



2020 Half-Year Results

Transcript of the Analyst conference

Monday, July 27, 2020

SLIDE 1**Patrick Donovan - Chief Executive Officer, Axway****Opening Remarks**

Hello, and thank you for joining us here today. Roland and I would like to share with you the first half 2020 results, and also go through some updates on our strategy and other important elements for the first half. Roland and I wish we could have been with some of you in person, but given the current events, we are coming to you on this new platform.

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So as usual, Roland and I will be making some forecasts or going through some various forward-looking items that are subject to risks and uncertainties, especially with the economic risks that could be brought on by the current crisis.

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So, today we're going to jump through the first half operational situation, and I'll give you a few updates on our strategy. Then Roland will join and go through the customer success organisation's first half achievements. Then I'll come back and go through the financial results in more detail. And then I'll give you some 2020 targets and our midterm ambitions, and then we'll open it up for Q&A.

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So, with that, let's jump into the operational situation for the first half of 2020.

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So, given the crisis environment we're all operating in, I can't be more pleased about our team's performance to react and respond to the situation they dealt with.

We were able to finish the first half with €136.6 million of revenue or an organic drop of 2% versus €138.6 million of revenue in the prior year. This was a very strong performance given the crisis situation and the challenges the team faced. For the first half of 2019 our offering profit from activities was 1.9% or €2.5 million, which was comparable to the same figure for H1 2019. We had very strong growth in our subscription revenue at 58.5% growth in the first half or €37.2 million. And as our customers are continuing to push us, especially during this time, to a more subscription-based operating model and engagement, we were able to increase our ACV, or annual contract value of new contracts, by 188% finishing at €10.2 million in ACV for the first half. This strong ACV growth drove the signature metric growth to 26.3% for the first half of 2020. This was all solid performance during very difficult times.

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So, when I was reflecting a bit back about the first half and how we launched the year, we did some very good things internally. We had a sales kick-off, we had our R&D team meetings and kick-off, and we were ready to start the year with a plan. Well, I didn't think I'd ever be quoting Mike Tyson in one of these presentations, but that's what I felt like when I was reflecting on the year. We had a strong plan of revenue growth and margin improvement with all the pieces in place to make this happen. But then we got punched in the face as well as all of you on the call today with the current COVID crisis. And so, with that, I was very impressed at our team's ability to mobilise and move remotely.

We are very concerned with the safety of all our employees and them getting set up in this remote work environment and protecting their family. And once that was secured, which only took a matter of days, we were able to get back engaging with our customers and work with them as they sent their employees remote as well. I've been very impressed at our customer engagement during this period. So, after everybody started adapting to this new way of working, we had to go through and we had a strong event-based first half, as we usually do, trying to meet our customers and prospects where they're at. That usually required a lot of traveling, a lot of in person events, but once we gave up trying to make those happen and cancelled the events, the team quickly found a plan B to make our engagement with our customers and prospects real.

A good example of that is the graph you see at the bottom of this slide. The red line reflects the 2019 pipeline activity, which is quite standard to prior years as well, where we start the year in January doing a lot of engagement with the customers and prospects through events like IMAGINE SUMMIT, a lot of trade shows, a lot of different events that are in person. We build the pipeline up gradually through May, and then in May and June, we close deals, decreasing the pipeline. That was a normal situation.

But you see with the blue line, We started in January with some of the events and then our APAC region immediately went in lockdown, followed by EMEA and the US and Latin America at the end. During that period, everything paused, as the customers, prospects, us, were all trying to figure out what this meant and how to operate. So, you see the pause in our pipeline. It's very reflective. At the end of January through the end of April, it just was flat. We weren't signing many deals and we weren't building and engaging new prospects in pipeline activity. But I've been very impressed with the team's ability to change the way they operate and grow in May and June the pipeline as we come out of the first half.

