

# Axway

## Web Audio Conference

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# Analysis of the business

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Christophe Fabre  
*Chief Executive Officer*

Good morning, good afternoon and good evening, and thank you for joining us on this call. We will try to complete this call within 50 minutes.

## *Slide 3*

For the first item on the agenda, I will give an analysis of the revenues and the business carried out during the first half of this year. Then Patrick will present accounting and financial results. I will come back and outline the positioning and the strategic point of view, and then we will do a question and answer session.

## *Slide 5*

I will start immediately with the numbers. I have outlined the revenue per region for the first half the year. France had a very good performance, delivering 10.7% of organic growth during this first half. By the way, I have to mention that the numbers published take a full quarter of Systar into account, which was their last quarter for their fiscal year and our second quarter. This is how we reached 22.8% in terms of growth, especially in France, which is quite good.

The figures for organic growth compare pro forma and compare Axway and Systar now to Axway and Systar before. 10.7% of organic growth is related to new business brought in by the teams. I will come back to the performance of France, but France has been consistent for the last 7-8 quarters and is becoming an engine of growth. The rest of Europe grew by 8.2%, which was a good performance. In the first semester, the Americas finished at -3.6%, which is a little disappointing, and I will give you more details about that later on. Asia Pacific was at 43.5%. This results in a total of 5.7% organic growth for Axway and total growth of 8%, which I think is a good performance for the market we are in.

## *Slide 6*

Regarding revenue by business lines, licenses had an organic growth of 1.7%. We were hoping to achieve a little more, but it is still a decent result. Maintenance grew by 7.2%, which is also a strong result, and services were at 6.9%.

## *Slide 7*

If we look at Q2 per region now, France delivered 13.3% of organic growth, with a good momentum here on new deals. The rest of Europe was at 3.2%. The US had a weakness here and was at -4.2% and Asia grew by 50.3%. The organic growth for the second quarter was 5.4% and the total growth was 11.3%.

## *Slide 8*

Licenses were flat in Q2, mainly due to a lack of big deals in the US. We had some in Europe and in France, but not in the US for this Q2, and I will give you more explanations about that later. Maintenance was at 8.4% and services were at 6%. For two quarters in a row, services has been delivering at more than 5% of what we expect for it. This comes from the success of the new offerings, especially A5.

*Slide 9*

We will look at the balance of revenue per region. Due to the Systar consolidation, France is a little bit now above America, which is following at 34%, and the rest of Europe is at 25%. Maintenance is growing recurrently, and has now reached 50% of activity, while licenses are at 24% and services are at 26%. This is a typical split for a software vendor.

*Slide 10*

I will comment on some of the successes of the first year and give you my analysis of each region, and we will start with the US. There is a key point in understanding the performance of the US in H1. Take into account that we brought in a new management team for the sales organisation at the end of last year. We gave a new Head of the US sales team since the end of March. We have worked on renewing the team and obtaining the right number of people able to sell solutions that we were providing to the market with Axway 5 (A5).

These are more complex solutions and though it does not take more time to sell them, it takes more expertise. You do not just have to explain how we meet the needs of the customer. With this new offering in a market which is not well-defined, you also have to explain why the customer has a need. Solution selling and understanding the full technology are key, so we are bringing the team in the US to the same level as the one we have in France, for instance. There is a good opportunity in the US for the Management File Transfer business line. The second opportunity is an Application Programming Interface (API) gateway in a big tax-preparation company. It is a very interesting and competitive deal, but we are able to win in the US also.

*Slide 11*

The third opportunity is for a big brand, which is a big manufacturer worldwide. It chose us to modernise its business-to-business (B2B) infrastructure and we are very proud of that. The last opportunity is for a big company in the healthcare market. This shows that there is still demand. In last year's presentation, we commented that the new regulations in the US may have changed some deals. This shows that deals are perking up again, driven by foreign regulations in the US. This one was made in the cloud.

We still see opportunities regarding our core on-the-ground positioning in the cloud, local validation and no transfer from entry to cloud. However, we have tried to capture the suggestions in the emerging medium of the cloud. Regarding the quality of what we sell in the US, it is present. We have sales in the four business lines we have, but we lack a few big deals that will stimulate growth. We are working to obtain them as soon as possible.

