

Software AG's second-quarter results underpinned by strong A&N business and continued Digital Business traction; confirms full-year guidance

Darmstadt, Germany – July 24, 2023: [Software AG](#) today announced its financial results for the second quarter and first half of 2023.

Sanjay Brahmawar, Software AG CEO, commented: *"In the second quarter we executed on our plan and delivered solid results. Our performance shows the focus and commitment of all teams throughout the Company. We will continue to strengthen our SaaS business and remain confident about meeting our full-year guidance. We are excited about the journey ahead with Silver Lake and fully focused on our mission to offer unique AI-enabled enterprise integration in the cloud."*

Daniela Bünger, Software AG CFO, commented: *"Our second-quarter results were driven by the ongoing migration to subscriptions in the Adabas & Natural segment. This is part of our plan and we will continue to encourage A&N customers to migrate. We will continue to strengthen our Digital Business, focus on margin expansion and confirm our 2023 guidance. We are very pleased to have a strong partner in Silver Lake to support our transformation and look forward to accelerating the Company's success together."*

Second-quarter and first-half highlights

- Second-quarter **Digital Business annual recurring revenue (ARR)** grew 10 percent year-on-year or 12 percent at constant currency to €527.5 million.
- **Adabas & Natural (A&N) ARR**, driven by migrations, achieved year-on-year second-quarter growth of 7 percent or 11 percent at constant currency.
- **Group product revenue** rose 12 percent year-on-year or 17 percent at constant currency in the second quarter. First-half Group product revenue increased 7 percent or 9 percent at constant currency, in line with expectations.
- Due to A&N, **operating margin (EBITA, non-IFRS)** reached 21.9 percent in the second quarter. First-half operating margin (EBITA, non-IFRS) was 17.0 percent.
- **2023 full-year guidance was confirmed.**

Second-quarter and first-half 2023 ARR performance

As of the end of the second quarter of 2023, Software AG's Digital Business ARR was €527.5 million (Q2 2022: €481.0 million), representing year-on-year growth of 10 percent or 12 percent at constant currency. Compared to the end of the first quarter, Digital Business ARR rose by €8.6 million, a sequential increase of 2 percent. ARR in the Group's A&N business was €190.8 million compared to €177.6 million at the end of the second quarter of 2022, representing year-on-year growth of 7 percent or 11 percent at constant currency. This performance was mainly driven by a major customer's migration to a subscription contract. Compared to the end of the first quarter, ARR in the A&N segment grew €5.4 million or 3 percent.

Second-quarter and first-half 2023 Group revenue and earnings performance

Software AG reported €248.4 million in total revenue for the second quarter of 2023 (Q2 2022: €226.9 million). This represents growth of 9 percent or 14 percent at constant currency. First-half Group revenue grew 6 percent or 8 percent at constant currency to €459.0 million (1H 2022: €432.9 million). Group product revenue in the second quarter grew 12 percent or 17 percent at constant currency to €211.1 million (Q2 2022: €187.6 million). In the first half of the year, Group product revenue totaled €380.9 million (1H 2022: €354.6 million), reflecting growth of 7 percent or 9 percent at constant currency.

Subscriptions and SaaS accounted for 65 percent (Q2 2022: 52 percent) of Group product revenue in the second quarter of 2023 and for 61 percent in the first half of the year, which is an increase of 13 percentage points year-on-year. Digital Business product revenue saw growth of 1 percent or 4 percent at constant currency in the second quarter to €137.8 million (Q2 2022: €135.8 million). First-half Digital Business product revenue was €258.4 million, representing an increase of 5 percent or 6 percent at constant currency. A&N product revenue was €73.3 million in the second quarter (Q2 2022: €51.8 million), up by 41 percent or 49 percent at constant currency. First-half A&N product revenue increased by 14 percent or 17 percent at constant currency to €122.6 million (1H 2022: €107.8 million). Professional Services revenue in the second quarter was €37.4 million (Q2 2022: €39.3 million); for the first half, it amounted to €78.1 million (1H 2022: €78.4 million).

Software AG's EBIT totaled €22.3 million in the second quarter (Q2 2022: €31.9 million) and €25.4 million in the first half of 2023 (1H 2022: €61.9 million). The Group's operating EBITA (non-IFRS) amounted to €54.3 million in the second quarter of the year (Q2 2022: €49.4 million), giving Software AG an operating margin (EBITA, non-IFRS) of 21.9 percent (Q2 2022: 21.8 percent). For the first half, operating EBITA (non-IFRS) was €77.9 million (1H 2022: €90.3 million), resulting in an operating margin (EBITA, non-IFRS) of 17.0 percent (1H 2022: 20.9 percent).

The Group's free cash flow totaled €-34.9 million in the second quarter (Q2 2022: €-21.7 million) and €-14.0 million (1H 2022: €2.6 million) in the first half of 2023.

