axway

2022 Full-Year Results

Transcript

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PRESENTATION

Arthur Carli: Ladies and gentlemen, good evening, and welcome to Axway Software Full Year Results Presentation. My name is Arthur Carli, and I'm in charge of Investor Relations for the company.

Before turning the floor to our management team, who will present Axway's excellent results in 2022, I would like to remind you that this presentation is live and is being recorded. A replay of the event will be available as of tonight. In addition, as usual, I would like to inform you that this presentation contains forward-looking estimates that are naturally subject to risks and uncertainties. All of them are described in Axway Universal Registration Document.

With that, I would like to hand over to our CEO, Patrick Donovan. Patrick?

Patrick Donovan: Thank you, Arthur. And thank you for joining us here tonight. I'm going to start out and make a few comments in 2022 as usual. Then I'll be handing it over to Cécile, our CFO, to make a more detailed analysis of our financials for 2022. And then Roland will come in and give us some feedback on what we've done with our customers and the market trends for 2022 and beyond. And then I'll come back and close it up with the targets and our midterm ambitions. And then we'll open up the lines for Q&A. So, let's get started.

We started 2022 with setting some goals following a challenging 2021, especially a challenging Q4 of 2021. We set an organic growth target for the year of between 1% and 3%, a profit on operating activities between 12% and 14%. And we had described quite a lot of work that we're going to do to optimise our portfolio. And I'm happy to say that we've performed quite well in 2022 in meeting all these objectives or beating them.

So first, let me start out with the organic growth. We finished the year at 5.5%, well above the 1% to 3% target, and that was on a very impressive Q4 by the team. Our profit on operating activity followed on with that above our guidance, finishing at 14.7% or the 15% mid target that I had set the prior year. And our portfolio has been rationalised. Everything we set out to accomplish in the year, we have done. And I'll go through a little bit more in detail on what that means.

So today, we're going to cover all of those points, go into the financial detail in greater effort, and then I'll come back and set some of the future targets.

So our stakeholders continue to be at the heart of our strategy that we've built. We are trying to deliver brilliant customer experiences every day with our products that we deliver to them. For our employees, we are trying to make Axway the place to be. And for our shareholders, we want a predictable, profitable company over the long term.

And in 2022, we've continued to deliver value to all three of these stakeholders. For our customers, we continued improving our Net Promoter Score. We delivered on the focused portfolio that we were setting out to achieve, which puts our product GM organisation that we built this year closer to the customer and hearing their needs. And we want to be and continue to be the long-term partner that our customers can trust.

For our employees, we continued our communication to alignment as we're going through quite a bit of organisational and product-based changes to get our focus in the right place to deliver value to our customers over the long term. And we added 200 recruits over the year and our employee engagement score, which as a reminder, is a measure that our employees are engaged with the company's strategy and will help deliver on it. So the target of the survey we use is to be at a minimum of 60, and I'm happy to say that for the third year in a row, we're above the 60 bar that we set.

For our shareholders, as I just shared with you, we're – we delivered on the growth and profitability targets, and actually, we beat them for this year. And our forecast for the next year is quite strong along the journey. And we were able to hold the dividend for most of the years through the transition, except for the year of COVID, and we're proud to be able to continue returning this value to the shareholders, even though our financials were going through the transformation that we had talked about.

And we continue to use the share buyback to keep down the dilutive effect of the employee plans on the shareholder so that we can maintain a stable share base.

I want to go a little deeper into our portfolio. So we want to focus this company on the core portfolio that was driving Axway. And so we focused and built a product GM organisation in '22 that brought together the product managers, product marketers and a lot of the surrounding organisation as well as aligning the R&D functions to be able to more efficiently and more empowered make the decisions closer to our customers. This was a lot of work to organise and build and we're still getting the rhythm of it. But we saw immediate benefits of this reorganisation of the teams.

And we did this around our four core products, which make up a total of 90% of our revenue. We do have another 10%, which we call specialised product lines that have value with different offerings to the customers, and those are run profitability as well, but the main efforts for the customer future with Axway is around our four core product lines: managed file transfer; B2B integrations; API management, as well as Axway Financial Accounting Hub.

