



FY 2021 Results Presentation

Thursday, 3rd March 2022

Introduction

Anna Engvall

Head of Investor Relations, SoftwareONE

Welcome

Good morning and thank you for joining SoftwareONE's 2021 Full-year Results Webcast. My name Anna Engvall, Head of Investor Relations at SoftwareONE, and joining me today are Dieter Schlosser, our CEO, and Rodolfo Savitzky, CFO.

Before handing over to Dieter, let me draw your attention to the usual disclaimer regarding forward-looking statements and non-IFRS measures on slide two.

With that, I would like to hand over to Dieter.

2021 Summary

Dieter Schlosser

Chief Executive Officer, SoftwareONE

Key Takeaways

Good morning and welcome. I am pleased to report that we are clearly back on a strong growth trajectory. We exited 2021 with very strong growth of 23% in H2, and full-year was close to 18% gross profit growth, delivering the guidance of 14% that we said one year ago.

Our integrated model is delivering. Software & Cloud returned to positive territory, up 3% year-on-year and around 9% in H2 2021, with very positive momentum across all customer segments. Solutions & Services grew by over 50% as our portfolio continued to resonate very well with our customers.

We delivered 25.7% adjusted EBITDA margin, below our guidance of approximately 30%. This reflects continued investments to support accelerated growth and strategic M&A. Whilst we are capturing the market opportunities and delivering very high growth, we invested in the business to support this trajectory.

Looking ahead, we maintain our growth outlook of mid-teens for 2022 and the mid-terms. In terms of margin, we are committing to a margin above 25% for 2022 and in any given year in the mid-term, as we continue to capture the highly attractive market opportunity.

Let me share a few of the key achievements from 2021, turning to slide five.

Key Achievements of 2021

Return to strong double-digit growth in a year marked by strategic investments

We clearly delivered from a growth perspective and our performance in H2 illustrates the momentum in the business. M&A was an important contributor over the year, and we have succeeded in bringing in talent and capabilities into the organisation, scaling out our Service business with expertise across the three major hyperscalers.

We also now support 6.9 million managed cloud users. This is up from 5.4 million six months ago, and from 1.7 million at the time of our IPO. This is clear evidence of exactly how we want to drive scalability in the business and create much stickier revenue streams.

In addition, we brought in two new members to our Executive Board, Rodolfo Savitzky, our CFO, whom you will hear from in just a few minutes, as well as Bernd Schlotter, our President of Services.

Finally, we remain confident in the future as the market opportunity ahead of us is massive, with Software & Cloud market expected to grow at 14% and our addressable service market at over 30% per annum until 2025. Let me briefly explain what is driving this outlook.

Our customers continue to face challenges as they accelerate their journeys to the cloud post-COVID. Customers do not have the right skills internally. The cloud dynamics have dramatically increased the level of complexity with a huge wastage of cloud spend. Demand for data security and privacy are rising with each breach costing a customer millions. Customers are buying Azure, AWS and Google TCP, which together with on-premises creates a hybrid and a multi-cloud environment.

Market Opportunity is Our Foundation For Growth

Our customers' environment is increasingly complex with post-COVID cloud acceleration

Given this very healthy market environment, what does it mean for SoftwareONE? It means that we operate in a very healthy growing market and importantly it is all about the pull through of Solutions & Services to address increasing the needs of our customers. Customers face a wide range of choice in software and cloud procurement. They are on complex migration journeys and need to manage their hybrid and multi-cloud environments from governance and security perspectives. And that gives us the opportunity to engage with them on an ongoing and recurring basis as IaaS and public cloud spend increases and traditional on-premises declines. We are here to help them on their journey.

In addition, we are close to the largest vendors and have a role to play in terms of helping customers adopt and use the technology which they have purchased, driving consumption and ultimately, also driving renewals.

Growth across synergistic business lines

Our two business lines are highly synergistic and our value proposition is based on combining Software & Cloud with Services, because one naturally pulls along the other. Because when our customers buy, they also adopt and use the technology via our Service business. This creates stickiness and recurring revenues. In 2021, Solutions & Services accounted for 38% of gross profit. Looking ahead, we expect that to reach 50-50 within the next 1-3 years, which is ahead of the plan.

Now, let us look at the performance of each of the business lines in 2021.

