Axway

Presentation of Annual Results

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Highlights 2017

Jean-Marc LAZZARI
CEO

Welcome to the 2017 Full Year Conference. We have also people connected from the webcast live.

Patrick Donovan, our CFO, is with me today and will share a large part of the presentation. Patrick Gouffran will help to coordinate the Q&A after the conference. I will start with key highlights for the year, but it will be short because a lot have already been mentioned in the pre-release, as well as the press release yesterday. Patrick will go into more detail on the accounting and finance, then I will conclude with the perspectives and discussion topics around the business model, before finishing with a Q&A.

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In terms of key highlights, I want to underline the acquisition of Syncplicity. We consolidated 10 months of activity of Syncplicity and I am pleased to report that the salesforce, development, and R&D tools, as well as the engineering behind it, are now 100% integrated into Axway.

For several years, Axway's business has been driven by digital for 60% of its business. We have identified that 60% of the deals we pursued in 2017 had a trigger, backbone, or condition somewhere around digital transformation. This movement is clearly confirmed everywhere, at least in the main regions where we operate, and most of our customers seeking a transformation journey are looking at opening new opportunities via some digital transformation.

I have deliberately called the Cloud & SaaS and subscription a revolution. The accelerating demand has surprised us, and we will come back to the subscription business, but it is now an item we touch on mainly and everywhere in discussion. Customers still frequently hesitate between a traditional on-frame licence in business or subscription, but it is in fact everywhere and accelerating impressively.

We entered two and a half years ago and announced our AMPLIFY Platform last year. We are entering a platform domination area, where everything is about a platform as a service. I will comment on that in a minute.

I want to highlight our strong Q4, which in terms of overall revenue was the best Q4 ever at EUR 86.5 million. We also caught up part of the delay we say in the first three quarters of the year. I also want to underline that it was the first growing license quarter for a little over a year, providing a strong finish for Q4.

Cost management has always been an Axway focus, but was especially so in 2017, to ensure careful management to prevent a direct impact on the bottom line from our weakness in licenses. We had some exceptional items that Patrick will comment on later, in particular some tax adjustments in the US, for which we will provide all the details.

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In June, we gave some guidance around how we saw the year ending. This was divided into areas around revenue stabilisation, where we guided on a flat year; the target was EUR 301.1 million and the EUR 299.8 million achieved is close to the guidance. On the profit on operations and activity, our guidance was that it would not be below 13 and we achieved a little over at 13.5. The 4.4 net profit is the result of the exceptional item on which Patrick will comment in a moment.

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Looking at the EUR 299.8 million revenue by activity, we achieved EUR 65.3 million of licenses, a decrease of 19.6%. There are two main reasons for that. First, we were unable to repeat a USD 4 million dollar from the previous year. Second, our license revenues were weak due to market conditions, and we signed only half of the ELA's, the long-term contracts where the customer commits to a software deal for several years. The overall reason is the market condition, the demand to the Cloud is increasingly strong and rising, with a lot of hesitation and complexity whenever a customer makes the investment "the way he has to invest", leading to a lot of deals failing to reach the decision point and investment level last year. The Cloud business grew nicely at 14.4%, that is EUR 37.5 million and we are now reporting the Cloud as a separate activity.

Maintenance grew at 2.8% at EUR 145.4. Our service business decreased, I would say intentionally, as a result of the strategic focus on the Services activity. We disposed of some of the [inaudible] commodities activities in Services, leading to a decrease in services but significantly improved margins to 16% of gross margin.

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The regional breakdown of revenue shows that Axway's flagships, the Americas and France have decreased their business as a result of both Licenses and Services. Asia Pacific and our European business grew, and I will not comment further on that.

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Looking at a different geographical breakdown, the US weighting is growing with the actual business rising from 41% to 43% of overall business, and French business decreasing from 31% to 28%. Our license revenue decreased from 26% to 22%, while our Cloud revenue increased from 6% overall to 13%. The level of our recurring business overall is a very important indicator and on that we have moved from the 45% range in 2015, to 54% in 2016, and now 61%. This is an indication of stability and, of course, the reduction on risk, specifically from license-type revenue. Entering the year, 61% of our revenue is recurring.