So with the GM of the product organisation that helped us continue in what I call portfolio management. And this portfolio discipline we've been building over 2022. And what this means? What do I mean when I say portfolio discipline? Well, you have your core portfolios that you're delivering the value every day to your customers. And every day, the product organisation, the product GM organisation is looking what products or functionality they – do they need to add to their product lines to deliver even more value to the customer and meet their long-term needs. And we could do this either through acquisitions or investing in the product lines. And the product organisation is making these decisions at the front line aligned with our customers.

We have to also look at what products or functionality in our products is not delivering the value either to the customer or delivering the return it should to Axway and to take action if it's not meeting that criteria, which we were able to do this year. And it is up to the product GM organisation to constantly manage our current portfolio to deliver the return expected from that product line in its maturity curve with our customers.

So in 2022, we addressed all of these actions in a very strong way at a pace we haven't done before in our company. And I'm really happy with what I've seen out of this new organisation approach and what we've been able to accomplish in 2022, building a foundation for 2023 and beyond.

We removed three non-growing non-profitable product lines, which we've previously communicated on. And we added a company called DXchange, which was a startup that was delivering integration capabilities that we will leverage not only standalone but with our other core product lines, and we're launching a product called Amplify integration.

And we put in place the strong product GM organisation and made a few adjustments throughout the year, but now we have the organisation and the cadence that I'm really pleased on that we could build 2023 and beyond. So we have the right organisation, the right products, and we're going to continue to build the organisational financial model to deliver the returns we'd expect from our portfolio.

So with all this work and with all this good progress, we were able to deliver €314 million of revenue, where organic growth, as I said, of 5.5%. Included in the €314 million of revenue is €9.3 million of disposed product revenue that won't reoccur in 2023.

We were able to drive €46.3 million of profit or 47.7% of our revenue versus 11.5% in 2021, and we look forward to increasing that again in 2023. Our subscription growth that was driven by this strong Q4 customer managed was 31% for the year. And our ARR growth was 12.5%, excluding the disposed products in the calculation.

So I'll come back to you after Cécile goes deeper in the financials, and Roland goes deeper into the customer experience and present our mid-term targets and go back through a better five years of progress to get us to this point.

So with that, I'll turn it over to you, Cécile.

Cécile Allmacher: Thank you, Patrick. So going through 2022 income statement. Total revenue is up 5.5 organic – 5.5% organic and 10% on total, higher than the guidance as announced in our January press release. Cost of sales increased around services and subscription costs in consistency with the revenue trend.

Our gross profit is slightly higher at 70.9% versus the 70.8% we had back in 2021. Once adjusted from the currency impact, which is €8.4 million, we were also able to pull back some of the operating expenses as planned. In sales and marketing and G&A, this decrease is offset by the impact of the variable bonus and commission increase due to the revenue growth we experienced this year.

Our R&D decrease in the continuity of the optimisation we started last year as part of our strategy to improve margin and also in consistency with our portfolio rationalisation. We were consequently able to generate a higher margin at €46.3 million or 14.7% of our revenues, up from the 11.5% in the prior year.

Our operating profit is inclusive of €82.1 million of non-cash charges related to the write-off of an amortised intangible assets and goodwill stock incentive expenses as well as restructuring costs. Overall, our net profit finished at minus €40 million of minus €1.85 per share versus €9.6 million or €0.45 per share in the prior year.

Let me now go into details on the revenue by activity. So license revenue dropped 4.8% organic, which is in line with our forecast and confirming the changes business model and the move to subscription we announced a while ago. Maintenance revenue decreased 11.1%, which was expected with both a decrease in license revenue and the migration to subscription, but this is still showing a very satisfactory level of renewal with a 95% rate.

Subscription is growing 31% organic, mainly due to a historical Q4. When added to the maintenance revenue, we reached 84% of our revenue under recurring contracts. Service revenue increased 5.4% back from last year with the impact of COVID slowing down the activity. Overall, our revenue finished at €314 million, up from the €297.6 million reported in the prior year.