*Slide 12*

France had a very good performance, selling very interesting offerings in all the portfolios. There was an opportunity with a French company and other software vendors specialising in 3D designs, with the full A5 suite from Axway. This is the full suite we are selling now, or close to the full ones, so this is a real sale. It is the first implementation and it can grow, and they will manage all the exchanges in their ecosystem of partners. There are typical A5 deals that we can replicate worldwide, and our sales teams are able to do so. The second area is API management. France is doing well in this area. API is the tool that connects the digital economy, the demand for it is worldwide and we are leveraging it very well in France.

*Slide 13*

In the rest of Europe, there are the same kinds of deals, including B2B, Managed File Transfer (MFT) and API. There is one that is very interesting, in which the technology will be used by BMW for their connected-drive services and apps initiatives. It means that if

you want to control your i8 through a mobile, Axway helps to secure that connection. This is a new kind of feature that we can see increasing a little in every industry.

#### *Side 14*

The Total project refers to the cloud and involves MFT and B2B, and we are progressing there too. The last project in this area is for the biggest fashion group in the world, from a country located in the South of Europe, and concerns MFT. I want to say that these B2B and MFT opportunities, which have been the core business of Axway for 10-15 years, are evolving and becoming more in demand. There is a demand for governance and I will come back to this later.

#### *Slide 15*

In Asia Pacific (APAC), companies like to bypass the market and they are adopting the latest technology immediately. Therefore, we are quite successful in API there, in Australia and in other countries, but Australia is especially active.

#### *Slide 16*

The headcount grew to 1,984. The increase from 1,783 came from people from Systar, but also from new hires in Axway. Of the 200, approximately 50-70 are from Axway, in R&D and services and also in sales

#### *Slide 17*

I will summarise the first semester. We finalised the acquisition of Systar. We are quite optimistic and I will return to that point in the last part of the presentation. It contributed strongly to the margin, because it was their last quarter, so the quarter was very profitable, with more licenses than usual in the quarter. Our goal for the second half of the year is to bring their margin to the same level as that of Axway, but it will be gradual. It will not only be through synergies but through promoting their offerings and achieving some organic growth. We will see if we can reach that.

We had significant growth, not only in the whole group but also in organic growth. In maintenance, licenses and services, France is at the level we expect. There is some more to do in the US and the rest of Europe and APAC has good momentum too. The license figures were flat in Q2, but as I was saying, there is in fact a lot of activity, with some areas growing very fast and others declining a little.

There is a transformation in the MFT and B2B demand, where we are introducing these new components and new offerings. We did another year, but we did not get the value and benefits of the new offerings on MFT and B2B in the first half. We hope it will be better in the second half. The implementation is usually complex and it takes a little more time, but these are just single products. We had A5 and API, and for A5, it was the large version of the suite, and we include them in that revenue when there are multiple components of the suite. We grew by more than 3%, which was driven especially by API. A5 and API represented more than 30% of growth in licenses.

The offering from Systar was dynamic in Q2. Their new offering, called Tornado, represented more than half of the licenses of Systar, so we think that that product will help us achieve a good level of growth in the medium term in H2. H2 still has to be built, because the product is quite new.

#### *Slide 18*

Regarding the costs, I will let Patrick detail all the parts, such as the net results, but I want to mention something. We invested in the line operating expenses in sales and marketing and R&D. It is not just that we had Systar, and there is also some organic impetus because this offering is new and we still have to develop it. We are also investing in the enablement of a sales network, so we will be able to grow the sales network and

generate the growth you need. To have growth, you need more salespeople at some point, so we are preparing for that.

We are still cautious, because we want to keep a good level of margin anyway. There was a change in the “Resultat Opérationnel d’Activité” (ROA) in 2014 from 6.7% to 4.7% in the first half of the year. This is mainly due to fewer licenses, but we were expecting this because of the integration of Systar. However, there is no structural problem that will cause us to deliver a lower margin than we have in the past. I think we will still be able to work on that. We are focusing on the growth, as I was explaining. We want to achieve market share and we will achieve it as soon as possible with this new offering. I will let Patrick comment on the accounting and financial results.