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I will just give a brief explanation about the Cloud, which seems a bit mysterious to many of you who have asked about the growth. We have a EUR 37.5 million result from the combined Axway Cloud activity, which we have had for year, and the newly acquired Syncplicity. We find EUR 7.3 million of new ACV, Annual Contracted Value, which is EUR 16.3 million of total contractual value on an average of three years. To make it simple, there are 93% of renewals, or to put it another way, 7% of churn. Normally in highly recurring the businesses, you see the revenue forecast over the year as multiplying the renewal towards your revenue, and that is basically the revenue you are going to get next year and then adding new annual contractual signatures completed the previous year. That gives us solid growth to come, and we will probably show the 20% growth that we expect in that business, up from 14.4%, giving a significant growth in terms of revenue.

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Our headcount grew by acquisition with about 70 people joining us from Syncplicity. However, overall, we managed our costs and decreased our total headcount by about 100 people altogether, that is net 100 people, which is 170 people gross. The impact was mainly on the workforce in France, while our US operations remain stable. In terms of headcount, we have increased the proportion of our business in the rest of the world versus France, which better reflects the areas where we are operating. By pure accident, France is now 28% of our business and the number of people outside France is 72%, so the numbers match, although there is no direct correlation.

We will now move on to the accounting and finance with Patrick, who will tell you a lot more about what happened beneath those high-level numbers.

Accounting and Financial Results

Patrick DONOVAN
CFO

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Before I dive into the financial results, I want to make a few comments on the context in 2017. First, as Jean-Marc mentioned, the US adopted new tax laws in December. Although most of them are in effect for the year in 2018, we had to take the impact of some of them on our different assets in 2017. In February 2017, we acquired Syncplicity and they are incorporated for 10 months into the accounts presented here. We also launched a study and dove into the new revenue recognition law, IFRS 15, which is applicable for 2018. We had to study it, look at our contracts in all line of business, Licenses, Cloud, Maintenance and Services, to see if there is going to be an impact in 2018 and if we would have to restate for 2017. I am happy to say that the revenue rules we were following fit within the guidelines of IFRS 15 and we will not be restating 2017, and it had very immaterial impact on the way we will do our Cloud accounting.

As Jean-Marc mentioned, this year we have exposed the Cloud revenue, that is Cloud revenue and margins. Historically, we included Cloud revenues inside our Services, where it brought down our margin as we were spending money investing. We are now separating them so that you can get a good picture of the different activities. Cloud revenues finished at EUR 37.5 million, offset by a decrease in the license situation, so overall our revenues remained relatively flat, finishing at EUR 300 million for 2017, versus EUR 301 million for 2016.

Gross margins remained relatively stable at 70%, over the three periods presented, but the internal mix is changing. The Licenses and Maintenance gross margin finished at about 89%, down a little less than 1 percentage point, due to the drop in license revenues. However, Cloud margins rose to 44% from 34% last year, and in 2015, when we were still investing in the infrastructure and teams to manage, we lost money on a gross margin basis. Our goal is to continually drive the Cloud margin up to the 65% level, where it should start levelling off. With the exiting of some unprofitable, non-core contracts, we were able to improve our Services margin to 16%, from 13% in prior years, and it should remain in the 13% to 15% range in the forthcoming years.

Operating expenses remained stable for Sales and Marketing at around 28% of our revenues. We dropped our GNA slightly. However, we continued to invest in our R&D, since we are investing in the Syncplicity product and purchase, as well as the Hybrid Integration Platform.