Guidance

The Group reiterated its guidance today for the full 2023 year. The guidance ranges are, except for margin, presented at constant currency:

- Digital Business ARR growth of between 10 and 15 percent
- A&N ARR development of between -2 and 2 percent
- Group product revenue growth of between 6 and 10 percent
- Operating margin (EBITA, non-IFRS) between 16 and 18 percent

Software AG remains committed to double-digit revenue growth in the Digital Business segment and reiterates its ambition to reach an operating profit margin in the high twenties in the medium term, which will translate into improved cash flow generation.

Conference call

A webcast for investors and financial analysts will take place on July 24, 2023, at 9:30 am CEST (8:30 am 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 about 5,000 employees across more than 70 countries and annual Group revenue of more than €950 million.

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Key Figures

[All figures are preliminary, unaudited and, unless otherwise stated, based on IFRS.]

| in € millions (unless otherwise stated) | H1 2023 | H1 2022 | +/- as % | +/- as % acc ¹ | Q2 2023 | Q2 2022 | +/- as % | +/- as % acc ¹ |
|---|--------------------------|------------------------------|-----------------|-------------------------------------|----------------|-----------------|-----------|------------------------------|
| Group revenue | 459.0 | 432.9 | 6 | 8 | 248.4 | 226.9 | 9 | 14 |
| Product revenue | 380.9 | 354.6 | 7 | 9 | 211.1 | 187.6 | 12 | 17 |
| thereof Digital Business | 258.4 | 246.8 | 5 | 6 | 137.8 | 135.8 | 1 | 4 |
| thereof Adabas & Natural (A&N) | 122.6 | 107.8 | 14 | 17 | 73.3 | 51.8 | 41 | 49 |
| thereof Licenses | 142.1 | 122.9 | 16 | 19 | 91.7 | 67.4 | 36 | 42 |
| thereof Maintenance | 191.9 | 199.2 | -4 | -3 | 95.6 | 101.8 | -6 | -3 |
| thereof Software as a Service (SaaS) | 46.9 | 32.4 | 45 | 46 | 23.8 | 18.5 | 29 | 32 |
| | June 30, 2023 | June 30, 2022 | +/- as % | +/- as % acc¹ | | | | |
| Group ARR | 718.4 | 658.6 | 9 | 12 | | | | |
| Digital Business ARR ² | 527.5 | 481.0 | 10 | 12 | | | | |
| A&N ARR ² | 190.8 | 177.6 | 7 | 11 | | | | |
| | H1 2023 | H1 2022 | +/- as % | Q2 2023 | Q2 2022 | +/- as % | | |
| Operating EBITA (non-IFRS) | 77.9 | 90.3 | -14 | 54.3 | 49.4 | 10 | | |
| Operating EBITA (non-IFRS) margin as % | 17.0 | 20.9 | | 21.9 | 21.8 | | | |
| Digital Business segment earnings | 5.8 | 18.1 | -68 | 8.2 | 10.1 | -19 | | |
| Segment margin as % | 2.3 | 7.3 | | 5.9 | 7.4 | | | |
| A&N segment earnings | 93.5 | 71.7 | 30 | 59.5 | 33.7 | 77 | | |
| Segment margin as % | 76.3 | 66.5 | | 81.2 | 65.0 | | | |
| EBIT | 25.4 | 61.9 | -59 | 22.3 | 31.9 | -30 | | |
| Net income (non-IFRS) | 20.0 | 53.9 | -63 | 13.0 | 28.4 | -54 | | |
| Earnings per share (non-IFRS)³ in € | 0.27 | 0.73 | -63 | 0.18 | 0.38 | -54 | | |
| Operating cash flow | -4.6 | 12.1 | -138 | -31.2 | -18.5 | 68 | | |
| CapEx ⁴ | -4.5 | -4.2 | | -1.2 | -0.6 | | | |
| Repayment of lease liabilities | -4.9 | -5.3 | | -2.5 | -2.6 | | | |
| Free cash flow | -14.0 | 2.6 | -629 | -34.9 | -21.7 | -61 | | |
| Free cash flow per share in € | -0.19 | 0.04 | -629 | -0.47 | -0.29 | -61 | | |
| | June 30, 2023 | December 31, 2022 | +/- as % | | | | | |
| Balance sheet | | | | | | | | |
| Total assets | 2,595.7 | 2,678.4 | -3 | | | | | |
| Cash and cash equivalents | 388.4 | 427.1 | -9 | | | | | |
| Net cash position ⁵ | -265.3 | -240.0 | 52 | | | | | |
| Employees (FTE) | 4,775 | 4,996 | -4 | | | | | |

¹ At constant currency.

² Annual recurring revenue.

³ Based on weighted average shares outstanding (basic) H1 2023: 74.0 mn / H1 2022: 74.0 mn.; Q2 2023: 74.0 mn / Q2 2022: 74.0 mn.

⁴ Cash flow from investing activities adjusted for acquisitions and investments in debt instruments.

⁵ Net cash position includes cash and cash equivalents less financial liabilities.

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