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So, looking forward, we were in this three-year transformation plan, which started for me and the team in 2018. We had a lot of work ahead of us to try and target being a leader in the hybrid integration platform market. We had to upgrade our product portfolio. We needed to strengthen across all the employee base, including management and having the employees more engaged in driving along with us the strategy of the company. We needed to implement some business model changes and how we were engaging with our customers. And we needed to increase awareness so that we could build a sustainable growing company as we came out of the three-year transformation.

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So, let me go into a little bit more detail about how we've moved along the transformation journey over the three years. So we needed to get our product portfolio to a good base level. So at the end of 2018, the second half we invested heavily in our different product offerings to allow them to open up and start building out a platform. We did this continuing through to the first half of 2019 as well, spending quite a bit in the R&D activities so that we could continue to connect things like the catalogue or flow orchestration or other elements of the platform to our existing strong products. We were able to pull back a bit in the second half of 2019. And when you look at the first half of 2020, it's a slight drop from the first half of 2019.

All of this was planned to get our products to a state where we would have a platform. And to also, now we're in the period of being able to pull back on these to help return some of the profitability as we don't need that level of investment anymore.

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So, without a good team in place, we'll accomplish nothing. That was obvious to me when I took over as CEO. We had several challenges in front of us through this three-year transformation and I'm glad a lot of it's coming to fruition now. During the period of the crisis, it put all of us in a unique position where we had to interview and hire and even onboard people remotely. And our HR team was successful in making this happen.

During this period, we were able to onboard about 140 employees during the first half of the year. And I'm pleased to say two of those employees helped me round out the executive team. We had Mark Fairbrother joining to take over as EVP of Research and Development and Rahim Bhatia joined as EVP of Product Management. You'll notice over the past year; I've elevated two roles to the executive level. First, we did the go-to-market activities and put that at the executive level to really try to engage our customers and push our brand messaging out. And now, I'm elevating the product management function to the executive committee because this will help with a key voice in our executive team on how we need to grow our strategy for the next three years. So, I'm happy that both of these individuals have joined the executive team.

We've also created this first part of 2020, an inside sales team to help engage our customers in new ways. And thankfully, we had started this journey with inside sales in January, and we were fully engaged in recruiting and as the world moved to remote, we were greatly pleased we started inside sales team this year. We needed all our employees engaged along the journey to deliver on the strategy. And so I've talked about the employee attrition question quite tough when I took over as CEO and we've made improvements every period. I'm happy to say that in the first half of 2020, we improved again by 13%. The employee attrition to now, the first half of 2020, it's at 15% annualised. That's exactly where we had expected it to be and the good work over the years has really paid off.

And I wanted to repeat that at the last part of 2019, we took our employee engagement score, which was improved 18%, and this needed to be in place so that the employees were engaged in helping to drive our strategy. So in conclusion with the teams, I would say we have the right executive leadership to drive us

over the next three years and we have the employees engaged in with us to join in the journey. So I'm very pleased with all the work that's been done there. It's been a good effort.

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Now, as I move forward, we were trying to engage the prospects and customers in the market with a lot of messaging, a lot of campaigns, a lot of events this year. And we had a large plan that laid out every event, every seminar, et cetera. All of that got disrupted and changed and with the COVID crisis, but the team rallied and delivered some amazing results, which I want to share with you on the screen. We had our IMAGINE SUMMIT, which as a reminder, we normally do one in the US, one in Europe, and then smaller events throughout the world. We had to take that entirely virtual and we were able to get 2,000 registrations, of which 1,100 attendees were customers or prospects. That is a larger attendance than we had the last year, and I was very pleased with this first virtual IMAGINE SUMMIT.

Additionally, we have a group of catalysts that go out and evangelise and work with our customers to help them achieve their digital goals. They had to stop traveling, stop engaging with the customers in the traditional way and prospects in traditional ways. They moved entirely virtual and started a series of webinars. They did 58 in the first half of 2020, and attracted over 7,000 attendees, which is very impressive for this to ramp up and get 7,000 people engaged in what they have to say. I was very pleased with those results.