So to focus on the License & Maintenance activities, we experienced a 40.8% organic decrease in the license activity, as I just explained, which is now mostly based on specialised products that are not available for subscription. This trend should start stabilising from 2023 onwards, knowing that this year, we still have the part of the disposals products, including that license revenue, which we should not have next year.

On the maintenance side, as forecasted and in consistency with both the license revenue decrease and the migrations to subscription, we have a 11.1% drop, which is aligned with what we expect and consistent with the maintenance drop we experienced in the past year. However, we are still seeing a good level of renewal with a 95% renewal rate for 2022.

Now moving to the Subscription revenue, which is the growth driver of the company. We observed that whereas the three first quarters, we had a strong momentum on Axway Managed subscription signature, we experienced a historical growth in Q4 with the signature of €70.7 million revenue and a three-digit organic growth, mainly due to strong customer managed signatures.

On an annual basis, this revenue growth is mainly due to both the customer managed on-premise subscription, which required us to book €78.7 million of upfront revenue this year versus €51.5 million in 2021, and to a strong recurring base with the existing contracts and the renewals which start layering as planned. All of this resulted in a 31% organic growth.

Let's now take a look at the Services activity. The readjustment the activity level, approximately 2,000 days more delivered compared to 2021, resulted in an annual revenue of €37.2 million, which is a 5.4% organic growth. This represents 12% of Axway's total revenue. We see a real post-COVID business recovery in all the regions, and especially, in APAC and LATAM, where the services business was frozen last year with COVID.

A few words on our balance sheet now. So our cash and cash equivalents finished at €18.3 million, with a net debt of €69.5 million. This increase in net debt is mainly due to the acquisition of the exchange in India and to the shares buyback to serve our free share plans. Our DSO went up to 155 days as we added more customer managed on-premise subscription contracts.

If we retreat the unbilled, our DSO is down at 68 days for 2022 versus the 57 days we had in 2021. It drifted at the end of the year with the system changes we are going through. But we will get the DSOs back down in 2023. Our current deferred revenue, which is mainly made of maintenance and subscription ended at €55.6 million, which is quite stable compared to last year.

Our assets decrease is mainly due to the asset disposal offset by the goodwill accounting for the acquisition of the exchange in India and by increased account receivables. Our equity includes the dividend payment for €8.5 million and the shares buyback for €10.7 million as well as the one-time goodwill write-off we mentioned earlier.

Our cash flow – so our cash flow for 2022 are down €6.9 million compared to '21. And our free cash flow is slightly dropping compared to 2021, whereas the EBITDA has significantly increased in 2022 and

reached €56 million. This has not improved the cash position yet. Variation on clients is the main reason explaining the change in net working capital, which is decreasing by €13.9 million.

So for the billed part, trade receivables increased due to higher DSO, which I just mentioned. For the unbilled part, the €27 million of the increase is due to the high level of customer managed contracts signed.

Note also that we renegotiated our RCF line to bring its maturity to 2027 and to gain in terms of flexibility. The removal of a covenant was also validated on that occasion. Our remaining two banking covenants were met, and as confirmed, we have the availability of our credit line to use, should we need to.

So as reflected on this chart, the main changes impacting the net debt negatively are the following. You first have the change in scope with the acquisition of the Indian company DXchange and also the share buyback with a €13.7 million impact.

With regards to the share buybacks, we took advantage of 2022 and the attractive valuation to build up a pool of shares that will enable us to cover our employee profit sharing requirements for several of the next deadlines. Our strategy now is to continue to buy back shares, but at a much more moderate pace to match our distributions.

Let's now do a quick focus on the free cash flow. So per memory, the free cash flow started decreasing by 2015 with heavy investments through to 2019 followed by the shift to subscription and especially the launch of the customer managed offer end of 2018. As explained in previous presentation, the customer managed technically creates a distortion between the revenue recognised with the 50% average upfront part, if you remember this, and the invoicing. Hence, the cash impact. As shown on the graph, free cash flow started improving from last year onward as the annual billings from the subscription contracts start to layer.

With that, I thank you for your attention. And I hand over to Roland to provide your focus on customers and market trends.

