

Software AG reports solid Digital Business performance and year-to-date margin expansion

Third quarter organic Digital Business bookings growth at 11 percent; sixth consecutive quarter of organic Digital Business product revenue growth

Nine-month organic operating margin (EBITA, non-IFRS) reaches 20.4 percent

Full year 2022 organic and Group guidance reconfirmed

Darmstadt, Germany – October 27, 2022: Software AG (Frankfurt MDAX®: SOW) today announced financial results for the third quarter and first nine months of 2022.

Sanjay Brahmawar, Software AG CEO, commented: *“During the third quarter our Digital Business showed resilience, with bookings growing a solid 11 percent and ARR growth accelerating to 12 percent. This shows demand for our mission critical products remains strong and our execution was solid despite a challenging global macroeconomic environment. We continue to deliver profitable growth with our non-IFRS EBITA margin reaching 20.4 percent year-to-date, and we remain focussed on operational excellence to drive further margin expansion. Provided the macroeconomic environment remains relatively consistent, our solid fourth quarter visibility gives me confidence we will reach our full year guidance ranges.”*

Dr. Matthias Heiden, Software AG CFO, commented: *“I’m proud of the resilience Software AG is showing despite challenging external circumstances. Our business model transition is ensuring we continue to deliver consistent revenue and profit performance, and with a substantial contribution from renewals expected in the fourth quarter, we can see the benefits of our subscription transformation increasing with each passing year. We are now working diligently to continue our momentum into the fourth quarter and close the year strongly.”*

Financial Highlights

- **Organic Digital Business bookings** grew 11 percent in the third quarter and 11 percent in the first nine months.
- **Organic Digital Business ARR** growth accelerated to 12 percent, supported by the Group’s new business growth, showing an increasingly visible and predictable revenue stream.
- **Transformation underpins product revenue resiliency** in sixth consecutive quarter of organic Digital Business product revenue growth: +3 percent in the third quarter and +6 percent in the first nine months.
- **Consistent operating profit performance** with an organic operating margin (EBITA, non-IFRS) of 16.6 percent in the third quarter and 20.4 percent in the first nine months.
- **Full year 2022 guidance reconfirmed** with all guidance metrics remaining as announced on July 14, 2022.

Strategic Highlights

- **Land and expand progressing well** with 93 new logos in the third quarter, up 41 percent year on year and taking the nine-month total to 219.
- **Capturing significant opportunity in IoT & Analytics market** with strong double-digit bookings growth driven by product innovation powering new logos and expansions.
- **StreamSets continuing to deliver strong double-digit growth** and competitive advantage. First product synergy deal with webMethods closed during the quarter.
- **Continued strategic shift in Professional Services** through expanded partnership with Persistent, which will sub-contract all North American Digital Business implementation work. Transformative step led to a one-off non-cash goodwill impairment of €25.3 million.
- **Sale of shareholding in non-core FACT**, a niche regulatory software product that had been operating as a standalone business since its acquisition by the Group, bringing even more focus to Software AG and leading to a one-off capital gain of €11.9 million in the quarter.

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

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 an increasing customer need to optimize cost and operate more efficiently.

Software AG has continued to observe signs of prolonged customer decision making in the third quarter due to its clients having to manage a changing macro environment. However, demand for the Group's cloud native products remains strong. Provided the macroeconomic environment stays relatively consistent, the Group remains confident of achieving its full year guidance. This belief is underpinned by the mission critical nature of the Group's software which means that no new business opportunities are being lost, by improving sales execution, and a strong fourth-quarter impact expected from renewals in the Digital Business; and the Group has good visibility into the fourth quarter A&N pipeline.

Guidance

The Group has today reiterated its guidance for the full year 2022. The Group's organic guidance ranges, at constant currency; except for margin, are:

- Digital Business bookings growth between 12 percent and 18 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

On top of this organic development, with the addition of StreamSets Software AG expects 2022 non-IFRS Group product revenue growth in the range of 12 percent to 16 percent. The Group also expects to see an impact on non-IFRS EBITA of between -€17 million and -€13 million in 2022.

The Group has started its operating and strategic planning process for 2023 and beyond. As part of this process, the Group's former 2023 mid-term ambition will evolve into an operating budget and guidance for the year 2023. The company will provide a further update on this 2023 guidance at the time of its Q4 and FY earnings in early 2023.

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 €663.1 million at the end of the third quarter, representing 10 percent growth year-on-year. Organic ARR within the Digital Business grew 12 percent year-on-year to €478.4 million. Organic **recurring revenue** in the quarter was €165.4 million, consistent with the third quarter of 2021 and €482.6 million in the first nine months, up 1 percent year-on-year. This represents 92 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 third quarter was 94.9 percent; in the first nine months this proportion was 88.8 percent.

Third quarter and nine-month 2022 business line bookings performance

On an organic basis, Software AG's **bookings** of €124.5 million in the third quarter represented growth of 7 percent year-on-year (Q3 2021: €107.2 million), with bookings of €349.5 million in the first nine months being up 2 percent year-on-year. With the contribution of StreamSets, **Group bookings** were €140.5 million in the third quarter and €385.0 million in the first nine months.