Software & Cloud

Solid recovery with 3% year-on-year CCY gross profit growth

Software & Cloud returned to positive growth in 2021, in line with our expectation, driven by a recovery across the hyperscalers, but also the ISVs. Total Microsoft billings reached close

to CHF 15 billion and our business grew in line with the overall market. Cloud, which is Azure365 and Dynamics, represented 73% of our total Microsoft volume compared to 67% in 2020. However, there was a continued impact from our proactive transitioning of customers towards the pay-as-you-go model. This involves a low upfront payment which temporarily negatively impacts Software & Cloud growth but significantly increases the lifetime customer gross profit through a combination of higher recurring revenue and more services, mostly recognised in Solutions & Services.

Solutions & Services

Maintains growth trajectory with gross profit up 53.5% year-on-year CCV

Our Solutions & Service business delivered over 53% year-on-year gross profit growth in constant currency with broad-based strong performance across all service lines, customers and geographies. Our cross-selling statistic continued to move in the right direction with now 71% of our gross profit being generated by 14,000 customers purchasing both software and services. That is up 63% from last year. The cross-profit multiplier has increased from 7.9x to 8.9x for customers purchasing both Software & Cloud and Services compared to those only purchasing Software & Cloud. We continue to see further upside here.

Meanwhile, our Xsimples or pay-as-you-go offering, based on Office365 and Azure, continued to be a key driver of growth for our Solutions & Services business at over 80% year-on-year, implying a further acceleration over that 70% that we reported for H1 2021.

Regional Performance

Strong performance across key markets, primarily driven by portfolio mix by region

From a regional perspective performance varied, primarily driven by the portfolio mix between Software & Services.

In NORAM and APAC, their Solutions & Services represents over 40% of total gross profit – growth was very strong. EMEA delivered a strong performance, impacted by the transition to pay-as-you-go in the Microsoft business, while the remainder of Software & Cloud and Solutions & Services delivered strong growth. LATAM grew by over 70%, as a result of the InterGrupo acquisition.

We have a very global and geographically very diversified business with four regions at scale, with NORAM and APAC reporting gross profit now over CHF 100 million, and we expect LATAM to cross the CHF 100 million threshold in 2022.

Now, let me pause here for a minute to also reflect on current events in the world.

World Events

On a personal level, I am angered by the senseless act of war initiated by the Russian government. I am also deeply concerned about the impact on so many people. To be clear, SoftwareONE stands categorically against the invasion and we will do all we can to support those affected.

Our first priority is the safety of our people. We have offered to move our team in Ukraine, including their immediate family members, to a safe location. And our team members in Russia, who are in a complex and confusing situation, know that they are also valued members of the SoftwareONE family.

From an economic perspective, Ukraine and Russia combined accounts for only approximately 1.5% of our total Group gross profit. However, given the unpredictable nature of the situation, you would appreciate it is difficult to fully assess the economic impact of the conflict today.

Our Solutions & Services Portfolio

Scale driven by strong market outlook and M&A

Coming back to our business and performance last year. Let me remind you of our value proposition for our customers. Our portfolio is geared to cover all our customer needs, helping them to optimise their cost in the cloud with ITAM, as well as adopt and use the end user productivity software like Office365 with Future Workplace.

We support customers procure software in a digital way with a digital supply chain. With Application Services and SAP on Cloud, we help modernise our customers' application landscape and migrate to the public cloud. And once customers are in the cloud, we manage and optimise their technology environment with our cloud service.

Some of our service lines are already scaled, while others are earlier in terms of maturity, but ensure very strong growth outlooks, which gives us the opportunity to drive profitable growth through a number of levels.

As we mentioned previously, we are targeting to deliver and exceed CHF 100 million in most service lines based on the run rate at the end of 2023.

Adding capabilities via strategic M&A

Accelerated practice-building in strategic growth areas via M&A

Having taken you through our Solutions & Services portfolio, I would like to move on to M&A. This has been a key enabler in terms of scaling out this business line in an accelerated way.

You have heard about HeleCloud and Centiq at our Capital Markets Day. And just a few weeks ago, we completed the acquisition of Predica. Predica is an excellent addition to our Service business, adding over 300 Azure cloud technology experts, serving the attractive Northern European market, and in particular the enterprise segment, so very complementary to our existing business. We are very impressed with their growth to date, and have welcomed the entire company, including the four founding entrepreneurs, to SoftwareONE.

Operational Excellence and High Growth

'Transformance' as an optimisation programme to support our accelerated growth

In the face of very high growth, we are focused on maintaining a lean and agile organisation and ensuring high performance through our Transformance programme. Transformation with high growth only works together with high performance. We mentioned this programme already at the CMD, and launched it late in the year, so the impact will be evident in 2022.

