

Software AG First Quarter 2023 Earnings

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Sanjay Brahmawar

CEO



Key transaction terms and structure

Voluntary public tender offer to acquire all outstanding Software AG shares for a cash consideration of €30.00 per share

Offer Highlights

- **53% premium** to XETRA closing share price on 20 April 2023
- **48% premium** to the 3M VWAP
- Transaction implies an **equity value of approx. €2.2bn** for Software AG
- Acceptance threshold of 50% plus one share
- **Software AG Foundation** signed share purchase agreement to sell 25.1% of shares
- **Fully funded transaction**
- €1 billion of debt financing committed by JP Morgan
- Customary conditions
- No intention to enter into domination and profit and loss transfer agreement
- Intention of the bidder is to delist Software AG's shares

Management Board welcomes deepened strategic partnership with Silver Lake

Subject to review of offer document, Management Board and the Takeover Committee on behalf of the Supervisory Board will recommend the offer

Why we support this transaction

Key takeaways

Shared vision and values for our employees and customers

Alignment on the Company's strategic objectives

Accelerate the execution of cloud first transformation

Enables immediate realization of significant value for our shareholders

Solid performance amidst challenging macro environment

On track to meet full-year guidance



While this result is outside of our full year guidance range, our normal weighting towards the year's remaining quarters means we remain fully confident of delivering on our 2023 margin guidance as well as on the other guidance metrics for the year.

Strategy evolution

Doubling down on innovation in integration and accelerating our journey to cloud first



Innovating in integration



- Product leadership
- Current growth
- Future growth opportunity



Accelerating on cloud



- Started the journey
- Customer demand growing rapidly
- Attractive unit economics as we scale



Combining
complementary products
and capability to solve
today's most pressing
data challenges

Daniela Bünger

CFO



ARR

Q1 2023

in €m	Q1 2023	Q1 2022	Δ %	Δ % acc
Digital Business				
Subscription	272.3	194.7	40	40
SaaS	96.3	57.2	68	69
Maintenance from Perpetual Licenses	150.3	177.5	-15	-15
Total ARR (as of quarter-end)	518.9	429.4	21	21
Adabas & Natural				
Subscription	82.3	56.6	45	47
Maintenance from Perpetual Licenses	103.1	119.4	-14	-12
Total ARR (as of quarter-end)	185.4	176.1	5	7
Group				
Subscription	354.6	251.3	41	41
SaaS	96.3	57.2	68	69
Maintenance from Perpetual Licenses	253.4	297.0	-15	-14
Total ARR (as of quarter-end)	704.3	605.5	16	17

Product Revenue (Group)

Q1 2023

in €m	Q1 2023	Q1 2022	Δ %	Δ % acc
Subscription	73.0	58.8	24	23
SaaS	23.2	14.0	66	64
Maintenance from Perpetual Licenses	64.5	75.2	-14	-15
Total Recurring Revenue	160.7	147.9	9	8
Perpetual Licenses	9.2	19.0	-52	-51
Total Product Revenue	169.8	166.9	2	1
thereof Digital Business	120.6	110.9	9	8
thereof Adabas & Natural	49.3	56.0	-12	-12

Results (Group)

Q1 2023

in €m#	Q1 2023	Q1 2022	Δ %	Δ % acc
Digital Business	120.6	110.9	9	8
Adabas & Natural	49.3	56.0	-12	-12
Professional Services	40.7	39.1	4	4
Total Revenue	210.6	206.0	2	2
Cost of sales	-61.1	-49.3	24	23
Gross profit	149.5	156.8	-5	-5
Margin as %	71.0	76.1		
Sales & Marketing	-72.7	-67.1	8	7
Research & Development	-49.4	-40.9	21	19
Administration	-17.5	-22.8	-23	-23
Other income / expense	-6.8	4.0	—	—
EBIT (before all taxes)	3.1	30.0	-90	-84
Margin as %	1.5	14.6		
Operating EBITA (non-IFRS)	23.6	40.9	-42	
Operating margin (EBITA, non-IFRS) as %	11.2	19.9		

Cash Flow

Q1 2023

in €m	Q1 2023	Q1 2022	Δ %
Operating Cash Flow	26.5	30.6	-13
./. CapEx* (long-term, non-operating)	-3.2	-3.6	
./. Repayment of lease liabilities	-2.4	-2.7	
Free Cash Flow	20.9	24.3	-14
as % of total revenue	9.9	11.8	
Free Cash Flow per share in €**	0.28	0.33	-14

* Cash flow from investing activities except acquisitions and except investments in debt instruments