# Accounting and Financial Results

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Patrick Donovan  
*Chief Financial Officer*

## *Slide 20*

As Christophe mentioned, our total revenue for the first half of 2014 finished at EUR114.9 million. This was an increase of EUR8.5 million, or 8%, compared to the first half of 2013. This result included one quarter of the Systar results, which was their historical fourth quarter. We began the consolidation of the Systar financial results into Axway accounts in April, and our June balance sheet reflects the combination of Systar's balance sheet with Axway's.

Our total cost of sales as a percentage of revenue for the first half of 2014 was stable and in line with the first half of 2013. Our gross profit finished at 65.5% compared to 65.9% for the first half of 2013. Our full-year results for 2013 finished at almost 70% gross profit, which can be expected. Year on year, we sell a significant proportion of our licenses in the fourth quarter, which helps our overall year-to-date margin.

Our operating expenses grew in the first half of 2013, as Christophe mentioned. We invested both in our product R&D centres and through our distribution network. Our total profit on operating activities for the first half of 2014 finished at EUR5.4 million, compared to EUR7.1 million in the first half of 2013. This was 4.7% of revenues compared to 6.7% in 2013.

## *Slide 21*

Regarding reconciling the profit on operating activities down to net income, I wanted to comment again on the results for the first half of 2013. In the first half of 2013, other income and expenses totalled EUR5.2 million. This represents the General Services Administration (GSA) settlement that we had in the first half of 2013, for approximately USD6.2 million. There were also legal and accounting fees associated with the transaction.

Additionally, in the first half of 2013, we were able to release some valuation of those, on deferred tax assets in the US market. This led to income of USD12.7 million, or approximately EUR9 million. Without those exceptional items, profit in the first half of 2013 would have been approximately EUR5.6 million, or 27 centimes per share, as compared to 13 centimes per share in 2014. For the same period in 2012, we also had 13 centimes per share. I will make one more comment about the first half of 2014. The other income and expenses all relate to the acquisition path of Systar. Our net profit for the first half of 2014 finished at EUR2.8 million, or 13 centimes per share.

## *Slide 22*

Regarding the balance sheet, the non-current assets finished at EUR332,2 million in June of 2014 an increase from EUR270,1 million at the end of last year. This primarily resulted in the increase in goodwill and intangible assets through the Systar acquisition. Our trade receivables finished at EUR66 million, compared to EUR64 million at the end of the year. Although the balance is flat, this integrates the Systar balance. Day Sales Outstanding, which is the measure of our health, was at 83 Day Sales Outstanding in our trade receivables at the end of June, compared to 90 at the end of 2013. The decrease was a positive sign of the health of our receivables and their selectability.

The treasury finished at EUR41 million at the end of June, compared to EUR49 million at the end of the year. Note that the cost of the Systar acquisition was approximately EUR52 million. We utilised EUR30 million of our credit facility and EUR22 million of the treasury we had on hand for the purchase.

#### *Slide 23*

Our total shareholders' equity finished at EUR255 million. As I mentioned, we utilised the bank debt and revolving credit facility to access EUR30 million for the Systar acquisition, so bank debt finished at almost EUR61 million.

#### *Slide 24*

Our other current liabilities primarily include the deferred maintenance revenues. These have a seasonal increase in the period closing in June, as we renew a lot of our maintenance accounts at the beginning of the year and half the year's balance still remains in our half-year accounts. Additionally, we gained the deferred maintenance revenues from Systar. Our changing shareholders' equity for the first semester was relatively flat. We finished the period at EUR255 million. We paid out dividends in June of EUR8.2 million or 40 centimes, which were approved at the General Assembly.

#### *Slide 25*

Regarding our cash flows, we typically generate most of our cash in the first half of the year, which is demonstrated in the changes in operating working capital. We generated EUR21 million in this line compared to EUR20 million in the first half of 2013. This is typical for our business, when we sell significant numbers of licenses at the end of the year, in the fourth quarter.