Our operating profit from activities finished at EUR 40.5 million, that is 13.5% versus EUR 15.8 million, or 16.9% in the prior year. Our net income finished at EUR 4.4 million, or 1.5% of our revenues, versus EUR 31.5 million in the prior year. An income tax charge of EUR heavily impacted the 2017 net income 24 million, which included a EUR 22 million non-cash charge due to our income tax accounting. The first element of this was restating our balance sheet for deferred tax assets in prior years, at the rate of 21% Federal income tax rate for the US, versus 34% historically, which was a EUR 10.5 million impact of that EUR 22 million. The rest is made-up of the way we booked the deferred assets on our balance sheet. To book our deferred tax assets, we did a five-year look-out of the profitability, taking into account a complex calculation with our transfer pricing rules, the changing mix in Cloud and Licenses, revenues, where we are investing R&D, investments we are making. We had to readapt our transfer pricing rules in 2017, look-out over the five years and we also had a few jurisdictions with changing tax rates. When we did all this, we took a EUR 7.3 million adjustment to our deferred tax assets in the US, and about EUR 4 million in France, and both of those are also non-cash. These deferred tax assets that we are not booking today, still remain available to book in future years. That gives us about EUR 20 million in deferred assets remaining that we could book over the next four or five years.

On our balanced sheets, the good run on intangible assets increased with the Syncplicity acquisition and will finish at EUR 333.6 million. Our cash balanced finished at EUR 28.1 million, with a total Bank Debt of EUR 48.8 million for a net of EUR 28.6 million. With a drop in our Trade Receivables to EUR 71.1 million, our DSOs finished at 77 days for the year, an improvement on the 85 days last year, but our target is 90 DSOs or below.

Our equity finished at EUR 344 million at the end of 2017, down from EUR 375 million in 2016. Two main items impacted this: a dividend of EUR 8.5 million, and a EUR 30.5 million foreign translation charge. The dividend of EUR 8.5 million, represents the EUR 0.40 declared in 2016 but paid in 2017. In our press release, we announced that the Board is proposing a EUR 0.20 per share dividend to be paid in 2018. As we continue to invest in our strategy, R&D, and potential strategic M&A, we could see that EUR 0.20 as the rate around which we pay our dividends for a couple of years, but the goal is that these investments will pay-off and thereafter we will increase the dividend back towards the levels we have experienced historically. The translation differential comes mainly from the US restatement of the balance sheet. We took a dollar to the euro rate that weakened by about 12%, when you compare the balance sheet rate at the end of 2016 to 2017, represented here by a EUR 30.5 million charge to our equity.

On our Cash Flow statement, we used EUR 23.6 million of cash this year, primarily for the Syncplicity acquisition, as well as to pay-down some debt from prior acquisition. Our change in Working Capital requirements was negative at EUR 11.7 million, versus the EUR 5.9 million in the prior year. Our free cashflow finished at EUR 24.8 million, down slightly from the EUR 27.9 million in 2016.

All our financial covenants for 2017 were well respected. Our net debt is at EUR 20.6 million, versus a net treasury of EUR 16 million in the prior year. Our main leverage ratio is at 0.47, versus the covenant at 3, so we have room within our EUR 125 million credit line, with EUR 89 million available and EUR 36 million borrowed.

Our shareholder structure has not really changed since my half-year presentation and remains stable.

To recap:

- We were impacted by US tax rate changes.
- Our business model is changing, with the Cloud growing 14% this year.
- We continue to have a strong financial position.
- We did some active cost management throughout the year, to try to hold a firmer margin and be above our guidance, without taking short-term decisions to the detriment of our strategy.
- We continued to spend on R&D at a level of EUR 59 million for this year, to meet our investment goals in our products.

With that I will hand back to Jean-Marc.

Market

Jean-Marc LAZARRI
CEO

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You have probably heard the word transformation. It is one I have started to hate, because it sounds as if we are transforming all the time; I prefer to call it reinvention. One of the realities that has triggered the transformation over the years was really driven by the architecture. We have had 40-years of mainframe monolith dominance and the transformation was all about data, computer power, storage. The year 2000 was the ERP period, but the structure and infrastructure of IT was mainframe and mainframe-oriented. [Inaudible] the client server popped-up and changed a bit how we see things from an IT perspective. About five to six years ago, services-oriented architecture arrived and triggered transformation and evolution in the software industry.

We are about to enter the Cloud and microservices era, the famous Containerisation. This could be very different and will trigger a new architecture in customer IT services. These new approaches will force us to adapt.