Additionally, in the first half, you've probably seen a lot of new branding from the company. We've launched an "Open Everything" campaign, which you see a description there as well as a video to start this presentation. The website's been updated and you'll see a lot of changes around the Open Everything branding and the catalyst team is now fully staffed and rounded out and brings a lot of expertise that can really help our customers and prospects as they go through the digital journey.

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So, all of this helped us have a good first half 2020.

Let me go through a few of the details of the revenue by activity. As our customers went into more of a lockdown mode, they started demanding more and more of the subscription. And we had to accelerate our transition from license to subscription with several of our customers. And you see this reflected in the numbers. License revenue dropped by over 50% in the first half of 2020 to €10.5 million, but subscription revenue grew to €37 million or a 58.5% increase. So when you take the recurring contracts of subscription and add them to the maintenance recurring contracts, you have almost 80% of our revenues under a recurring contract model, which was an acceleration from what I expected for the year.

The maintenance revenue dropped 2.5%, which was expected as the transition moved quickly from license to subscription. And our services revenue was the revenue line that was most impacted by the COVID crisis. The difference between what was reported last year and this year can be almost all attributed to our service personnel having to stop their projects either because they could not go onsite or because the customers had to deal with higher priority items as they moved to remote working situations themselves.

So overall, our revenue finished at €136 million down 2% from the 138 million of the prior year. With that, I'd like Roland to go through the first half achievements of the customer success organisation. Roland?

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Roland Royer - Chief Customer Officer, Axway

Thank you, Patrick. Thank you. And good morning, good afternoon, everyone. In my section today, I would like to cover a few important topics starting with the continuous improvement on our net promoter score, which demonstrate our customer satisfaction and other key successes of our go-to-market on the period.

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With that, I would like to start with the great growth and strong signature metrics that we've seen in H1. Signature metrics is an important metric that we are using to monitor our business. We are using it as a normalising function where we are transitioning from a license for business to a subscription mode. And it's calculated very simply as adding to the license contracts value three times the annual contract value of any new subscription contract.

As you can see, we closed the first half at plus 26% compared to last year. And I'm very, very proud of the team execution worldwide in the time and the situation and present condition that we have to live with. We started to see the impact of this really big time first early in the quarter in APAC. Nobody was prepared, nobody has any experience with this, and they faced the first quarter with a very, very low activity. And we saw the impact rolling out to Europe a bit later during the quarter, at the end of the first, beginning of the second one. After a period of adjustment, I will say for both our internal teams, but also for our customers, we saw a rebound of the activity in both of the regions, so it was a very nice end of June.

In the Americas, the situation was a bit different and difficult. We started the year off strongly with the momentum of the end of 2019, and as we saw during the second quarter of the year, the lockdowns being more consistent across the United States and South America, we started to see a slowdown and some customers pushing further some of their projects, some of them pushing it to the second half and others already pushing it sometimes beyond the limit of the year.

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So, as I said, signature metrics, key metrics to measure the transformation during this transition period.

Our strategy is really to move from the license to a subscription and in order to do so, let's take a look at the split between the license and subscription bookings year-over-year. If we looked on the left side of the slide, you can see that on the first half of 2019, our subscription bookings represented only 32% of the bookings. The license contracts represented 68%. This has completely changed this year with close to 80% of our signatures being related to subscription contracts and only 21% on licenses. This was exactly

the trajectory that we were driving to, and this validate our strategy as we are transforming the entire organisation to deliver more value and better flexibility to our customer through this subscription model.

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So, when we started the year, we realised early the impact and the potential impact of COVID situation on our business and on business of our customers. And we took proactive actions to adjust our operations and our customer's engagement as well. First and foremost, we wanted to be there for our customers, as well as for our employees. We wanted to ensure business continuity and reassure our customers of our focus for our customer's success. When we were all remote, proximity with our customers was even more crucial than ever and our local presence and leadership, in our continuous focus to improve our customer's experience were key in this period.