We also renew our maintenance at the beginning of the year, which allows us to collect those receivables throughout the first half of the year. We generate the majority of our cash during the first half of the year. There was net cash use and investing activities for the purchase of Systar. For the first half, we decreased in cash by EUR8 million from the end-of-year balance of EUR49 million. This was primarily due to the utilisation of cash for the Systar acquisition.

#### *Slide 26*

I will present our financial bank covenants, which remain strong and within the thresholds for all periods presented.

#### *Slide 27*

I will outline our shareholder structure and I have changed the information a little since our end-of-year presentation. At our General Assembly on 4 June, our shareholders approved Resolution 13. This allowed us to grant double voting rights to all registered shareholders who have held their shares for more than two years. I am presenting the concerted actions of shareholders. They hold 59% of the shares, but now after the shareholders' resolution, they hold 68% of the voting rights. Now I will transfer the presentation to Christophe.

# Positioning and Strategy

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Christophe Fabre  
*Chief Executive Officer*

## *Slide 29*

To start on the strategy and positioning session, I want to revert to the market drivers. I made this point many times last year, when we commented on last year's results too. However, many events in the market show that how we read the evolution in the market is becoming more and more obvious, and it is backed up in our strategy.

Everybody has noticed that the digital economy is now effective. You have to take into account cloud, mobile, connected devices and social networks in every business. It changes the way you connect to your customers and interact with them, and it can change your business model. Every company has to figure out how they can protect themselves or leverage themselves and reinvent themselves in that trend, to stay in that business or grow.

It means that when they approach the IT department, they are asking for new services, and the IT organisation has to be able to react. They are asking for more too, because the level of services and especially governance that you want when you handle these new systems and operations is growing bigger. It also creates a new landscape for IT and for integration, which is what connecting and integrating elements inside and outside. There is a revolution there.

There is a need for more governance and we call that governing the flow of data. It is changing the way you are building systems and what you expect from your systems. 10 years ago, you would build a new house and you would ask to have water, electricity, air conditioning (AC), a garage with a door opener and a system to irrigate your garden automatically. You would have that to enable you to operate in the modern world and that is great.

Now, it is a time of house automation, so you want to be able to open the garage door through your mobile when you come home from work. You want to turn on the AC and when you enter, you want to be able to switch on all the lights automatically from your mobile. You want to see what is on and what is off and you want to put music on all over the house with your sound system. You want to be alerted when something is wrong. You want to know if there is a leak in the water system or if a [inaudible] is not working. You also want to be able to give your kids access to this technology, with different rights, because you do not want them to turn the music on in your room when you are sleeping. You want your guests in the guest room to access that.

Exactly the same process is happening in integration. You do not want something that simply connects the technology but which helps you govern it. You do not want a managed file-transfer system which automatically transfers files. You want to know very quickly which ones are not arriving, where you have issues and where the user is consuming it. You want to be able to see if you are handling your Service-Level Agreement (SLA) with your partners and you want to give them some access to your data. You have a security problem and you want to make sure that nobody is able to access your system.

Now with all these additional levels, the demand is evolving to have that automatically embedded. It has forced us to take MFT to another level and that is how we created this new A5 platform and added more governance in the platform. That is a strong drive for



API, which is the technology that helps connect mobile devices and the cloud to the overall system. By the way, it is also true for your house, when you are connecting with your garage door through your mobile. You are using an API.

### *Slide 30*

There is a big demand. The middleware technology is far from being dead. It is a big opportunity because technology needs integration. I have included some quotes from Gartner. By 2016, companies will invest 33% more on application integration than they did last year. A big part of that will be dedicated to mobile, which comes to 20% of the overall spending. This is just to integrate the technology. There is another key point, which is that two-thirds of the overall integration you do will go outside the enterprise firewalls.

### *Slide 31*

All the problems of managing and governing security, identity and access are going to be a huge issue, so there is a huge opportunity. I know that if you look at the vendors in the integration market today, they do not deliver 30% of growth. This is because the market is transitioning, so the technology is evolving and the needs are evolving. The market is not readable. 10 years ago, if you wanted an MFT solution, you went to Gartner. You had the features and function you had to get and you issued a Request for Tender (RFT) to the three best players. They came, you decided who had the best products and you bought them and that was it.