** Based on weighted average shares outstanding (basic): 74.0 m

Outlook 2023

Organic guidance remains in place

	FY 2022 in €m	FY 2023 organic guidance in %
Digital Business ARR	516.4	+10 to +15 ¹
A&N ARR	183.8	-2 to +2 ¹
Product revenue	795.6	+6 to +10 ¹
Operating margin (EBITA, non-IFRS) ² as %	18.6	16 to 18

Medium-term ambitions

Double digit revenue growth in Digital Business segment

Reach operating profit margin in the high twenties

Translating into improved cash flow generation

¹ At constant currency

² Before adjusting for non-operating factors

Appendix

Balance Sheet

Q1 2023

in €m	Mar 31, 2023		Dec 31, 2022		Δ	
Assets						
Current assets	764.0	29 %	769.9	29 %	-5.9	-1 %
Non-current assets	1,864.1	71 %	1,908.5	71 %	-44.3	-2 %
	2,628.1	100 %	2,678.4	100 %	-50.3	-2 %
Equity and liabilities						
Current liabilities	549.8	21 %	454.6	17 %	95.2	21 %
Non-current liabilities	594.9	23 %	712.6	27 %	-117.7	-17 %
Equity	1,483.4	56 %	1,511.2	56 %	-27.7	-2 %
	2,628.1	100 %	2,678.4	100 %	-50.3	-2 %

Non-IFRS Earnings

Q1 2023

in €m	Q1 2023	Q1 2022	Δ %
EBIT (before all taxes)	3.1	30.0	-90
Acquisition-related amortization of intangible assets	8.6	4.0	113
Income/expenses resulting from share-based remuneration	2.1	3.1	-31
Restructuring/severance/litigation	5.3	1.4	278
Acquisition-related deductions in product revenue due to purchase price allocations	0.2	—	100
Other non-operating expenses and acquisition-related effects on earnings	4.3	2.4	80
Operating EBITA (non-IFRS)	23.6	40.9	-42
Operating margin (EBITA, non-IFRS) as %	11.2	19.9	
Net income (non-IFRS)	13.0	25.3	-49
EPS (non-IFRS) in €*	0.18	0.34	-48

* Based on weighted average shares outstanding (basic): 74.0 m

Digital Business: Segment Result

Q1 2023

in €m	Q1 2023	Q1 2022	Δ %	Δ % acc
Subscription	54.7	40.8	34	33
SaaS	23.2	14.0	66	64
Maintenance from Perpetual Licenses	38.6	44.5	-13	-15
Total Recurring Revenue	116.5	99.2	17	16
Perpetual Licenses	4.1	11.7	-65	-65
Total Product Revenue	120.6	110.9	9	8
Cost of sales	-19.0	-15.4	23	22
Gross profit	101.6	95.5	6	5
Sales & Marketing	-62.2	-55.1	13	11
Research & Development	-41.7	-32.4	29	27
Segment Result	-2.4	8.0	-130	-123
Margin as %	-2.0	7.2		

Adabas & Natural: Segment Result

Q1 2023

in €m	Q1 2023	Q1 2022	Δ %	Δ % acc
Subscription	18.3	18.0	2	1
Maintenance from Perpetual Licenses	26.0	30.7	-15	-16
Total Recurring Revenue	44.2	48.7	-9	-9
Perpetual Licenses	5.1	7.3	-31	-28
Total Product Revenue	49.3	56.0	-12	-12
Cost of sales	-1.6	-2.2	-24	-25
Gross profit	47.7	53.9	-12	-11
Sales & Marketing	-6.0	-7.3	-19	-18
Research & Development	-7.7	-8.5	-10	-10
Segment Result	34.0	38.0	-11	-11
Margin as %	69.0	67.8		