I'm happy to report that our customer's feedback on their experience with Axway has never been that positive. Three years ago, we set up a goal to move from a negative net promoter score to a plus 25 by the end of 2020. And I'm happy to say that in June this year, we reached that goal, positioning us, Axway, as part of the top quarter for the software industry in terms of net promoter score. Another adjustment that we had to do was as many of us or all of us moved to much more virtual events. One of them that we rolled out was rolling out the catalyst webinar weekly series. And these "Around the corner" sessions that we hosted during the full second quarter had a fantastic success with bringing hundreds of people every weeks to talk about digital transformation in terms of technology, but also in terms of business.

Last, we also wanted to make it easy for our customers how everybody was moving to a working from home policy. We offered our customers to use Syncplicity, our secure content services solution during these periods. All these changes actually being very aligned with our customer centricity focus and we've been able to do so and to adapt quickly based on the strategy and the organisation changes that we have been rolling out for the last couple of years.

And it's not surprising that as we were here for our customers, they were also here for us. Also we continue to sign new customers. It is significant to see that 89% of our bookings has been made on our customer base, once again demonstrating the value that we are delivering to them and to their business.

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Another important part of the key points of the success of the first half is the breadth of our portfolio. And to illustrate that, I would like to comment on the four largest contracts that we have been closing in H1, all of them being seven digit deals.

The first one I want to mention is a large financial institution in France which decided to modernise their MFT solution by contracting with us for five-year subscription deals on our new MFT solution. The second one is a national broadcaster satellites radio in the US. Went through a major acquisition, large impact on the size of their company and decided to re-platform their entire infrastructure based on AMPLIFY APIM. The third one is coming from Germany with a well-known automotive equipment manufacturer who selected Axway Cloud B2Bi solution to accelerate a spinoff out of their business. And finally, in the US,

the deployment of Syncplicity in a famous telecommunication and mass media, engaging on an important cost saving while managing securely, their unstructured data.

All of these deals are really nice successes with both historical customers and new customers.

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That said, in digital transformation, I'd like to say that great technology is not enough. It takes more than selecting a software to be successful in a digital transformation project. We've seen, and we all have seen for years, many companies embarking in digital transformation programs with only the technology in mind. Digital transformation is not just a technology. It starts first and foremost with the desired outcome and the customer experience you want to deliver at the end.

And on this screen, you can see the journey of one of our valued customers Boehringer Ingelheim in the United States, who engaged with our catalyst program, to help them to redefine their strategy around their project about digital and going digital. By using the catalyst group, which is a group of seasoned experienced, who've gone through such transformation, several transformations, then sells as a customer's, CIO's, as architects or consultants. They help our customers and they help business leaders to conceptualise what is possible, while they're helping them to go through the transformation of the business. And these result for Axway into larger engagement, paving the way for the deployment of our solution, but also, and more important, positioning Axway as a strategic trusted advisor, more than just a software vendor.

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So what is also critical, and we recognise that Axway's thought of the past and the present of our customer's, but also part of their future. When we see our customer's heritage applications, systems and data, we don't see like other vendors, an opportunity to replace them, but much more to unlock those systems. Our brand promise is to deliver brilliant digital experiences out of these heritage applications and systems. And our platform AMPLIFY exactly provides the path to do so. And we've been recognised by leading analysts and customers, in our ability to deliver on that promise. We believe that an important change, mindset change, needs to happen.

And moving from closed, old guarded infrastructure to an infrastructure much more open, open to create better employee's engagement and deeper collaboration within the enterprise or the broader ecosystem of the companies. From heritage application to hybrid integration, to open everything. And our position, our historical leader position in MFT and B2B, makes us ideal for customers who want to leverage APIs as part of a broader integration relationship with future proof solutions.

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And when I look further to the future and the second half of the year, I thought about these quote, in difficulty lives of opportunities. The COVID situation really reinforced the need for our customers for

digital transformation. We've seen more and more companies realising the importance and actually the urgency of moving their processes to be more digital, and to do so they need to open their platform. While the bookings in the first half, as I mentioned, were very strong and solid, the sales and marketing efforts during the first half also had a significant impact on the pipeline, as you can see on this slide. While the uncertainty in the world has never been that high, our pipeline is also at its highest, and we are entering Q3 with a much more higher pipeline coverage than we did in Q2.