Now, you have to redo the strategy and you have to understand how you will establish that. The architectural patterns we are following are evolving at the same time as the demand. There is some momentum in the cloud, which is also a way to obtain more governance, because when you put it in the cloud, you do not have to go into it. Somebody will do it for you, maybe with managed services. Therefore, this market represents an opportunity and it is transitioning. That is why we at Axway are still working on this and investing in that area for growth.

### *Slide 31*

Now, let us talk about the last acquisition we did in the second quarter, which was Systar. There is another way to illustrate that governance is something which is asked for more and more by the customers and how governance is delivering value. Is it just a tools dashboard, a way to improve my mobile or control technology, or do I make money from it? A study from Gartner shows that when you apply operational business intelligence, by assimilating data, managing event decisions and using process-flow management, you obtain more ROI.

The return that you can have will lead to improvements from an operational business-intelligence point of view will justify the cost of buying new integration technology. There is a way to see that, and how it relates to governing the flow of data, because when you do operational intelligence, you just compute data which is flowing between people, devices and applications. You put that in the context of doing something better from an operational point of view.

### *Slide 32*

The key point is that integration projects will embed more and more operational intelligence and operational intelligence delivers more value from these projects. This is because it improves performance. It improves the performance of a process by identifying whether the process is not good and offers ways to correct it. It improves the performance of a workforce to optimise it, to increase its efficiency and be able to introduce better models.

It improves the performance for the client, and from his point of view, he will have a better quality of service. It is an excellent way to enhance the customer experience. It

improves the performance of the business itself by detecting patterns and making some analyses. Even from a rigid compliance point of view, it can provide proactive monitoring on everything that needs to be tracked in order to be compliant.

Operational intelligence starts by leveraging all the flows of data in an IT infrastructure, particularly using the middleware to handle that. It involves delivering some results at the business level. Systar did that particularly in the banking sector, working a lot in payments, where the infrastructures are not homogenous and there is a lot of software involved. This kind of tool gives you a global overview of the business and targets these kinds of goals.

If you think about it, it is not just the payments that need these kinds of solutions. In a company, knowing what the status of an order is presents a complex problem. It goes through your ERP and it is affected by another one. The warehouse informs you whether it can prove the order or not. If you want to have a view of the global process, you have to monitor the flow of data a little everywhere. There is no homogenous technology available to give you all of that, because the technology is not a single block.

We think operational intelligence has potential in nearly every vertical. Systar used it in telecom and then after that, they decided to use it for everything related to process management. Our goal is to leverage that offering to provide that additional value to our customers, in historical Systar verticals but also in our own. Banking was also a strong vertical for us, but supply chain, which is the second big vertical for Axway, should also be able to leverage once we have our first customers and we go to market more automatically. We should also benefit from that.

### *Slide 33*

We integrated Systar as a component of A5. A5 connects with the legacy technology, like MFT, EDI and B2Bi applications and partner ecosystems. API is an emerging technology and enterprise API management. It is a full set of governing tools related to API that helps you to connect mobile, to govern mobile flows, which go to the cloud.

For all these suites here, you have all the pipes in a way, all the pipes you have in your house. However, you also have very interesting governance tools, the first one being operational intelligence. However, there are also tools at the IT level when you want to monitor and govern your solution and your applications. You have SLAs and analytics there, in our component called Sentinel.

You have the ability to manage the community. This involves defining policies and how to deal with the flows when you receive them. You can handle security and integration. You see that governance is a much stronger concept than management, regarding everything that you have to look after for your business, and you can leverage flows better. Systar is in there.

### *Slide 34*

We are not changing our strategy and we are not changing the way we want to be positioned in our market. In middleware, there are generalists like IBM, Oracle and SAP, which want to deliver middleware for every house and family, in a way. There are specialists who want to deliver some premium offerings, such as ourselves, targeting the governing of the flow of data. Software would focus on the process, TIBCO on the real time and Informatica on the database.

