

Software AG continues robust revenue and profit performance; updates Digital Business bookings guidance

Darmstadt, Germany – July 15, 2022: [Software AG](#) (Frankfurt MDAX®: SOW) today announced preliminary financial results for the second quarter and first half of 2022.

Sanjay Brahmawar, Software AG CEO, commented: *“Our second quarter revenue and margin performance was underpinned by our continuing transition to subscription and SaaS. Following a softer Digital Business bookings performance and the emergence of a new macroeconomic environment, we have decided to revise our Digital Business bookings guidance for the full year. Our fast start to July reflects the ongoing strength of our demand environment and pipeline, and I’m confident we’ll deliver on both our revised Digital Business bookings guidance and our other unchanged full-year commitments.”*

Dr. Matthias Heiden, Software AG CFO, commented: *“Although we did not do justice to our Digital Business opportunity during the second quarter, this result does not undermine our ability to deliver consistently on profitable growth. The quality of our revenue also continues to improve, with ARR and recurring revenue maintaining their positive trends. We remain focused on managing cost effectively and will not compromise our commitment to strong profitability as we seek to accelerate our growth in the second half.”*

Highlights

- **Digital Business bookings** organic growth of 7 percent and 27 percent including StreamSets in the second quarter and 11 percent and 22 percent in the first half respectively.
- **Digital Business ARR** grew 11 percent organic supported by the Group’s new business growth. Including StreamSets, Digital Business ARR grew 19 percent.
- **Digital Business organic product revenue strength continues** with second quarter growth of 8 percent and first half growth of 9 percent.
- **StreamSets** saw strong growth of more than 50 percent in the second quarter.
- **Robust organic operating margin (EBITA, non-IFRS) performance** at 24.6 percent in the second quarter and 22.3 percent in the first half.
- **Management Board expansion** with industry leader Joshua Husk appointed CRO to strengthen sales execution. Dr. Benno Quade appointed COO to drive operational excellence. Both will join Software AG’s Management Board effective August 1, 2022.
- **Digital Business bookings guidance** for full year 2022 revised to 12 to 18 percent growth.
- **All other full year 2022 guidance metrics remain unchanged**, as do Software AG’s organic and total Group ambitions for 2023.

[Unless otherwise stated, all figures are IFRS. Increases at constant currency and rounded. Organic results exclude contributions from StreamSets. Group results include StreamSets]

Management Board changes

Software AG today announces changes to its Management Board that will strengthen its sales execution and bring end-to-end accountability to its operational excellence and simplification activities. The changes expand the Management Board to six members and will help the business drive the acceleration phase of its strategy more effectively. They will increase focus on profit expansion alongside

continued growth, bring the Group's leadership structure more into line with industry peers, and overall, better-enable it to drive sustainable, profitable growth.

Joshua Husk has been appointed Group CRO, replacing Scott Little, who has left the company. Joshua, who will join Software AG's Management Board, has a skillset ideally suited to driving Software AG further into the acceleration phase of its transformation strategy. He is a proven sales leader who has built and scaled sales organizations in highly competitive markets and has held senior roles at companies including First Data Corporation, IBM, Intel, Oracle and most recently cloud company, Samba Nova. Joshua has experience covering all go-to-market functions including direct sales, alliances and channel, product management and inside sales.

Dr. Benno Quade has been appointed Group COO and will join Software AG's Management Board. An outstanding internal candidate, Benno has been with Software AG for 10 years and knows its business and transformation strategy intimately. He has held the positions of Chief Legal Officer, Chief Operating Officer for the go-to-market organization and has most recently held the post of Chief Customer Success Officer.

Sanjay Brahmawar, Software AG CEO, added: *"Joshua's focus on razor-sharp execution, productivity and customer success aligns perfectly with the demands of this acceleration phase in our strategy, and as part of our Management Board, he will be able to start affecting positive change right away. I'm sure Benno will also make an enormous impact on our operational excellence activities and support our continued margin expansion. I'd like to welcome them both to their new roles and also thank Scott Little for his commitment and effort to Software AG in his time here. We wish him all the best in his next role outside of Software AG".*

Business environment

In terms of opportunity, Software AG's global addressable market continues to accelerate towards digital transformation. This is driving significant demand for the Group's cloud-native products, which help enterprises build modern digital backbones. Software AG's products remain mission critical in today's changing macroeconomic environment, and demand for its products is further supported by increasing customer need to optimize cost and operate more efficiently.

Whilst the Group's demand environment remains robust, Software AG observed early signs of prolonged customer decision making due to its clients having to manage a changing macro environment.

The Group's ability to create value for customers all the way across their digital backbones continues to give it a strong competitive position and underpin its ability to access a market opportunity worth a total of €61 billion, growing at 16 percent CAGR through to 2026. This market opportunity is built up of three segments. The first is a €16 billion segment currently served by the Group's existing product portfolio and sales organization. The second is an additional segment made up of the remaining opportunity for those products and services in adjacent market segments like the mid-market, and the third is accessible only through the addition of new technology or go-to-market capability. Gaining access to this final segment is the rationale behind the Group's string-of-pearls M&A strategy, which it initiated with its acquisition of StreamSets in the first half of 2022.