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So in closing, we've done and we've made great progress in terms of strategy and in terms of execution and I'm really proud of the progress that Axway has made on the achievement over the last few semesters. The focus on our customer successes, monitored by our NPS, it's at the highest and continues to grow. The signature metrics, despite the COVID situation, has been solid and very strong and we have now reached close to 80% of our revenue being recurring revenue. For 20 years, Axway's mission critical solution has been crucial for our customer's life. And we believe that our customers future leads to Open Everything.

Open Everything is more than just a marketing statement. It's a direction for our customers to consider their infrastructure, their culture and the world which is changing, as they are defining their future. We believe that Axway is very well-positioned to be part of this future. And with that, I will thank you everyone for your attention and return to Patrick.

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Patrick Donovan - Chief Executive Officer, Axway

Thanks, Roland. Now, I'll go through a little more detail on the first half financial results.

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So for the first half, we were able to finish revenue at €136.6 million, which was down organically 2% from the first half of 2019 or total drop of 1.4%. And we've gone through that detail previously. Our costs of sales increased slightly in the first half of 2020, which dropped the gross margin to 65%, but not far from the 66% of the prior year, as we had to make some investments in our cloud platform, as well as some royalties to fulfil our product suite.

Our operating expenses dropped during the first half of 2020 as planned, but we also had some unplanned drops. And those primarily were in sales and marketing as the team had to go fully remote, which meant there was no travel and no live events, which is the first part of the year, every year for us. So, the drop in sales and marketing fully was unexpected, whereas R&D and GNA drops were planned. But in both of these areas, we did the travel on the events that we had planned to kick off the year, but we needed to pull back to improve the margin, which was our strategy for 2020. And we did so.

So even with the decreasing revenue situation, we were able to achieve €2.5 million of profit for the first half of 2020, or 1.9% of our revenue similar to the first half of 2019. Our operating profit was a drop of €3.7 million as that takes into account €4.5 million of amortisation expense of intangibles, as well as our stock options expense. Our net profit finished at a loss of €6 million, which is usual on the first half of the year, because our Q4 is so strong. That compares to the €6.1 million of the first half of 2019.

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So to focus a little bit more on the license and maintenance activities, as I mentioned before, we experienced a strong double digit drop in the license activities, both in Q1 and in Q2 as our customers moved to engage with us quicker than I expected the subscription operating model. So that drop of 52% in the first half of the year was compensated with the subscription revenue growth. Our maintenance revenue dropped two and a half percent in the first half of the year as expected. And our maintenance had a standard attrition of just under 8%, which has been our historic trend for many years. And this was not compensated by the new maintenance coming along with the new license revenue, which is a decreasing situation.

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But if we moved to the subscription revenue, you see an opposite picture. Subscription revenue grew in both Q1 and Q2 very strongly. We were able to meet our customers and their need to move their contracts more to subscription and we were able to sign €10.2 million of new ACV in the first half of 2020. So, all of this resulted in a 58.5% growth in the first half for subscription revenue.

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Here, you see the breakdown of our signature metric calculation, which we've shared with you before, grew strongly at 26% in the first half of the year, driven by the new subscription ACV.

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Let me make a few comments on the balance sheet; cash and cash equivalents finished at 24 million at June 30, 2020 up from the 21 million at the end of the year. Our DSO metric was at 70 days, which is quite in line with our expectations. And I can happily report that today we've had no material issues with our cash recover ability or collection of our receivables, even during this crisis period. Our current deferred revenues was up to €77 million, up from this €60 million at the end of the year, and our total assets and total equity remain quite stable with our end of year figures.