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We call the picture of how enterprises will work the onion peel. There is a monolith and the mainframe and the first layer of applications, the traditional ERP from SAP, traditional database manager, traditional Middleware from IBM. In this, the endemic for 40 or 50 years, were the providers of core applications within the company. After that came an Internet layer, where you find Microsoft, Google, and which has opened companies up quite a bit. That was the great Internet period, connecting everywhere and everyone wanted a portal and Internet. Then 10 years ago came the period of the iPhone and smartphones, where you find nice little hubs, and the Salesforce was the first real subscription business launch over the main suppliers. You also find Workday there, a digital, totally cloudified ERP, which is pumping-up at a rate of 200% a year. You also have traditional and social medias here, which are part of the dance of all the companies willing to expose those new layers in my enterprise onion layers. At the edge of the company, you have wearables, connected objectives, all the new devices that people are willing to use.

You may have noticed that in Q4, Apple became the biggest watch seller in the world, cumulating 8 million Apple Watches, against 7 million for all other watch providers. Who would have guessed 10-years ago, that Apple would have become the biggest watch supplier in the world? It shows that companies now face a significant challenge of connecting all those applications and devices.

That has been Axway's purpose for decades. We are a middleware company, specialising in data flow management. However, the complexity of the enterprise now triggers an almost infinite combination of potential reach points, for a company to drive the connection of all its business needs securely and in a scalable fashion. The enterprise sprawl is becoming exponentially pervasive.

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The Hybrid Integration Platform is one of the realities of the market. Why do we call it Hybrid? You have things sitting here on the mainframe solidly anchored on the backbone applications, like the database and ERPS, and we call it Hybrid because at the same time you may also have a totally separate, not-connected, standalone device that will have to run the same kind of applications. This is the Hybrid Integration Platform that we are after.

Gartner's analysis shows that all the components the market considers element of a Hybrid Integration Platform. As a reminder, we thought two-years ago, that that market was about EUR 9 billion, for 2018, it is now EUR 14 billion and exponential growth is forecast in the coming years. This is the market to come, and where the complexity and challenges sit for enterprise.

Another market survey shows that in 2020, 75% of large enterprises, Axway's main target customers, will establish or need and work on the journey to move to a Hybrid Integration Platform. We do not believe there will be a single leader who will own that place, as happened in the mainframe or data markets. We believe that companies will face that challenge and select different vendors to cover part of their IT challenges.

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We work with an organisation and association called TSIA, in the USA. They are the biggest private association of companies like us and they have thousands of members. They have done a study around the top 50 technology companies, Reddit, Google, Oracle, etc., who have a product mix that triggers some product revenue, software, Maintenance, Services, Cloud, etc. The curve in the past decade has seen product revenue driven down and service revenue altogether, including subscriptions, pumped-up. In 2017 only, product revenue for the top 50 companies decreased by USD 4.3 billion. This is a significant trend. Only 15% of the companies that were part of that survey have managed to combine growth and profit, which was the Holy Grail for years. I want to combine growth and profit, but only 15% of those companies have managed to get there.

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Another way to look at it is what we call the Fish Model. Over the period of the transformation, the reinvention, revenue drops, mainly driven by a product, in our case a Licenses and potentially the Maintenance one day. It will take some time for the new type of revenue to catch-up and bring you back to your previous level. I am not saying that this is the guidance, but this is the theory of the Fish Curve. As you go through it, your cost curve goes exactly into revers, which is why it is called the FISH. At some point, you will get the maximum investment needed to get you portfolio, your product ready, for the new things, such as the Cloud and subscription, and your revenue starts to pump-up out of it.

I would rather have a snake than a fish, which means a maximum of profit out of the non-dropping revenue, and carefully managing costs and investment. However, you must understand that this is an industry trend and any company that fails to do that will shrink. It is a mandatory step. There are only two strategic architectures for companies, strategic business models. We did not want to be a consolidator, which acquires companies, drops the cost down and maximises the profit; that is a PE game, which is not us. We have decided to embark on the reinvention of the business model and go through the Fish Model as fast as we can. The less time you take to get there, the less time you will have on your business model.