Current Positive ESG Impact and Roadmap

At the heart of our success are people, and ESG has always been a core strand of our DNA from the start. Our approach to ESG is twofold. On the one hand, we want to help our customers operate in a more sustainable way by using cloud-based solutions which have a much lower environmental impact. And on the other hand, we want to improve our own internal processes with respect to ESG.

We introduce a comprehensive roadmap and we are well on the way to executing. In parallel, local teams around the world are highly engaged with community services and other ESG-related activities.

The SoftwareONE academy is a learning platform to develop people from all walks of life into digital experts. We have the ambition to make our largest market carbon neutral DAG carbon neutral by next year and various fundraisers and donations for charities around the world. So you will continue to hear from us on the ESG front as I continue to lead this very important initiative with the full support and direction from the Board.

With that, I would like to hand over to Rodolfo to take you through our financial performance in 2021.

Financial Performance

Rodolfo Savitzky

Chief Financial Officer, SoftwareONE

Change in Revenue Recognition

Gross profit remains unchanged

Thank you, Dieter. Good morning and a warm welcome from my side as well. My name is Rodolfo Savitzky and I joined SoftwareONE as CFO this January. You have heard from Dieter about the attractive market fundamentals and strength of our business. I would now like to take you through how that has translated into a strong financial performance in 2021. In addition, I would like to share my observations on the SoftwareONE business model which has exceptionally attractive opportunities for accelerated growth.

I will only share one technical financial slide and this relates to a revenue recognition as IFRS guidance is changing. Let me now refer to the graph and only focus on Software & Cloud, as Solutions & Services is not affected by the change in policy.

Under the previous recognition policy, we would have recognised a consideration from customers of CHF 8.3 billion as revenue and deducted the cost of purchased software, resulting in CHF 534 million in gross profit. Now, under the new policy, we only record the consideration from the customer net of the cost of purchased software to get to net revenue of CHF 534 million which is equal to the gross profit. As you can see, our gross profit KPI remains completely unchanged.

FY 2021 financial Highlights

Gross profit growth driven by strong momentum in H2 2021

Let me underscore some of Dieter's messages. SoftwareONE has very positive strong growth momentum with 23% gross profit growth in the second half resulting in close to 18% gross profit growth for the year.

Going back to the growth drivers, Software & Cloud continues to see transition towards the pay-as-you-go model which was also proactively driving. This transition has a negative short-term impact on gross profit growth but is a much more attractive model in the long term.

Customer stickiness is higher and it gives us the opportunity to bundle in additional services to cover more of our customers' technology needs in the cloud.

While Solutions & Services benefited from acquisitions in 2021, the underlying growth rate of more than 40%, excluding InterGrupo, is very strong, and the performance was broad-based across our offering of customer segments and regions.

As Dieter explained, we continue to scale up service offerings. Operating expenses increased ahead of gross profit which reflects a combination of organic and inorganic investments behind commercial capabilities to support our Services portfolio as well as building up our global and regional service delivery centre. As we will discuss later, some of this accelerated growth is related to scaling up our operations, but the OPEX evolution will slow down relative to revenue growth in the future.

On the margin, we ended below guidance of approximately 30%, which reflects a combination of M&A activity which had a diluted margin impact, and the limited impact of performance in the second half of 2021.

Attractive Synergistic Business Lines

Significant levers across both business lines to drive growth and profitability

Now, let us move the SoftwareONE business model, which has a very attractive growth fundamental, underpinned by the underlying market growth and strong margin upside from efficiency and operating leverage. I will spend the next couple of slides on this.

Let us start with the portfolio mix.

With the strong growth momentum in Solutions & Services, the portfolio mix will be close to 50-50 in the next 1-2 years, which, in fact, is even sooner than anticipated. While Software & Cloud has a very high margin, the short-term growth opportunity is moderate, as gross billings are expected to continue to grow double-digit but our gross profit will grow slower in the short-term. We will change the dynamic in the mid-term and accelerate gross profit growth of this business line through disruptive initiatives, such as the marketplace or digital supply chain, which can transact very high volumes and very low cost.

On the other hand, in Solutions & Services, we have an immediate very high-growth opportunity. While the current margin is lower, we are improving it every year, as we continue to scale the business.

Overall, we combine our huge Software & Cloud platform to up-sell IP value-added services to customers. This is a very attractive proposition because, as Dieter mentioned, customers who purchase both Software & Services generate nearly 9x the gross profit of customers, who only purchase Software & Cloud.

High Operating Leverage

Driving profitable growth via optimisation, automation and industrialisation

How are we expanding margin in our high-growth business? We have a couple of very important levers. One is operating leverage and the other is operational excellence. Operating leverage is very important as the business is expected to grow at mid-teens in the mid-term.