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Our cash flows for the first half of 2020 looked a bit like the cash flow for 2019. I'll mention that our free cash flow was €4.9 million in first half of 2020 versus the €1.2 for first half of 2019. And we were able to generate €3.3 million of cash in the first half of 2020 versus a dropping situation of €3.6 in the first part of 2019. All our banking covenants were met and we have the availability of our credit line to use if needed.

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So, let me get into the 2020 targets and our midterm ambitions.

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First, we've not changed our technology ambitions to become a leader in the hybrid integration market by the end of the year.

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And then we were looking at the financial forecast for the end of the year, and I know that in February we gave some guidance for the full-year, and then quickly as we went to the COVID crisis, we pulled that guidance because we didn't have the visibility to give you any news that was reliable. And currently we did have a good first half. Our pipeline is growing. We were able to sign some business, maybe not at the pace that we would've liked, but we were quite pleased with the team's ability to sign a new contract in this context. So, we do have the pipeline to finish with a strong year, but I'm really concerned about the economic impact of the prolonged crisis period and how our customers will adjust their spending habits at the end of the year.

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And so, with this uncertainty, it's really hard to give any strong guidance for the year. And so at this point, the best I can say is that if I had to guess what the end of the year could look like, it could look a lot like the range of our 2019 results in terms of both revenue and margin. We have such a strong reliance on our fourth quarter, where we do about 40% of our bookings. This is also the period where the economic impact may hit our customers. And they'll have to make decisions to continue on with their projects or not.

So with the cloudy visibility, this is the best I can offer you, but you can be reassured that our teams, our sales teams, our services teams, everybody at Axway will do the best they can to make 2020 a successful year.

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Now moving on, I'll reiterate our midterm ambitions. We want to get back to targeting €500 million of revenue and returning our operating profit from activities between 15 and gradually moving towards 20% and to get our EPS back above one euro per share, in the midterm. So, three to five-year time period.

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So, with that, and to reiterate kind of our brand messaging around open everything, I'd like to turn the call back to the operator and to Arthur and open up the lines for questions. So, Arthur, takeover.

Q&A SESSION

Arthur Carli, Head of Investor Relations – Axway: Okay, Patrick, first I will take a question from the chat. We have our first question from Derric Marcon, Société Générale. What can be a reasonable target in million euros for new ACV signing this year?

Patrick Donovan: Yeah, so we did €10.2 million in the first half of the year. And historically if we follow the trending we've had in the past with the bookings of our license revenues that going back into history, we normally do about 60% of our bookings in the second half of the year. So that would imply that we do another 60% or around 25 million of new ACV for the full year. But that's just a historical trend. Obviously, if the customer buying patterns change a bit and they go back to some license contracts or move everything to subscription that could increase or decrease that figure.

Arthur Carli: Another question from Derric Marcon Société Générale. What will Mr. Bhatia bring new in the company? Was that a function already present in your organisation? How is this job not already managed by the historical sales and marketing teams?

Patrick Donovan: Yes, our product management function has always existed within Axway, but it's always been part of another organisation and traditional product management should be bringing the voice of the customer and working with the R&D teams on what we build to meet the customer needs over the next year or two. Obviously, we have the office of the CTO that's setting the longer-term forecast, three, four or five years out and seeing where the market's going to be moving. But our product management team is a critical piece to make it real for our customers in the shorter term, and to try to anticipate and work with the customers, to get their voice in our product roadmap. With it being lower in the organisation, that voice wasn't loud enough.

And so, as I'm anticipating going into the back half of the year and resetting our strategy for the next three years, we need that voice from the customer and the roadmap over the next couple of years to be a voice at the executive team level. So I expect Rahim to be driving with the executive team, the strategy for the next three years and it will be a key role for us going forward for sure.

Arthur Carli: Last question from Derric Marcon, Have you seen deal slippage at the end of June, notably in Europe? Have you quantified the potential headwind? and have you catch up with some of those deals at the beginning of Q3?

Patrick Donovan: Roland, maybe you take that?