Professional Services: Segment Result

Q1 2023

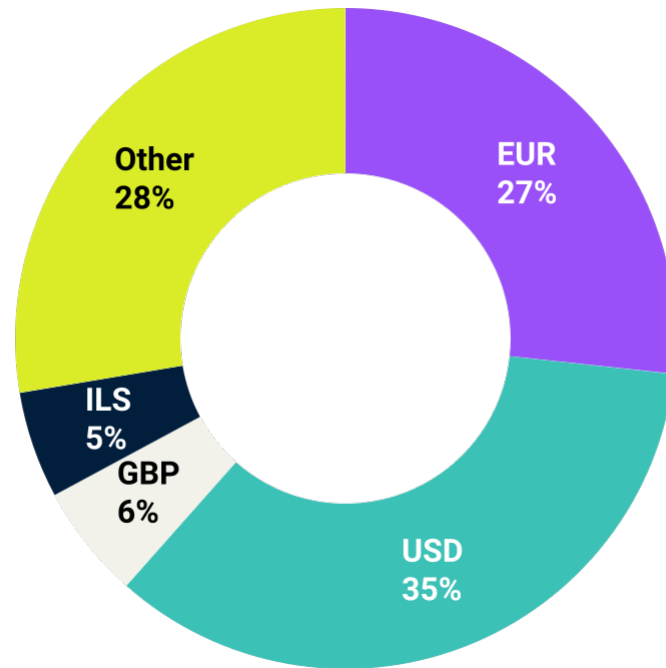
in €m	Q1 2023	Q1 2022	Δ %	Δ % acc
Total Revenue	40.7	39.1	4	4
Cost of sales	-33.5	-29.2	15	14
Gross profit	7.2	9.9	-27	-25
Sales & Marketing	-2.9	-3.1	-7	-8
Segment Result	4.4	6.8	-36	-33
Margin as %	10.7	17.4		

Currency Impact on Revenue

Q1 2023

Currency split Q1 2023

- 27% of revenue in Euro
- 73% of revenue in foreign currency



Currency impact on revenue

in €m	Q1 2023	%
Subscription	0.6	1
SaaS	0.3	1
Perpetual	0.4	—
Services	—	—
Total	1.1	1

IFRS Product Revenue (Group) Reporting

Q1 2023

in €m	Q1 2023	Q1 2022	Δ %	Δ % acc
Digital Business				
Licenses	33.6	34.4	-2	-3
Maintenance	63.8	62.6	2	—
SaaS	23.2	14.0	66	64
Total Product Revenue	120.6	110.9	9	8
Adabas & Natural				
Licenses	16.7	21.1	-21	-20
Maintenance	32.6	34.9	-7	-7
Total Product Revenue	49.3	56.0	-12	-12
Group				
Licenses	50.4	55.5	-9	-9
Maintenance	96.3	97.5	-1	-2
SaaS	23.2	14.0	66	64
Total Product Revenue	169.8	166.9	2	1

Earnings (IFRS)

Q1 2023

in €m	Q1 2023	Q1 2022	Δ %
EBIT (before all taxes)	3.1	30.0	-90
Financial result	-0.4	-3.4	-88
Profit before taxes	2.7	26.6	-90
Other taxes	-1.2	-1.1	14
Income taxes	-0.6	-7.8	-92
Tax rate as %	-67.8	-33.2	
Net income	0.9	17.8	-95
EPS in €*	0.01	0.24	-95

* Based on weighted average shares outstanding (basic): 74.0 m

Headcount

By functional areas* and geography

in FTE	Mar 31, 2023	Dec 31, 2022	Δ %	Mar 31, 2022	Δ %
Total	4,848	4,996	-3	4,801	1
Support and Services**	1,421	1,477	-4	1,517	-6
Research & Development	1,530	1,584	-3	1,476	4
Sales & Marketing	1,123	1,159	-3	1,060	6
Administration	775	775	—	749	3
Germany	1,255	1,306	-4	1,370	-8
USA	708	796	-11	604	17
India	1,103	1,103	—	1,096	1
Rest of World	1,781	1,790	-1	1,731	3

* According to P&L structure

** Incl. Professional Services, Support and Cloud Operations

Amortization / Depreciation Impact

Preliminary

in €m	Q1 2023	FY 2022	FY 2023E	FY 2024E	FY 2025E
Amortization	-8.6	-59.6	-34.4	-30.6	-25.3
Depreciation	-5.5	-23.5	-23.2	-22.0	-22.0

Bookings*

Q1 2023

in €m	Q1 2023	Q1 2022	Δ %	Δ % acc
Digital Business				
Subscription	56.7	46.6	22	21
SaaS	33.2	18.8	76	75
Perpetual	6.6	15.8	-58	-58
Total Bookings	96.4	81.2	19	18
thereof renewals	27.9	17.0	65	64
Adabas & Natural				
Subscription	14.6	22.1	-34	-34
Perpetual	7.8	11.2	-31	-28
Total Bookings	22.3	33.3	-33	-32
thereof renewals	0.8	0.2	287	281
Group				
Subscription	71.2	68.8	4	3
SaaS	33.2	18.8	76	75
Perpetual	14.3	26.9	-47	-45
Total Bookings	118.8	114.5	4	4
thereof renewals	28.7	17.2	67	67

* Bookings has been replaced internally with Annual Contract Value (ACV) as Order-Entry KPI from 2023 onwards. Therefore the numbers shown for the respective period in 2023 is derived from ACV multiplied by 3.

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