Organic bookings in the **Digital Business** grew 11 percent year-on-year to €105.1 million in the third quarter (Q3 2021: €87.8 million) and grew 11 percent year-on-year to €281.4 million in the first nine months (9M 2021: €241.2 million). With the addition of StreamSets, bookings in the Group's **Digital Business** were €121.2 million in the third quarter and €316.8 million in the first nine months.

The Group's **A&N** business line delivered bookings of €19.3 million in the third quarter (Q3 2021: €19.4 million), and €68.2 million in the first nine months (9M 2021: €81.4 million). This represented an expected decline of 10 percent and 22 percent year-on-year, respectively.

Third quarter and nine-month 2022 revenue performance

On an organic basis, Software AG reported €212.8 million in **total revenue** in the third quarter (Q3 2021: €198.0 million) and €638.8 million in **revenue** for the first nine months (9M 2021: €599.3 million). With the contribution of StreamSets, Software AG reported €221.4 million in **Group revenue** in the third quarter and €654.3 million for the first nine months.

On an organic basis, **product revenue** saw a decline of 2 percent in the third quarter to €173.3 million (Q3 2021: €162.0 million) and was flat on the same period last year at €522.0 million in the first nine months (9M 2021: €489.4 million). With the addition of StreamSets IFRS revenue, **Group product revenue** was €180.0 million in the third quarter and €534.6 million in the first nine months.

On an organic basis, **Digital Business** product revenue saw growth of 3 percent in the third quarter to €126.8 million, representing a sixth consecutive quarter of product revenue growth (Q3 2021: €113.6 million). For the first nine months, **Digital Business** product revenue saw growth of 6 percent to €367.7 million (9M 2021: €326.2 million). With the addition of StreamSets, product revenue in the Group's **Digital Business** was €133.5 million in the third quarter and €380.3 million in the first nine months.

A&N product revenue was €46.5 million in the third quarter, representing an expected year-on-year decline of 12 percent, driven by the increasing share of subscription in the Group's A&N revenue mix (Q3 2021: €48.5 million). In the first nine months, **A&N** product revenue was €154.3 million (9M 2021: €163.2 million).

Within **Professional Services** on an organic basis, the third quarter saw revenue growth of 1 percent year-on-year to €39.5 million (Q3 2021: €35.9 million) and delivered gross profit of €11.0 million in the third quarter, up 11 percent year-on-year (Q3 2021: €9.0 million). In the first nine months, **Professional Services** revenue was flat year-on-year at €116.7 million (9M 2021: €109.9 million) and delivered gross profit of €31.2 million in the first nine months, flat year-on-year (9M 2021: €29.3 million).

Continued Professional Services and portfolio transformation

Building on the sale of its Spanish Professional Services business in the summer of 2020, during the third quarter the Group expanded its partnership with **Persistent**, an important middleware implementation partner in North America, in order to accelerate the scaling of its Digital Business practice in the strategically significant North American Market. The Group will now sub-contract its North American Digital Business Professional Services implementation work to Persistent, enabling it to support accelerated product growth and the development of a strong customer and partner ecosystem. This transition will have an impact on our Professional Services segment, leading to a non-cash goodwill impairment of €25.3 million.

During the quarter, the Group continued to right size its operational footprint to arrive at the most efficient and focused business and platform with which to attack its goals. With this in mind, in September, Software AG sold its shareholding in **FACT** to Actico, bringing greater clarity to the Group's portfolio and providing FACT with an owner more closely aligned to its core business. FACT is a non-core, niche regulatory software product that had been operating as a standalone business since its acquisition by the Group in 2009.

The negative impact of a non-cash goodwill impairment in the Group's Professional Services business following the agreement with Persistent and the impact of a capital gain from the sale of the Group's shareholding in FACT both influenced Software AG's EBIT results in the quarter. On an organic basis, **EBIT** was €13.9 million in the third quarter (Q3 2021: €24.5 million). Organic **EBIT** was €90.7 million in the first nine months (9M 2021: €89.9 million).

With the addition of StreamSets, the **Group's EBIT** was -€6.6 million in the third quarter and €55.3 million in the first nine months. This year-on-year decline in the third quarter was driven by a combination of the aforementioned one-off factors as well as additional one-off outflows related to the StreamSets acquisition and the amortization of acquisition-related intangible assets for StreamSets.

The Group's **tax rate** of -15 percent in the third quarter and 48 percent in the first nine months was impacted by the Professional Services goodwill impairment and the sale of FACT. Without these factors, the Group would have seen a tax rate of around 35 percent in the third quarter and 37.2 percent in the first nine months.