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If we look at some guidance on the future before moving to questions and answers, we spent a lot of time in 2017 reworking our roadmaps and adapting our business model. A lot of energy has been put into training and enablement. As I mentioned, we did a speedy integration of Syncplicity for about half of our Cloud revenue, which is now completed.

For the next three years, we see a stable top line organic revenue, which means we will avoid the Fish Model. We will try to maintain stable organic revenue, but not at the expense of M&A. We will certainly keep looking, and that is part of the model, at some strategic M&A over that period. We will grow our subscription revenue to EUR 65 million to EUR 75 million, but behind that number we are looking at our Licenses and Cloud revenues crossing in the middle of 2019. As far as revenue is concerned, I see the end of the Fish coming in the middle of 2019. From 61% of recurring revenue, I am looking at landing to a 65% recurring revenue, giving us more stability and a little more predictability in what we do.

Patrick DONOVAN

For 2018, we will continue to invest in our transformation strategy. We will invest about EUR 15 million in areas like R&D, as we continue to invest in our AMPLIFY platform, which is our expression of the Hybrid Integration Platform market. We will also be investing in sales, through inside sales and more of a digital direct selling effort, followed up by a greater digital marketing presence than we have previously had. We are also investing in customer success management, organisation, and other customer satisfaction elements necessary to be a dominant player in the Cloud market.

We will now move on to the Q&A.

Q&A

Jean-Marc LAZARRI

After the pre-release media guidance last year, we though that we did not need to spend a lot of time on the past, but open-up for more questions from the room.

Patrick GOUFFRAN, Corporate Secretary

Hello everybody. Let me remind we have 2 channels for the questions: from the room and from the webcast.

Can I have the first question from the room?

From the floor

Gregory Ramirez, Bryan Garnier

To come back to the Fish Model, when you talk about EUR 65 million to EUR 75 million of revenues on the Cloud. Should we consider that this includes potential M&A, or could this be an acceleration of the model? How will you manage the transition from the existing offering in MFT and B2B into the Cloud?

Jean-Marc LAZARRI

The EUR 65 million to EUR 75 million was intentionally organic, and we did not factor in any M&A. Of course, that would change, as we saw it change for Syncplicity, which was an accelerator as an acquisition. That is organic growth. By the way, we guide on short-term growth of 20% for 2018, which would accelerate from 14.4% to 20%. If you do the maths between my renewal, current revenue and the TCV, that means that we need to find a little bit of new business this year to get to that number, but this is very reasonable growth over the year.

Going back to the offering, all the work we have done over the last three years was to reshuffle the portfolio. We embarked on the digital transformation, with the digital MFT as the half-way house, the link between what we call the foundation, the MFT business and the newly acquired Syncplicity. Back to your question on MFT, we have three focus areas. On of which is digital MFT, which is going through the layers of the onion in that company and exposing all the traditional MFTs in our current customer base, not only to the external world, but also to potentially using our Syncplicity via the API. We are all about the MFT combined with API, combined with Syncplicity and all that running on the platform. We are going to leverage our customer base, that being true in MFT, but in B2B in the future. We will also leverage the enterprise layers in terms of the architecture and use our customer base to serve on the upsale we want to do. We have our first reference, and existing client, which shows this is not a dream. It is here. We also have our first reference since we launched our Platform last year, which we call the “glue” between those products. We use our Platform to sell our product.

From the floor

Gregory Ramirez

Another question on the margins. If I am right, the calculation of the EUR 15 million in investment, assuming some remaining cost-savings of around 10% of operating margin this year. Regarding the transition and the margin, experience has shown that it can take a while for software vendors to increase their operating margin again, and maybe come back to 15%. How you will you manage the transition on the margin we have to expect next year as well? Will you generate a declining, stable or increasing margin?

Jean-Marc LAZZARI

First, the intention was to provide a margin guidance. You will have seen it in the press release and the slides, so we are not going to give margin guidance today, because we are in a transformation and there is still too much instability and uncertainty on the market side, before we can do that. I would probably anticipate a guidance at mid-year, when we will have seen the demand trend.