Guidance

The Group has decided to adjust its full year guidance for Digital Business bookings in 2022 to 12 to 18 percent growth. This is due to softer than expected second quarter Digital Business bookings performance, which was exacerbated to some extent by the early signs of prolonged customer decision-

making due to the Group's clients having to manage a changing macro environment. While the overall demand environment remains robust, the Group anticipates this change in decision making behavior will extend into the second half of the year, increasing the possibility of delays in the closing of deals. All other full year 2022 guidance metrics remain unchanged, as do Software AG's organic ambitions for 2023: €1 billion revenue, 25 percent to 30 percent operating margin, 85 percent to 90 percent recurring product revenue and roughly 15 percent Digital Business CAGR in 2023. On top of the organic guidance for 2022, with the addition of StreamSets, the group continues to expect full-year non-IFRS product revenue growth of between 12 percent and 16 percent and a full-year impact on non-IFRS EBITA of between -€17 million and -€13 million.

Looking beyond the current year, Software AG expects the acquisition to add to its organic growth in 2023. With the addition of StreamSets to the organic business, the Group expects total revenue to be ahead of its €1 billion goal.

Leading indicators for organic 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. Looking across these metrics on an organic basis, **ARR, an increasingly important confidence indicator of its future recurring revenue and cash flow growth potential**, was €625.0 million at the end of the second quarter, representing 9 percent growth year-on-year. Organic ARR within the Digital Business grew 11 percent year-on-year to €447.4 million. Organic **recurring revenue** in the quarter was €169.3 million, down 6 percent compared to the second quarter of 2021 and €317.2 million in the first half of 2022, up 1 percent year-on-year. This represents 93 percent of the organic total product revenue, ahead of its 2023 ambition of 85 percent. The **proportion of the bookings within the Digital Business which came from subscription and software as a service (SaaS)** in the second quarter was 89 percent; in the first half this proportion was 85 percent.

Second quarter and first half 2022 business line bookings performance

On an organic basis, Software AG's **bookings** of €112.8 million in the second quarter represented a decline of 15 percent year-on-year (Q2 2021: €126.6 million), driven by A&N, with bookings of €225.1 million in the first half being flat year-on-year. With the contribution of StreamSets, **Group bookings** were €132.2 million in the second quarter and €244.5 million in the first half.

Organic bookings in the **Digital Business** grew 7 percent year-on-year to €96.5 million in the second quarter (Q2 2021: 86.1 million) and grew 11 percent year-on-year to €176.2 million in the first half (1H 2021: 153.5 million). With the addition of StreamSets, bookings in the Group's **Digital Business** were €115.9 million in the second quarter and €195.6 million in the first half.

The Group's **A&N** business line delivered bookings of €16.3 million in the second quarter (Q2 2021: €40.6 million), and €48.9 million in the first half (1H 2021: €61.9 million). This represented an expected decline of 62.7 and 26.2 percent year-on-year, respectively.

Second quarter and first half 2022 revenue and earnings performance

On an organic basis, Software AG reported €219.9 million in **revenue** in the second quarter (Q2 2021: €218.2 million) and €426.0 million in **revenue** for the first half (1H 2021: €401.3 million). With the contribution of StreamSets, Software AG reported €226.9 million in **Group revenue** in the second quarter and €432.9 million for the first half.

On an organic basis, **product revenue** declined 5.4 percent in the second quarter to €181.8 million (Q2 2021: €180.9 million) and saw growth of 1.4 percent to €348.7 million in the first half (1H 2021: €327.4 million). With the addition of StreamSets IFRS revenue, **Group product revenue** was €187.6 million in the second quarter and €354.6 million in the first half.

On an organic basis, **Digital Business** product revenue saw growth of 8.4 percent in the second quarter to €130.0 million, representing a fifth consecutive quarter of product revenue growth (Q2 2021: €113.7 million). For the first half, **Digital Business** product revenue saw growth of 8.5 percent to €240.9 million (1H 2021: €212.7 million). With the addition of StreamSets, product revenue in the Group's **Digital Business** was €135.8 million in the second quarter and €246.8 million in the first half.

A&N product revenue was €51.8 million in the second quarter, representing an expected year-on-year decline of 28.8 percent (Q2 2021: €67.2 million). In the first half, **A&N** product revenue was €107.8 million (1H 2021: €114.7 million).

Within **Professional Services**, the second quarter saw revenue decline 4 percent year-on-year to €38.1 million (Q2 2021: €37.3 million) and delivered profit of €6.9 million in the second quarter, down 14 percent at constant currency (Q2 2021: €7.5 million). In the first half, **Professional Services** saw revenue decline 1 percent year-on-year to €77.2 million (1H 2021: €73.9 million) and delivered profit of €13.7 million in the first half, down 7 percent at constant currency (1H 2021: €13.9 million).

On an organic basis, **EBIT** was €46.8 million in the second quarter (Q2 2021: €50.1 million) and €76.8 million in the first half (1H 2021: €65.4 million). **Operating EBITA** (non-IFRS) was €54.0 million in the second quarter (Q2 2021: €60.8 million), giving Software AG an operating EBITA (non-IFRS) margin of 24.6 percent, down 3.2 percentage points year-on-year – against an exceptional prior year comparator (Q2 2021: 27.8 percent). For the first half, **operating EBITA** (non-IFRS) was at €94.9 million (1H 2021: €85.3 million), giving Software AG an operating EBITA (non-IFRS) margin of 22.3 percent, up 1 percentage point year-on-year (1H 2021: 21.3 percent).

With the addition of StreamSets, the **Group's operating EBITA** (non-IFRS) was at €49.4 million in the second quarter and was €90.3 million in the first half.

Conference call

A webcast for investors and financial analysts will take place on July 15, 2022, at 9:30 a.m. CEST (8:30 a.m. BST). Please pre-register to receive dial-in details at [Result Center \(softwareag.com\)](https://www.softwareag.com/result-center).

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For more information, also follow on [LinkedIn](#) and [Twitter](#).

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