Roland Royer: Thank you, Cécile, and good evening, good morning, everyone. Let me start with the fact that I'm – I couldn't be more proud of our team and more grateful to our customers and partners.

2022 was an outstanding year for Axway, during which we see – we saw a steady demand for virtually every product line in every geography and with an exceptional execution from all of our teams in the field throughout the year. So our ongoing efforts to invest in our product and in our customer success continue to be our thread[?], leading to a great record high net promoter score at 35, a steady renewal success rates at 94%, and a migration multiplier at 2.1%.

But why are we focusing these – on these really important KPIs? We recognised a few years and when we started the programme, the importance of our customer and the success that we can build based on them. So we implemented this very focused on the customer experience and improve and we drove over the last five years, an increase of the net promoter score from minus 9 to today, 35, which create these really strong customer base – really strong loyal customer base, I should say, that we can see and that can help us to drive the result of the year.

It drives the capabilities to – for them to stay with us and the renewal rates that, historically, we said between 92% to 94%. We still – we have delivered the 94% last year. And we have, based on this customer – loyal customer base, the capability is to continue to provide new services, new technology. And we see

with the multiplier when they are moving from a license maintenance to subscription at a 2.1 rates, their willingness to continue to invest on us.

But these customers and these loyal customers is also a very important lever to attract new customers as they are promoters of Axway, promoters of Axway with their colleagues, friends and sometimes when they even change company. So really important KPIs that help us to really drive the growth and the success that we saw.

In 2022, we saw customers expand their use and recommit to our product across the board. Many of our large customers from all the product line, MFT, B2B, API and AFAH significantly, sorry, increased their annual spend with us. The key drivers for all the product lines is related to our customers looking to leverage cloud technology, more automation, more scalability consolidating on a one hyperscaler or deploying a multi-cloud strategy or moving to a full managed services consumption.

We can – with the – for the MFT, the volumes and the value of files movement to the cloud or through the cloud continue to grow. On the B2B, we've seen this within many customers and an increasing number of customers actually moving to a full managed subscription. And on API, the APIs are today secured and managed. And now we see the customers focusing on the API consumption.

Finally, the new solution, the Axway Financial Accounting Hub that we launched midyear in 2002, facilitate the migration of our customers' ERPs to the cloud. As I said, the principal driver across all the product line is the customers leveraging cloud technology one way or the other, to their cloud, to our cloud, meaning that it doesn't mean that all our customers are actually moving to Axway cloud-managed solution.

And we've seen in the figures along the year that the first quarters were heavily loaded on the managed – Axway Managed type of solution. And the 19% that we see here on the screen are really been built during these first three quarters of the year. At the end of the year, the fourth one was really like it was with a traditional business, with license and maintenance, heavily loaded on customer managed subscription.

So, we have done an excellent result. The figures presented by Patrick and Cécile showed it. And we have entered 2023 with a very strong momentum, and all signals are green for another good year. We still have a large customer base that will benefit from the flexibility of our subscription model, both for the Axway or customer managed.

And despite the fact that we had a very strong level of booking in December, we are starting the year with a slightly higher pipeline, and I expect a good level of booking for the first quarter.

And finally, we are seeing also a very good interest from all our customer base across the product line for the new offerings that we have introduced during last year. We have today several customers in North America and in Europe in production with the Amplify marketplace. We may have seen a press release from ENGIE in France, who is actually managing and promoting the consumption of their APIs managed by several API gateways from different vendors.

And we mentioned the acquisition of DX. We mentioned the fact that DXchange – we will be launching the Amplify integration based on this technology. We already have a couple of early adopters, one that we are moving live in production these days. And we are seeing a very good attraction from all our customer base for this new technology that we are going to launch and deployed during 2023.

So we've seen – we've had a very strong 2022 and seeing a good focus and a good result for Q1 and looking forward to have a very stronger 2003 as well.

So, with that, thank you. And I will give it back to Patrick.

Patrick Donovan: Thanks, Roland. And let me go now into 2023 and what we're seeing for 2023.

Our main priorities for 2023 are as follows. First, we really will continue to work on employee engagement. We'll continue to communicate our project with our team and focus on delivering continued great customer experiences. We have a lot of work internal to do to continue to align the organisation around the new model that we've built and around the new priorities that we've set, and we'll do so all throughout 2023.