We think that what we do, including MFT, B2B and API integration, involves the technologies that are handling with the flow of data. By adding some governance tools on our traditional offering on the emerging market, we can meet that next-step demand that we see emerging on the market.

*Slide 35*

Regarding the outlook for 2014, this middleware market is a huge opportunity, but it is also undergoing transformation. We understand that there is a new requirement for the legacy technology, such as MFT and B2B integration, and that is what we released at the end of last year with A5. When it is enabled in all the markets and all the regions, it will give us some growth.

API is definitely very active and dynamic, with more than 30% of the licenses in the first half of the year and OI is emerging. In the Systar quarter, their new technology, Tornado, represented more than 50% of the licenses. Maintenance and services are on track, promoted by the A5 suite, which is handling all of that.

In the second half of the year, we will still have a big number of licenses to close in Q4. However, if we look at the full year, we can confirm an organic growth for the full year. I think there was 5.7% organic growth in the first half. This shows that there is a very good trend there. The margin will depend on how the US reacts and when. I think from a qualitative point of view, we have an ideal US market and we are in sync. The creation of a sales network and the fact that we transformed the opportunity in deals will be key for the balance of the year. However, from a margin point of view anyway, we think we can attain the 2013 level, and that is our renewed guidance for the year. We have done the formal presentation and I think it is now time to take the questions.

## Questions and Answers

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### Participant

There were three questions from the Web. The first one is this. Can you give us more details on the Systar numbers which were compiled for the half-year results?

### Christophe FABRE

We can share the fact that the revenues for Q2 were more than EUR5 million, so it was good growth. As I said, the margin was at the same level as the margin for Axway. However, for the second half, Systar has historically had a lower margin than Axway, so one of the challenges is to bring them to the margin level of Axway. We did not have a strong synergy planned on cost synergies, because we want to increase that activity, especially the emerging Tornado one. Our goal for the second half of the year will be to bring them to our level, but it will also depend on the amount of licenses we will be able to reach.

### Participant

Thank you. The second one is this. How much net operational loss was realised this semester?

### Patrick DONOVAN

I can answer that one. The test net operating loss has a benefit of approximately EUR2 million on the tax in Term One, in the first semester of 2014.

### Christophe FABRE

I just want to make a comment on that. I saw some confusion during the conference earlier. The GSA settlement and the extra recognition of the tax credit were not given in 2014. What is in the 2014 credits just offsets some taxes, but there is nothing on GSA and no exceptional activity from a tax-credit perspective. Maybe you can reformulate what I said on the tax to make sure that everybody understands.

### Patrick DONOVAN

As discussed in previous conferences, we still have a deferred tax asset remaining in the US market that we have not recognised. We will occasionally have deferred tax assets or tax assets that are created in a period that benefit the results for the year. For the first half of 2014, we were able to add EUR2 million of positive gain on the tax assets. That is a normal release for the US assets available and it is a normal process. We had an approximately similar amount in 2013 without the exceptional item.

### Participant

The last question from the Web is this. Do you face a longer and more difficult a commercial sales cycle for this A5?

### Christophe FABRE

No. It is still a long cycle of more than six months, but we did not see an extension of the cycle. Regarding A5, when you meet a need and you have selected the right opportunity, the right customer with the right need, we still have the same length. As I was saying, we saw that the market is less readable than before. We cannot read our customers as we did before and their needs are not as easy to read. Their needs are evolving, so we also have to think about their needs, and the offering is evolving.

It may take more time and more training to have salespeople that enable the offering and have the level of expertise to introduce solutions selling. However, we made that move and we are still enforcing that. The performance of France demonstrates that. We are selling A5 with the same length of sales cycle, but have also become better at understanding it. They really grasped A5 in the US. We changed the management last year and we renewed some of our salesforce. We are enabling them on A5 and we are enabling them on how to carry out solutions selling. We think the demand on the market is strong, but we have to detect it and we have to expose what we can do. We have no lack of opportunity.

**Participant**

That is all from the Web questions.

## Concluding Comments

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**Christophe FABRE**

I want to thank you all for your attention and I hope we were not too long. We just did 40 minutes, so we should be okay. Thank you very much for your time and your attention to Axway.