 million for the

full year, representing growth of 19 percent and 6 percent respectively. With the contribution of StreamSets, Software AG reported €303.8 million in Group revenue in the fourth quarter and €958.2 million for the full year, an increase of 24 percent and 8 percent respectively. On an organic basis, product revenue saw robust growth of 24 percent in the fourth quarter to €251.4 million and was up 7 percent at €773.4 million in the full year, in line with guidance. With the addition of StreamSets IFRS revenue, Group product revenue was €261.0 million in the fourth quarter, up 28 percent and €795.6 million in the full year, an increase of 10 percent.

Annual recurring revenue (ARR), our indicator for future revenue and cash flow and now a headline guidance metric going forward, was €660.0 million on an organic basis at the end of the fourth quarter, representing 10 percent growth year-on-year. 2022 organic ARR within the Digital Business grew 11 percent year-on-year to €476.2 million, driven by SaaS where bookings grew three times faster than subscriptions. Organic recurring revenue represented 93 percent of the organic total product revenue for the full year 2022, ahead of the original Helix target of 85 to 90 percent. Including StreamSets, Group ARR within the Digital Business grew 20 percent driven by continued strong double-digit growth from StreamSets.

A&N showed subscription-led bookings growth of 144 percent in the fourth quarter to €76.3 million, bringing full-year A&N bookings to €144.5 million, an increase of 23 percent, ahead of guidance.

We saw continued robust organic profit in line with expectations in 2022, delivering an organic operating margin (EBITA, non-IFRS) of 23.1 percent in the fourth quarter and 21.2 percent for the full year, within guidance range.

CONTINUED STRENGTH IN KEY GROWTH AREAS

This strong performance reflects the continued progress we have made through our transformation in 2022. One of our key goals from the outset of the Helix program was to take a material leap forward with our cloud product portfolio to drive our future growth.

This reacceleration is being driven by the quality of our cloud offering and strong cohort of growth products—webMethods.io, ARIS cloud, Cumulocity IoT, and StreamSets—which together contribute to ARR growth in the strong double digits. This product set is driving our new business success as we won 333 new logos in 2022, representing a second consecutive record year. In the fourth quarter, our API Management and Industrial IoT products were all recognized as Magic Quadrant leaders by Gartner and our product Net Promoter Score (NPS) also reached an all-time high of +61, up from +52 in 2021.

We have seen particular strength in Integration and API Management, where customers continue to seek innovative solutions to derive value from data stored across disparate cloud and on-premises systems and applications that are not designed to work together. Our key products addressing this opportunity are webMethods.io, our cloud integration and modern API platform, and our recent acquisition, StreamSets. StreamSets has continued to grow vigorously and is driving further synergy deals, including a win with Dubai Airports in the fourth quarter, a deal building on our synergy success with G42 in the third quarter.

OUR 2023 PRIORITIES—KICKING OFF OUR NEXT PHASE OF TRANSFORMATION

With the final year of Helix upon us, we have been working hard to consolidate our plan for our next phase of growth. While our underlying demand remains robust, we are mindful of the macro environment causing lengthened sales cycles and have budgeted accordingly. The five guiding principles below inform both our 2023 plan and the mid-term view we will be sharing in detail at our Capital Markets Day later in the year. Formulating these principles has been an honest and self-critical process, identifying both our strengths and areas for improvement. Developed with the full support of our new Supervisory Board and with the input of our refreshed Management Board, they underpin our guidance for the year, and they provide a strong sense of how we envision the longer-term future of the Company.

- 1. Accelerate the journey to cloud-first:** Our high-quality cloud products are driving greater-than-expected demand for cloud, with SaaS organic Digital Business bookings up 30 percent in 2022. We will prioritize specific SaaS sales motions for growth products like webMethods.io and StreamSets to capitalize on this market opportunity.
- 2. Double down on innovation in integration:** The cloud data and application integration markets are growing at 21 percent, reaching €11 billion by 2026. We will direct resources to this area where we have an optimal combination of product leadership, current growth, and future growth opportunity, accelerating innovation for our leading products, webMethods.io and StreamSets.
- 3. Increase sales specialization to drive efficacy and efficiency:** We will specialize our sales force to derive greater impact from our growth products, starting in North America. This will increase go-to-market efficacy and drive further sales efficiency.
- 4. Leverage the value of A&N:** We will continue the ongoing shift to subscription which offers an important pathway to cloud rehosting and the interaction between A&N customers and our wider Digital Business.
- 5. Optimize our operating platform:** Increasing our efficiency and productivity through a program that increases operating leverage and delivers a margin benefit of between €30 million and €35 million in 2023 and delivers further benefit thereafter. This will affect roughly 200 employees, or 4 percent of total full-time equivalents (FTE). In parallel, we will continue to be laser-focused on driving financial discipline throughout the organization as it relates to cash and cash management. As more and more of our customers consume our products through subscriptions and SaaS, we work to mitigate the continuing impact on our cash flow. We are driving the right sales behaviors, for example, around payment term negotiations and optimizing efficiency with costs overall. Our full focus is on ensuring profitable growth.

I am proud of how we finished 2022 with our performance showing we have strong momentum as we start 2023, particularly in our Digital Business, underpinned by growing demand for our cloud product portfolio.

The Management Board and I look forward to steering Software AG to our ambitions through our 2023 priorities and continuing to build our business toward sustainable, profitable, and long-term growth.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Sanjay Brahmawar', written in a cursive style.

Sanjay Brahmawar
Chief Executive Officer

For more information on the members of the Management Board, please refer to [Note \[34\]](#) in the Notes to the Consolidated Financial Statements.