And we're going to continue focusing on delivering operational efficiency. This is key in our model. And it's all about focus, focus on what we do for our customers, focus what we do very well and do it as efficiently as possible. And as I talked about earlier, the portfolio management execution was really started and got traction at the beginning of the year. We've worked all year on this topic. And this now needs to become a permanent part of the way we run Axway and talk about Axway.

Every product should have a purpose in our portfolio. It should deliver what the life cycle of that product is for the returns back to the company. It should deliver the value to the customers they expect, and we should be building the priorities within our products we're delivering to our customers along with our customers. We have the organisation now established to do so, and I'm really excited to see what they drive into for 2023 and beyond.

I want to remind you that we are on a normal cadence of about a three-year business plan. So 2023 is the third year of the business plan we set at the beginning of 2021. And we're looking forward to finishing the year strong to have the strengthen the organisation to launch 2024's business plan in the proper way.

So as I move now to our guidance for 2023. I wanted to pause a bit and go back through the last five years. So in 2018, I took over as CEO, and I started communicating clearly to you what we were trying to do, the targets and expectations of the move to subscription, the changing business model, the investments we were going to be making, and what we would see in terms of revenue, margin and now free cash flow. And I want to come back and revisit that a bit.

So I've put together this table to try to summarise each of the main criteria of our financials. So, starting first with organic revenue growth. I've presented the organic revenue growth over the past five years, but then retreated it for the products that were disposed of or open sourced throughout the year to give us a clear picture of the go-forward plan. And so over the past five years, you see that we've had ups and downs and a very strong year this year. But for example, in 2018, we had a drop in our revenue.

But what we're seeing as a business is that we need to look at the longer term average because the buying cycles of our customers, the renewing of the large contracts we have, the new customer wins may cause volatility in the revenue, but the portfolio of assets we have in the company are delivering a consistent return to us. And over the last five years, retreated for the products that were going to be driving the company forward with, we have 2.4% average organic growth over the last five years.

And when we talk about the profit and operating activity, in 2018, we had a plan to invest heavily for 2018 and '19 into our products and into changing our business model. We've tried, frankly, a lot of experiments,

and we've tried a lot of different things. We've learned a lot over these five years. We've had to make adjustments in our approach. We've had to make adjustments in our portfolio thinking. We're talking with our customers and hearing what the market will deliver back to us for the efforts we're putting out there, but we've stuck to the plan.

So when we learn and make adjustments throughout, we continue to build and move towards the long-term goal we are talking about. And you see that perfectly in the profit on operating activities. In 2019, I told you that we were going to be investing heavily in our R&D, and we did. And that after making the investments in what is now the Axway marketplace that we have customers adopting and going live on now and making investments in other products in our portfolio, we were able to start pulling back that overinvestment we made in 2018 and '19. So in 2020, '21, '22, we are able to pull back on our R&D spending to what that product line needs to keep a healthy product and build a road map with the customer.

And so we have constantly improved – even if the revenue bounced up and down, we are able to control our costs and return the profit back on operating activities. And I'll share with you here in a moment where we expect it to go.

So trailing with the profit on operating activities is our earnings per share. And I took the opportunity to retreat on pro forma basis. If we exclude all the accounting impacts of the disposal of the products, we would have been close to €1.5 per share quite a strong target, which has been a nice increase year-over-year.

And the next thing in this strategy and then the financial return is going to be free cash flow. If you remember, we've talked a lot about the move to subscription and really pushing into this business model. Our subscription offerings have annual billings. And so when you have the upfront customer managed, but you're billing annually, you get a little distortion between the timing of the revenue and the cash.

But what becomes more and more important year after year in our business model is going to be our free cash flow because you get the annual effect of the subscription contracts layering on top of each other, and that is going to provide us business model stability. That type of stability allows us to get to another dramatic event if we have to, like COVID. I hope we don't have to. But it gives us that financial strength to weather the storm or to come back in our 2024 business plan, which is what we intend to do, and invest in our product strategy. And those investments either take the form of inorganic growth and M&A, or they'll take the form of building in and around our product sets that's delivering the 90% of our revenues.