Going back to your calculation, you are doing the maths right. If you just apply theoretically EUR 13.5 million, minus EUR 15 million, that gives you 9%, if I am right. We cannot you on that because, as I said, there are a lot of unknowns on the top line and we also want to keep strict controls on our margin. There is a key ingredient, which is underneath the Cloud business that we can speak about and that is the gross margin of the Cloud. When we started investing in the Cloud five-years ago, we had a negative business, and that was everyone's trend. We have improved the gross margin aggressively to around 40% this year, and that will be a key ingredient and a key role in the overall margin for 2018. It will probably be clearer by mid-year.

Patrick DONOVAN

In our 2018 margins some of our investments are in the customer success managers, which are going to be an element of the Cloud costs. We have hit the mid-40% Cloud margin and that will probably about the same for 2018. We will have to work very aggressively in 2019 and 2020, to get that up to 60% and you will then see a stark levelling-off once we hit the 65% range. For reference, Oracle has gone through this and just hit about 61% this year. They went through a similar story, producing quite strong profits, then they went into the Cloud and their licenses dropped, and they are investing, buying NetSuite, etc. They have had to drive their gross margins in the Cloud to get to a respectable level. We will never have the Cloud margins of some of the pure Cloud vendors, because they are doing multi-tenant and solving the same problem for multiple customers with one or similar instances. With Syncplicity we could do that, and they had a 65%, 70% gross margin when we acquired. When we are solving MFT, or a solution like that and extending it to the Cloud, for a traditional client, that is going to be a single instance with a lower margin than a multi-tenant example. Our blended average will be about 65% as we come out of the transition.

Jean-Marc LAZARRI

To close on that question, we will not trade-off investment for short-term results. The reality is that we have full alignment with the Chairman and the Board of Directors, to invest in the product, because if we do not we will have serious issues of the business shrinking. Therefore, we will not make the trade-off of not making the necessary investments in the offering, digital marketing, and inside sales over the year, but we will try to manage our costs as much as we can.

Patrick GOUFFRAN

We have a question from the Internet that is also on the margin. For a while, Axway's margin has mainly come from H2 activity, the second part of the year. Do you think that this new business model will provide a better balance between the margins for first and second part of the year?

Patrick DONOVAN

It will take time. As we exit the Fish, that Jean-Marc presented, and come out of our 2020 business plan, we should start seeing a more stable S1 to S2 margin. We are still expecting our license margins to be present as a strong part of our revenue base, so we will still have the end of year hockey stick effect that license companies experience. However, it will decrease the impact year after year.

From the floor

Derric Marcon, Société Générale

I am sorry to come back to the margin topic, but Syncplicity has higher margins because it is multi-tenant, but it was losing money. At the end of the day, in my opinion just talking about gross margin for your Cloud business is not a good indicator of the potential profitability of that business going forward. I understand that you want to accelerate the transition, but are you thinking in terms of EBIT margin for your Cloud business, and what is the picture in 2017? My second question is about the Gartner predictions for addressable market. I am not seeing any bar chart, declining, or reflecting the severe license revenue decline you faced in 2017. Do you think that you have underperformed your addressable market and why? Or, do you think Gartner was wrong? I understand the stability of the revenue going forward by 2020, but if I do the maths correctly, the share of the Cloud business is growing in the mix. If Licenses remains stable and I do not extrapolate the decline of Services revenue that you faced in 2017 going forward, I do not understand why it is just stable. Which business line, either Licenses or Services revenue, is declining in your modelling.

Patrick DONOVAN

Your first question about Syncplicity at the 65%, the gross margin level of a multi-tenant environment they target. They were investing heavily in R&D and sales, and they were an independent company. When you mix Syncplicity into Axway and what we must do, we are not tracking the EBITDA margin by just the Cloud business. We cannot do that. We have all the legacy MFT and B2B that we must connect to the Cloud environment as well. We look at our sales and marketing, total R&D, and total GNA, to serve both the Licenses and the Cloud business model. When we model that out, we are targeting our EBITDA margins. I cannot give you the Cloud structure, and Syncplicity was a start up, and therefore not comparable to Axway. We are targeting that 65%, because we believe that is the Cloud margin level we need to get to coming out of this, to return to the profit margin levels we have experienced in the past of 14% to 16%. We can work on improving after that. That is why the gross margin of the Cloud is so important to us, because we know how to manage the sales and marketing, R&D and GNA lines, to find room for investment and to keep those stable.