As we double-click on the operating expenses, roughly speaking, the expenses are equally distributed across sales and marketing, operations and G&A. The high levels illustrate the operating leverage across these three cost buckets. As you can imagine, the operating leverage on the G&A cost is very high. In high-growth companies such as SoftwareONE, these admin areas have had to grow at an accelerated pace to support the larger scale. I am convinced that SoftwareONE has reached the size where we can start to optimise our spending in the admin function. The good news for a high-growth company is that productivity initiatives do not mean cutting jobs, but rather growing expenses significantly below sales or gross profit growth.

Sales and marketing is the other area where we have reached a reasonable critical mass. While we will need to continue to support the commercialisation of the different service lines, many areas of sales, such as business development, internal sales, and key account management, are completely scalable. We also have an opportunity to optimise our sales expenses through our sales effectiveness initiatives like next-gen sales, which was launched in 2021.

We also have disruptive initiatives for the mid-term, such as marketplace and digital supply chain, which can completely revolutionise the way we sell software, cloud and services.

Last but not least, we have operations to support our two business lines. Let me focus on the Services portfolio. At SoftwareONE, our services are configured but not customised, which makes it highly scalable. Standard service packages can be configured for different customer needs without reinventing the wheel. We also leverage a global-local delivery model that ensures a maximum standardisation of global service packages delivered from lower cost centres such as India and Mexico.

Operational excellence, the key initiative is Transformance, that we introduce at the Capital Market Day, and that Dieter mentioned earlier. We have established a CHF 9.1 million provision associated with separation of employees to make sure we have the right capabilities in place, and we foresee to make this initiative an ongoing programme. We are reinforcing it with several other initiatives around process standardisation and automation to continue to drive efficiency.

M&A Core to SoftwareONE's Strategy

Acceleration of growth and capabilities build-up

Let me touch on M&A, where we have a very strong track record of not only successfully closing transactions but also smoothly integrating them into SoftwareONE and creating value. We completed six M&A transactions in 2021. The vast majority of these transactions expanded our Solutions & Services business, in particular our SAP services as well as our cloud services, allowing us to build capabilities in an accelerated way.

As we explained at the Capital Market Day, the impact of most of these acquisitions were margin dilutive in year one. However, most of them quickly scale up as we drive cross-selling on the top-line as well as optimise the delivery model and deliver synergies on the back end.

Continued Robust Cash Flow Generation

Tight net working capital management and low CAPEX

Not only is the SoftwareONE business model high-growth and high operating leverage, we also generate strong operating cash flow as it is asset-light. Despite the very high business growth, net working capital generated CHF 27 million positive cash flow by maintaining receivable days and expanding payable days. The improvement in net working capital was smaller than last year's cash inflow, but this is still a significant achievement for a high-growth company.

Operating cash flow in 2021 was CHF 158 million, and while lower than the prior year, it still represented a 72% cash conversion relative to adjusted EBITDA. The lower operating cash flow was mainly due to the lower inflow from net working capital.

Strong Balance Sheet

Excellent basis for further strategic acquisitions

Let us now look at the last piece in any CFO, which is the balance sheet. SoftwareONE maintains an exceptionally solid balance sheet with a positive CHF 500 million net cash position. Our equity/book capitalisation ratio stays at around 25%. Given the strong cash flow generation, we will recommend to the general assembly a dividend increase to CHF 0.33 per share, fully in line with higher end of our dividend pay-out guidance of between 30-50% of adjusted profit for the year.

In summary, 2021 closed with very strong gross profit growth momentum. Going forward, the combination of strong growth, operating leverage, and cash flow conversion will provide the headroom to invest in a disciplined way to capture market opportunity.

And now back to Dieter for the strategy and outlook section.

Strategy and Outlook

Dieter Schlosser

Chief Executive Officer, SoftwareONE

Focused Execution of Strategy to Drive Growth

Digitisation of Software & Cloud with expanded services portfolio to deliver customer value, powered by PyraCloud

Our strategy remains unchanged and we remain focused on execution based on the same five pillars. Firstly, we will continue to grow and digitise Software & Cloud. We have seen based on trends that there will be two sales motions. Customers want Software & Cloud in a digital way using a marketplace and sales service or managed using our digital supply chain. We are very well-positioned and will be providing that digital experience for our customers.

Secondly, we will continue to cross- and up-sell Solutions & Services. Our biggest asset is our customer base. XSimple is a highly scalable service with a great contribution margin. Thirdly, we will expand our portfolio to serve the customer's journey. Our strategic growth areas are based on market opportunity, increasing the ratio of managed services. Fourthly, we will scale our global-local operating model for continued profitable growth. We want to decouple gross profit growth from headcount growth. And lastly, selectively pursue M&A.