Roland Royer: I'll take that one. I almost mentioned it and we've seen some of those slippages with some of our customers at the end of Q2. We saw it across the world, I mentioned it previously, in the United States some of the project have been pushed for a few months, or even for a longer period. As I was mentioning as well, it depends also on when the pandemic started to hit the region. And we've seen in H1 some of these dynamic with customers really impacted in APAC, already closing a couple of large transactions in this region early in Q3.

So, when the teams and the customers, when the region is able to establish themselves into this new normal, we can see sometimes the deals coming back. The key question is really what will be the global financial and economic situation, especially later in the year?

Patrick Donovan: And I'll add to that point, you had asked about the EMEA region, Derric. In our EMEA region, that's where we're fortunate enough to have a very long history in a well-established customer base. So in the first half of the year, we were able to perform strong working with our historic customer base, and we didn't have much leverage going out the first half in the EMEA region.

Arthur Carli: Thank you. Another question, this time from Matthias Durner at Discover Capital. Are there any one off effects like upfront bookings within the subscription revenue line in Q2 ? and is the outlook for stable revenue and profits compared to 2019, including no uptick in license revenues in Q3 and especially in Q4?

Patrick Donovan: So as I've described in prior meetings, the accounting rules with the IFRS changed in the prior year, requires that with what we call customer managed subscriptions, a portion of that revenue on the customer manage subscription is going to be taken upfront. And so this first half, we had just over €11 million in subscription revenue that was recorded upfront. And then the remainder of the contracts will be taken over the term of the contract.

As we look out for the rest of the year, your question was on license, we're not anticipating the license to come roaring back. We think the subscription will continue at the strong pace of bookings in the back half of the year. So hopefully that answers your question.

Arthur Carli: Next question is from Antoine Lensel, Kepler Cheuvreux, where would you see your effective tax rate in 2020? And what level of CAPEX do you expect in 2020?

Patrick Donovan: Our effective tax rate I've always targeted in the low 20, 21, 22%. And it's a big mix of where you do your profit in which countries, but on average, we should be in that range if we deliver the results we're forecasting. And I don't anticipate any real change in our CAPEX for the rest of the year from prior years, we have no significant investments we have to make.

Arthur Carli: Another question from Antoine Lensel, Kepler Cheuvreux. Could you speak a bit on Syncplicity feedbacks from customers during the trial period? Did this free trial led to new signatures on Syncplicity?

Roland Royer: I'll take that. The working from home program that you may have seen when we offered our customers to use Syncplicity. It wasn't an intent to generate short term contract. So we had several customers that took advantage of that, we even had our prospective customers, and actually, even a

noticeable customer in the healthcare business, using the technology to manage securely information during this process. We've seen customers, we've seen a bit of an uptick on some of our customers. It's early to say that some of them will continue or will contract. The period was for this six months period of helping them and giving them a possibility to, as we were all moving to a very new setup of working from home, to give them a possibility to do that securely and safely.

Arthur Carli: A question from Jeremie Couix, HC Capital. In H1, did you observe a conversion of license project into subscription or license deals were put on hold and new clients were signed?

Patrick Donovan: Thanks, Jeremie. We saw a migration of the license to subscription in the first half. We had several deals that were in process that could have been license contracts, but quickly as the crisis was hitting, the companies were trying to assess how hard the economic impact would be on them. And so, they preferred moving to subscription and extending the contract out in the payment terms out annually over that type of model and engaging some of the additional features in the amplify platform in their contracts as well. And so, we did see some movement of licenses subscription in the first half. They weren't cancelled, they were just migrated.

Arthur Carli: A question from Jean Baptiste Bouchet - CIC Market Solutions. Do you see any attractive M&A targets in the market? If yes, in which region, which activity? Would you be willing to purchase any company in the current context?

Patrick Donovan: We're always looking at M&A targets and there's been some interesting ones for us. Obviously, I don't want to push an M&A target just to buy a company. It's got to fit our strategy and our hybrid integration platform offering, preferably coming with some customer base as well. So our targets are quite wide, but then their selection criteria is rather narrow. During this period it would be difficult to actually I think complete M&A activity during the COVID crisis. We may be able to identify and speak to and go through the early stages of due diligence, but to actually onboard a company and integrate them in, it would be quite a challenge to do it remote. I'm sure it's not out of the question, but it would be quite challenging.