On the license revenues and the large drop in 2017, we talked about a very nice USD 5million for Fannie Mae last year. We also had an ELA effect, license contracts that renew every three or four years. Those ELAs had a very strong impact in 2016, which was a gap of about USD 8 million and then the USD 5 million for Fannie Mae. We anticipated signing better licenses; we were optimistic that the license market is still there. However, new large contracts, like Fannie Mae's, are disappearing from the market and they are starting to address their problems in a more subscription or Cloud-based way. I think overall the software industry is going to see those large deals disappear. When we look at 2018 and our license market, we do not see that same large ELA drop and we are being more cautious about how we look at it. We feel reasonably secure that we are not going to see that sort of swing in the licences in 2018.

From the floor

[Inaudible]

Patrick DONOVAN.

In the ELA contracts, which are large deals that renew every three or so years, we have found that those have dropped of since 2015. I was recently asked if ELAs were disappearing, but they disappeared about 10 years ago. However, they keep renewing because they are running [inaudible], core infrastructure and they cannot be ripped out quickly. They will keep renewing year after year, but for new problem solving or to extend that ELA investment out into the Cloud and to start connecting those flows, they may come back to us for the Hybrid Integration Platform or some other purchase. The market is not going to have new signings like that anymore; those deals are starting to move to the Cloud. What we have on our books as renewables will be present through 2018.

Jean-Marc LAZARRI

I do not have the right figure, but the USD 8 million swing between 2016 and 2017 is not just about no new ELA signings, it is also because some renewals did not happen.

Patrick DONOVAN

I am just talking about renewals, and then we had the large Fannie Mae deal. It was a nice deal that we were happy to take but deals like that will be harder and harder to find.

Jean-Marc LAZARRI

The remaining part of your question was about the Gartner analysis and you are not wrong. The reality is that the Hybrid Integration Platform is a newly defined market, by Gartner and all the analysts. There are pieces in that market that are shrinking, such as MFT which has been shrinking for years. Only content collaboration, file synchronisation and sharing are the growing, at about 8% to 10%. When we say Hybrid, the intention is to open those and create enough innovation for those companies to keep using those industrialised, scalable, high volume and secured MfTs. In the Hybrid Integration market, Hybrid and Platform are important, the Platform being the glue. You will have pieces of a Hybrid Integration Platform that will shrink, and pieces that will grow rapidly. The fact is that you need to be everywhere, to get that master view of that market, which is how they got to a market growth of 14% to potentially 24% in 2020.

From the floor

Derric Marcon

What about the last question on the stability of your revenues, splitted by business line? If Licenses and Maintenance revenue are flattish, and Cloud revenues growing, does that mean that Services revenue will decline for the next three years?

Patrick DONOVAN

Services revenue declined this year from the action we took to exit some non-profitable areas. We would not expect that level of decline again in 2018. That was the effect we intended from the strategy we presented a few presentations ago. If Licenses revenue is flat, then Maintenance revenue will taper off. With the Cloud growing strong, we are predicting stable. Obviously, we are going to push for growth, but we will not give guidance on that level at this time. We still have to form the pipeline, and the Q4 effect at the end of the year with the licenses, and we still have a lot of work to secure the license revenue for the year.

From the floor

Derric Marcon

Is your point that license revenue would not be stable for the next three years?

Patrick DONOVAN

The TSIA's prediction is that product revenue is going to continue drop and we are predicting our Cloud revenue will pass our license revenue in 2020.

From the Internet

We have already covered part of this question, but I would like more detail on the tax weight. In 2017, there was a strong non-cash impact, from US law. What do you see as Axway's effective tax rate for the coming year?

Patrick DONOVAN

I target an effective tax rate between 20% and 22%, before any releases or activation of the deferred tax assets. The EUR 20 million I mentioned, our ability to release those non-activated assets will change our effective tax rate, but before that it should be in the 20% to 22% range globally for Axway.

No more question

Thank you for participating.

End of the conference