FY 2022 Outlook and Mid-Term Guidance

With this strategy, we remain confident of delivering our guidance or mid-teen growth in constant currency across the Group. This level of growth needs to be balanced with profitability as we continue to prioritise growth to capture the phenomenal market opportunities ahead of us. For FY 2022 and the mid-term, we will deliver above 25% adjusted EBITDA margin. As a result of our organic investment and integration of acquired companies like Traviata in the first half of 2022, we will see a slightly lower than 25% margin. However, this will be compensated for in the second half as the strong operating leverage flows through.

Our dividend policy remains the same. And for 2021, a dividend of CHF 0.33 per share will be proposed at the AGM.

'Magic Quadrant' – Growth versus Margin

Finally, I would like to put this guidance into context. As you can see from the 'magic quadrant' shown on page 27, we are one of the very few on the top-right quadrant, next-generation service providers, where we generate high growth of over 15% and high EBITDA margin of over 25%.

In conclusion, SoftwareONE has delivered very strong growth in 2021 with clear acceleration in the second half. We are well-positioned to carry that growth into 2022. Our synergistic business model of Software & Cloud and Services & Solutions resonates very well with our customer base. Our highly scalable business model allows us to invest in a disciplined way to capture the market opportunity and deliver above 25% EBITDA margin with mid-teen growth.

Thank you. And now we will take your questions.

Q&A

Varun Rajwanshi (JP Morgan): Hi. Good morning, I have three questions. Firstly, on margins. There has been some flip-flop on margin guidance over the past 12 months or so. I am just trying to understand what drove this margin reset compared to your expectations six months ago. Are you now confident that you can sustainably deliver +25% margins going forward, i.e., have you left yourself sufficient buffer to deliver on this target while still generating services growth?

My second question is on the take rate compression that you alluded to. Are you seeing an accelerated pressure on take rates from your key vendors, Microsoft and others? Is it a risk that Software & Cloud gross profit growth slows further to mid-single-digit?

And lastly, on capital allocation. You have a solid net cash position which can be further increased if you choose to divest your stake in Crayon. Now, this gives you sufficient firepower to do both bolt-on acquisitions as well as initiate share buybacks. Given where the shares are today, is that something you are considering or are you looking to do bigger deals in the coming months? Thanks.

Dieter Schlosser: Thanks, Varun, for the three questions. Let me start with the first two ones, and then I will hand over to Rodolfo on the capital allocation.

In terms of the margin, historically but also in terms of having enough buffer in the future to accelerate growth, let us decouple this and explain first why we had a miss on the margin guidance in FY21.

Actually, we had a fantastic growth, as you have seen as well, with 23% growth in H2. In fact, we had an expectation to be 1-2% higher, which has slipped over in 2022. Then in addition to that, we had a delayed impact of the initiative of Transformance, which we explained earlier. So that explains where we landed with 25.7%.

Now, going forward, we do have now a proven growth momentum, and at the same time, Rodolfo explained this, we have operating leverage in the system. Now, we are at the position, Varun, where we have the choice to improve the margin or invest in growth. Now, let us assume, and I think we can all align on that, if you look at the 'magic quadrant', we are in the leaders quadrant with a 25% margin. Thus, if you are already in the leading quadrant with the current environment, we would obviously need to invest into growth, provided there are two realistic fundamental aspects.

Number one, there is a growth in the market and the addressable market. And number two, we have a portfolio which resonates with the customers and we are able to deliver. And both are assured. We have high growth in terms of the addressable market. If you just piggyback on the market, it will be always above 30% on Solutions & Services, and it will be above 14% on Software & Cloud. And as you have seen, our portfolio resonates very well with our customers and the delivery models have been streamlined and will be further streamlined going forward.

On the gross billing, and that has an impact going forward on gross profit, our margin on Software & Cloud was always stable but also always under pressure. We have a competitive advantage with our scale, being in 19 markets and providing 9,000 vendors. However, of course, with the future, our investment in the digital marketplace which removes all boundaries, as well as our digital supply chain, we have an opportunity to enhance this further. Hence, we do not see a compression on that.

In terms of capital allocation, Rodolfo, I hand over to you.

Rodolfo Savitzky: Thanks, Dieter. And thanks, Varun, for the question. On the capital allocation, as we have discussed during our presentation, we see many opportunities to accelerate growth to build capabilities. In that sense, the general strategy remains unchanged. We will continue with our dividend policy as we have reiterated. And we will also continue with our M&A activity. Of course, we continually assess other opportunities for capital allocation as buybacks all the time.