Third quarter and nine-month 2022 earnings performance

Organic **operating EBITA** (non-IFRS) was €35.3 million in the third quarter (Q3 2021: €33.3 million), giving Software AG an operating EBITA (non-IFRS) margin of 16.6 percent, down 0.2 percentage points year-on-year (Q3 2021: 16.8 percent). For the first nine months, **operating EBITA** (non-IFRS) was at €130.2 million (9M 2021: €118.6 million), giving Software AG an operating EBITA (non-IFRS) margin of 20.4 percent, up 0.6 percentage points year-on-year (9M 2021: 19.8 percent). The Group's margin expansion performance continues to be underpinned by the operating leverage of its subscription business model.

With the addition of StreamSets, the **Group's operating EBITA** (non-IFRS) was at €29.9 million in the third quarter and was €120.2 million in the first nine months.

The Group's **free cash flow** in the third quarter was €6.5 million (Q3 2021: €15.4 million) and €9.1 million in the first nine months (9M 2021: €73.7 million). On a year-on-year basis, free cash flow is down 58 percent and 88 percent for the third quarter and year-to-date respectively as free cash flow continues to be impacted by the Group's business model transformation and shift to subscription. As mentioned in the second quarter, the Group is currently passing through the trough of free cash flow, as it continues to progress towards more predictable cash flows at a level higher than pre-Helix.

Employees

As of September 30, 2022, the Group, including StreamSets, had 5,052 employees worldwide (full-time equivalents, FTEs); September 30, 2021: 4,749). This represents an increase in the Group's employee base of 303, or up 6 percent year-on year.

Conference call

A webcast for investors and financial analysts will take place on October 27, 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).

About Software AG

Software AG simplifies the connected world. Founded in 1969, it helps deliver the experiences that employees, partners and customers now expect. Its technology creates the digital backbone that integrates applications, devices, data and clouds; empowers streamlined processes; and connects "things" like sensors, devices and machines. It helps 10,000+ organizations to become a truly connected enterprise and make smarter decisions, faster. The company has more than 5,000 employees across more than 70 countries and annual revenue of over €830 million.

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

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Key Group Figures Including StreamSets¹

Third Quarter 2022 – Key Figures as of September 30, 2022

in € millions (unless otherwise stated)	Q3 2022	Q3 2021	% %	% acc ²	YTD 2022	YTD 2021	% %	% acc ²
Group bookings³	140.5	107.2	+31	+20	385.0	322.6	+19	+12
Digital Business	121.2	87.8	+38	+26	316.8	241.2	+31	+23
Adabas & Natural	19.3	19.4	-1	-10	68.2	81.4	-16	-22
Subscription	92.2	73.8	+25	+13	245.3	215.3	+14	+7
Software as a Service (SaaS)	36.2	18.8	+93	+81	84.3	50.6	+67	+58
Perpetual	12.0	14.6	-18	-26	55.5	56.7	-2	-10
Group annual recurring revenue (ARR)³	700.8	555.0	+26	+16	700.8	555.0	+26	+16
Digital Business	516.2	392.9	+31	+20	516.2	392.9	+31	+20
Adabas & Natural	184.6	162.1	+14	+4	184.6	162.1	+14	+4
Group revenue	221.4	198.0	+12	+2	654.3	599.3	+9	+2
Product revenue	180.0	162.0	+11	+2	534.6	489.4	+9	+3
Digital Business	133.5	113.6	+18	+8	380.3	326.2	+17	+10
Adabas & Natural	46.5	48.5	-4	-12	154.3	163.2	-5	-12
Subscription	75.3	57.6	+31	+19	213.7	165.6	+29	+22
Software as a Service (SaaS)	21.0	11.5	+82	+68	53.4	31.5	+69	+60
Perpetual maintenance	75.9	82.8	-8	-16	228.0	253.5	-10	-16
Perpetual licenses	7.9	10.1	-22	-30	39.4	38.7	+2	-5
EBIT (IFRS)	-6.6	24.5	-127	-137	55.3	89.9	-38	-51
EBITA (non-IFRS) (operating profit)	29.9	33.3	-10		120.2	118.6	+1	
<i>as % of revenue (operating margin)</i>	<i>13.5</i>	<i>16.8</i>			<i>18.4</i>	<i>19.8</i>		
Net income (non-IFRS)	26.7	22.4	+19		61.1	79.5	-23	-52
Earnings per share € (non-IFRS)⁴	0.36	0.30	+20		0.82	1.07	-23	-52
Free cash flow	6.5	15.4	-58		9.1	73.7	-88	
Free cash flow per share €⁴	0.09	0.21	-58		0.12	1.00	-88	
Employees (FTEs) (in thousands)	5,052	4,749	+6		5,052	4,749	+6	
thereof Germany	1,304	1,355	-4		1,304	1,355	-4	

¹ All figures are preliminary and unaudited. Due to rounding, numbers may not add up precisely. StreamSets present in all numbers listed, excluding A&N and all perpetual figures.

² At constant currency.

³ Definitions on page 78 of the [2021 Annual Report](#).

⁴ Based on weighted average shares outstanding (basic) Q3 2022: 74 mn/Q3 2021: 74 mn.

Disclaimer

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