We look in all regions and so the nature of our business, when you have such a wide type of portfolio of integrations, the players are spread out overall different regions. So where the M&A targets come from could be anywhere in the world, quite frankly.

Arthur Carli: Another question from Jean Baptiste Bouchet, how do you see license revenue evolving this year and in the coming years?

Patrick Donovan: Well, if you remember in a prior meeting, I was asked the question, what do I think would happen with license value in the floor? Let's say, I believe at that time I had said, I couldn't see it going anywhere much lower than 45-50 million as a floor value and completely, I think I'm wrong. The customers' adoption of subscription models has been quicker and stronger pushed by the crisis. And so, for this year, a license revenue at 25-30 million wouldn't be unheard of. Over future years, when we come back and go back to a normal operating model, we'll have to see. I'm not sure the license revenue model will come back to the level I thought it would.

Arthur Carli: A question from Emmanuel Pineau at Weinberg Capital. When do you expect the migration from license to subscription will have a bigger impact on maintenance revenues?

Patrick Donovan: Well, it's a math model. So, obviously you lose 7-8% in our industry, the integration space where our products are very sticky, but we're also subject to corporate M&A activities to where you have multiple integration providers and you consolidate. So historically we've lost, and I'd expect us to continue to lose about 7 - 8% attrition per year. That's the standard. If you have that in your maintenance drop, and then you're only putting in about 20% attachment rate on new licenses, obviously, you just plug in how quickly you expect the license revenue to drop. It will be able to show you how quickly you're dropping the maintenance revenue, but the two and a half percent of the first half, I think that will continue for the rest of the year. And it may pick up in the lower single digits as we go into next year.

Arthur Carli: A new question from Derric Marcon. Can you give a bit more granularity about how the pipeline by product has evolved in H1?

Roland Royer: The booking and the pipeline, actually, are really the same as last year. The focus that we had during the first half in terms of bookings were on our customer base and while we were targeting to a bigger growth of our bookings and our pipeline on APIM, The fact that the customer has really looked at securing and making sure that the continuity of their business, we saw still MFT being a part of it. So, in terms of pipeline, we have MFT and API really at both of them, roughly 40% of the pipeline that we have created. So a bit of an increase compared to what we thought on MFT and still, APIM business continued to grow and to have a more important share with what we see in front of us.

Patrick Donovan: And that reflects a bit the current economics or the current environment we're operating in. I predicted at the end of last year that we should see API take the first position. Well, API management offering, and the surrounding offerings are how we engage new customers to the platform to Axway. That's really the growing element in the market. But the MFT is our legacy history where we were the leader in the MFT market. And so in a period of crisis where you can't get out and engage new customers at the pace you had liked, it puts pressure on the API business, but we're able to continue to work with our legacy MFT clients because they are now in that process for 10 years plus. So it reflects a bit about the economy we're seeing as well, but once everything opens back up, I expect API to be in first position.

Roland Royer: And to conclude on that point, the majority of new customers are around the API management.

Arthur Carli: A last question, it's from Jeremie Couix, HC Capital. Subscription gross margin, excluding customer managed contract seems to decline year-on-year. Is it correct, and what trend do you expect medium term?

Patrick Donovan: I know the total subscription gross margin and finish up to 61% growing from the prior year but excluding and trying to limit with SaaS or with the managed services accounts, I don't have that figure top of mind. I would expect it to remain about stable. So I'll have to come back to you on that figure.

Arthur Carli: Okay. That's all on the chat, Patrick. Thank you very much.

Patrick Donovan: Okay. And with that, I'll thank everybody for joining us in this new format and have a good rest of your day. Thank you all for attending.

Roland Royer: Thank you everyone.

[END OF TRANSCRIPT]