Varun Rajwanshi: Thank you both.

Ross Jobber (Citi): Thank you. Morning, gentlemen. I have got a couple of questions, if I may, on Transformance. A couple of things. First of all, what exactly are you spending that money on? Could you give us a little bit more colour on that?

Secondly, I think you said in your comments that this is an ongoing expense. And if I misunderstood that, how long might we expect there to be a Transformance investment?

And the third one, is just a point of clarity. I think in the last question you said that part of the miss on margin was the unexpected Transformance cost. However, if I am right, Transformance is stripped out of the adjusted EBITDA. Maybe I am not right about that.

Those are my three. Thank you.

Dieter Schlosser: Thanks, Ross, for the questions. Let me start with Transformance as an ongoing initiative and what we are actually spending the money on. You have seen we have made provisions of around CHF 9 million of adjusted EBITDA for that, and that CHF 9 million is meant to separate from some of our team members, who are not fitting any more in terms of capabilities which are required for the future. That is basically one of the underlying assumptions for Transformance – which is a combination of transformation and performance, it is a made-up word, Ross. What we want to achieve is, if you are in a high transformation environment you need high performance at the same time. Thus, you need to have permanently adjusted capabilities and adjusted performance towards that high performance to achieve it.

That is towards the initiative itself. And as you can see, we are focusing on growth going forward, so we have to make this an ongoing initiative to be able to achieve our target.

On the second point, on why would that have an impact on the EBITDA margin, is because it is booked on the adjusted EBITDA. It is not the provision which we are referring to, it is the impact of the lower OPEX which we are referring. I think you can appreciate if you have CHF 9 million of provision, that usually you can say around 20% of cost of the overall OPEX cost, and that is basically what we have not been able to achieve in 2021 and see now the full impact in 2022.

Ross Jobber: Thank you.

Dieter Schlosser: Thanks, Ross.

Alastair Nola (Morgan Stanley): Hi there, thanks for taking my question. I just maybe want to go back to the Capital Market Day, maybe just to see in a little bit more detail what has changed, because I guess the message then was very much that there was an ability to deliver EBITDA growth ahead of gross profit growth. Obviously, today that has changed. What exactly has driven that change I guess, because we are getting in essence in increase in cost but there is no additional uplift on the gross profit guidance in the mid-term.

And then, secondly, on the cost cutting programme. Can you just articulate, and apologies if I missed it, exactly how much cost you expect to be able to take out of the business over, say, a 1-2 year basis? Again, that does not necessarily seem to be showing up in the mid-term profit guidance, and the fact that that has been taken down as well today. Maybe you could just explain that, it would be much appreciated. Thank you.

Dieter Schlosser: Hi Alastair, thanks for the questions. In terms of the first one on the Capital Market Day, where we affirmed the guidance, what I reiterated earlier was that we had an expectation that we had a much higher growth – much higher in terms of 1-2% higher growth – towards H2, and that slipped through in 2022. You can also appreciate that the last two months were basically impacted by Omicron. That is already different on the GP side, that is accounting around CHF 15 million in terms of differences.

The second point is really the impact of the Transformance. We should have – and I clearly state this – we should have accelerated Transformance faster, so that a faster impact in 2021. Now, we had the full impact in 2022.

In terms of is that reflected in the future, and you do not see the uplift in the future in terms of the mid-teen growth as well as the EBITDA margin, this is exactly where we see now that we are in a position to have that choice where we can either invest into growth or we invest into EBITDA margin. It is up to the market opportunity and our positioning as a company from our portfolio. I think you would tell me that I am not doing the right job, if I miss the opportunity that we see in the market right now.

We have built that engine in a scalable way, and are able to capture the market opportunity, becoming a leader in many areas, which we have shown earlier. That is our choice now. We want to focus on that and still maintain a world-class margin above 25%.

Alastair Nola: Thank you.

Dieter Schlosser: Thanks, Alastair.

Andreas Muller (ZKB): Yes. Hello gentlemen, thanks for taking my question. I have also got a question about the personnel cost increase, what was the effect or what would you consider is the effect of wage inflation, so salary increased and the other part from the FTE increase this year, would that accelerate even more this year? That is the first question.

Then I have a small question on the exposure towards Russia, Belarus and Ukraine, do you have any assets over there?

And then I was wondering what is the size of the SAP pieces and also the application services? How much gross profit are you generating related to business lines on a run rate basis and is that compliant with what you showed in the pie graph earlier? Thank you.

Dieter Schlosser: Yeah. Thanks Andreas and looking forward to meeting you tomorrow. On the wage inflation and the FTE increase, let me start with the wage inflation. We see in certain pockets an increased salary demand. That is absolutely correct. You have heard about the great resignation post-COVID. How we have mitigated this, is that we have a combination of grooming our talent as well as hiring our talent and with that, we have built into the budget as it is.

In terms of the FTE increase, just to be precise, we had an FTE increase last year with 1,450 FTEs from InterGrupo, that is our acquisition on Application Services you remember. And then we had an additional 1,000 headcount experts brought into the company and that is a combination of organic as well as acquisitions.

We believe going forward, that we will have always around 1,000 FTEs on a yearly basis added to our capabilities. And looking at the market opportunity and looking at how we split headcount relevant from Solutions & Services growth, we believe we are on a good ratio over there.

On the second question in terms of exposure in Russia, Ukraine, Belarus, we are an asset-light company, and we are a people company as well, so we do not have assets in the various countries. We have obviously closed the office in Ukraine and moved the people into safe locations at the border to Poland and across there, where it was possible. In Russia, we are

following the sanctions, of course, the EU as well as the US sanctions very, very rigidly over there. Overall, what I mentioned in my presentation, our exposure from gross profit (GP) is around 1.5% of the overall exposure of the overall business of SoftwareONE.

In terms of SAP and Application Services side, you remember, we are not splitting our segment yet in terms of run rate and profitability, but you can assume two things. Number one, we are absolutely on track on my commitment which I have given to you last year, which is the CHF 100 million run rate at the end of 2023, and the Harvey balls which you see also, in terms of reflecting the scale.

Andreas Muller: Okay, thanks.

Dieter Schlosser: Thanks, Andreas.

Knut Woller (Baader Bank): Yeah. Thank you. Firstly, on the transition to pay-as-you-go, when will that be behind us, to be a headwind in terms of gross profit?

Then, secondly, regarding your comment on the weaker first half in terms of the EBITDA margin, looking at the accounting change here, that are appearing for Predica, is it around CHF 100 million in terms of revenue? And looking now at the changed accounting that this is having here on the business model being more on Services, here a negative headwind for the margin, is that the right way to look at things?

Then, lastly, on the net retention rate you are having, can you give us here some update? Thank you.

Dieter Schlosser: Hi Knut, thanks for the question. The last question on the net retention towards our people?

Knut Woller: No, in terms of the customers. You are doing a lot of cross-selling and trying to shift it more to sticky business, so what is the net retention rate currently and are you expecting that to shape?

Dieter Schlosser: Okay, thank you. Let me start with the first one on pay-as-you-go and the timing. We are more than halfway through. We expect this to be another 1-2 years, until we have addressed our customer base. Of course, there are always new customers which we are hunting, but converting our existing book of business to pay-as-you-go, you can expect 1-2 years, and then we have all on a subscription base and all on recurring revenue. What is interesting is, of course, with every pay-as-you-go you get the attachment of the cloud support as a managed service, these are the 6.9 million users which we refer to, and that gives us quite a deep insight into the customer base and the application landscape.

On the second portion of the second question which you had on the EBITDA impact maybe I just transfer to Rodolfo.

Rodolfo Savitzky: In terms of the EBITDA margin, first half versus second half, what we see, as we mentioned before, we have certain investments in the first half associated with Predica in some of the service lines. And what we are seeing is the same level of OPEX in the first half versus second half on this particular investment, but we see significant GP uplift in the second half, and this drives the small asymmetry in the margin between H1 and H2.

Dieter Schlosser: Thanks, Rodolfo. On the net retention, just let us go through the numbers again, Knut. We have 65,000 customers which offers a huge existing book of business for

up-selling and cross-selling. At the moment, we have reached 71% of our GP through customers who buy both Software & Cloud as well as Services, and that gives us that 8.9% multiplier, which is of course a massive opportunity. There is a certain churn, Knut, in the lower transaction end of customers which you usually have. They buy in the one year. They do not buy in the second year. And then they buy again in the third year. And that is something which, of course, in the future will be all digitised, so it will not impact any more on our operating efficiency.

Knut Woller: Thank you.

Dieter Schlosser: Thanks, Knut.

Ben Castillo-Bernaus (Exane BNP Paribas): Good morning, thanks very much for taking my question. A couple for me. Firstly, you had previously commented that you expect the OPEX to be flat sequentially H2 over H1. That was actually up around CHF 30 million or around 10%, so some way off. I am just wondering what the moving parts were there – how much of that was wage inflation versus discretionary growth investments?

Second point on a contribution margin, what can you tell us around the level of profitability for the Services business that you might be targeting perhaps in comparison to peers? And something on slide 17, you mention about full segment reporting. Should we expect that this time next year?

Then, thirdly, on the 2022 guidance, with Services reaching 50-50 a little quicker than you first thought, that could imply that Software & Cloud growth uplift is pretty minimal from the sort of 3% you just delivered, so just if you could give us a steer on your expectations for the Software & Cloud business for 2022. Thank you.

Dieter Schlosser: Yeah. Thanks, Ben. I will let Rodolfo start with the first two questions and then go into the Software & Cloud, the third question.

Rodolfo Savitzky: Just one clarification, when you talk about the discrepancy in the OPEX, you refer to the 2021 results, right?

Ben Castillo-Bernaus: Exactly. Your previous commentary was that H1 would be broadly the same, it would be flat in H2. However, I think it looked like it stepped up in H2 of 2021.

Rodolfo Savitzky: Yes, that is correct. I would say the vast majority of the difference is what Dieter already mentioned. There was the Transformance initiative for which we created provision. The expectation was to realise a significantly higher amount of savings already in H2 of last year. That did not happen, and will, of course, realise the savings now in 2022. Thus, that is at it relates to 2021.

And the commentary I made on 2022 does not reflect the overall OPEX. I just mentioned in certain big investment areas that I mentioned, here we see similar investment patterns in H1 and H2. However, of course, you get the uplift in 2022 in the second half.

And then let me take your third point. We want to provide the transparency, so we are aiming for full segment reporting by the end of 2022. I think it is important to have that, to make sure we have all our system and reporting values in order to do that.

Then as it relates to the services, this is a highly scalable business. We have seen, when we have monitored the recent progress, we see a huge operating leverage. You will, of course,

get the numbers at the end this year. We would say right now the Services business is in positive profit territory, but more details to come when we provide the segment report.

Dieter Schlosser: And on your last question on the Software & Cloud in terms of growth opportunity in 2022. We saw in the second half an 8% growth on Software & Cloud, and we see this momentum carrying over into 2022 as well. There are certain aspects which, of course, we need to consider. One of the aspects is that you have, of course, in 2020 in the second half of the year also, the height of COVID, so you need to make sure that you baseline against the right normal base.

We believe that Software & Cloud, the growth opportunities are there, but they are moderate. They will be in the single-digit – mid- to high-single-digit. However, we also believe that with our offering which we have on digital supply chain as well as marketplace, we have quite an upside which is at the moment not yet built into it.

Ben Castillo-Bernaus: Got it, thanks very much.

Jad Younes (UBS): Hi. Thank you. A couple of questions from me as well. If you are guiding that H1 costs are going to be flat over H2, would the Transformance not basically be expected to drive benefits in H1? And then how much exceptionals from the Transformance programme would we expect this year?

Secondly, can you give us a number on the attrition number that you have seen basically for this year as well?

And then, lastly, on the M&A, can you also give us a bit of an idea about the acquisition pipeline and what is the average gross profit multiple that you are paying for the acquisitions?

Dieter Schlosser: Yeah. Let me start on M&A, and hi, Jad. We have a very strong pipeline on M&A. That is always part of our model which you have seen. It is usually between 6-10 acquisitions which we are able to find the right targets in the market. It has to be clear if you acquire in Solutions & Services it will be always margin diluted in most of the cases and it will always take us a year to bring them up to a level on the EBITDA margin where we see our benchmark and where we see our 'magic quadrant'.

In terms of attrition, I did not mention this earlier, but I could share with you that we have two Transformance. We always talk around 5-7% in terms of rightsizing capabilities, and then you usually have a normal attrition which is slightly above 10%. That is the overall attrition which we are talking about.

On the first question, Rodolfo, do you want in?

Rodolfo Savitzky: Yeah. Again, it boils to the same topic we have been discussing so far. As Dieter explained, the Transformance programme, definitely, we want to make sure we are sharpening the capabilities in the organisation. You want the position that will be reducing in H1 of 2022, that already will see the bulk of the impact. However, many of the savings, we are investing behind growth. This is the decision we are taking in the investments which should allow for the possibility of long-term growth, and we see that as the priority at this stage rather than bringing the savings to the bottom-line.

Jad Younes: And then on the total level of exceptionals on the Transformance programme?

Rodolfo Savitzky: No, it is just typical in many companies. It is this Transformance or restructuring provision that we have this year. This is the only exceptional that is associated with this particular programme.

[END OF TRANSCRIPT]