And so you see, when I look back at the five years before we started this journey, we were averaging about 1.6% of organic revenue growth. The difference between the two five-year period doesn't really matter to me. What does matter is if you average it all out, we've done about 2% organic revenue growth, taking it out the currency effects or scope changes.

So I'd always said in my speech is that I expect we'd have about 1-3% organic growth year-over-year in our portfolio. And these numbers perfectly show you that we've been averaging over the 10-year cycle about 2% growth. You have period-over-period volatility, but on the long-term average, we're hitting what the market for our products is growing at consistently.

And the profit and operating activity was, on average, just over 15%. I believe we had a high of 16.7% in that period. Well, with the model we've built, we're almost back to that 15% average and we should cross

that in 2023. And my expectations are we should hit a record high for profit and operating activities in 2023, and quickly be moving towards 20% operating margin.

And the earnings per share will follow behind that. We did an average of 1.3% for the five years before we took on this project. we're at a restated figure of 1.5% this year, and I expect that we are able to continue to build this and build a consistent base of this going forward.

And our free cash flows, we had averaged 12 – roughly 12% of our free cash flow as a percentage of revenue. And in certain years, we were quite close to the profit and operating activities and free cash flow were the same.

And what my expectations are as we enter – and as Cécile showed on her graph – as we enter 2023, we're going to start inching closer back to the average we had before. So we will be somewhere around 5% or 6% of our revenues with free cash flow in 2023. We should get closer to that 12% figure of the historic average in 2024. And then we should continue to improve year after year in our business plan until we get closer and closer to the profit and operating activities levels.

So all of this is coming together – as we communicated, we just unfortunately have year-over-year variances with the volatility of this transition.

And so what does that give us for our guidance? Well, it's pretty obvious what I'm saying here if you look at the history. So we're going to give guidance of 0% to 3% organic revenue growth. That – why I'm saying is zero? I'm being a little cautious because we could enter a period session in one of our main markets. It's still a bit unsure. So we'll drop a little bit at the lower end.

But on average, like I said, for 10 years, we're about 2% organic revenue growth, and that's in line with the guidance we're giving you here. And our profit and operating activities, we're giving a range of 15% to 18%. What we see at this time would be closer to the top end of that range. But clearly, we're going to be driving to hit the 20% target as quick as possible.

So, touching real quick on the mid-term ambitions. I'd stated through this three-year cycle that we had mid-term ambitions to hit profit on our operating activities of 15%. I would say the job is done and we're there for 2022. And I want to hit earnings per share above €1 per share. And I'd say if – excluding the impact of the accounting treatment for the disposals, we're there as well.

And so, the next target is hitting a revenue of €500 million. I know a lot of you challenged me and heard that, that was quite ambitious and that we may be dreaming. But one thing that was obvious to me as we are going through this business model transition, we did not have the financial strength to be a strong acquisition player at that time. And we had to do the work on our operations and our portfolio and clean up a lot of what we had acquired and done over 20 years to build a financially strong company that's delivering at or above the 20% margin that has the share price that it gives us the share price capital, it gives us the leverage capital from a P&L, and it gives us the free cash flow that allows us to go and look at bigger acquisition targets and was – we were able to do over the past five years.

And so that is how we're going to get to the €500 million target. And now we could start looking in 2023 to do larger than the smaller acquisitions we've done over the past five years. I'm not sure we'll have anything in 2023, but now we could start looking as we will – we have built and will continue to be building on the financial strength that gives us the ability to act if we find the right target.

So I'm going to change slightly our mid-term ambitions. We've hit the €1 per – €1 earnings per share, and we should stay above it. So I'm just going to drop at this point. That was more of a low bar measure, let's call it.

Our profit on operating activities, I want to target as quick as possible at 20%. I'd love to get there in 2023, but that would be very ambitious. We'd have to have a lot go right. So I'm looking more in the 2024 range to be able to achieve that target.

And then we need to start in 2023 looking for targets that will help us achieve our €500 million revenue target, both by doing it inorganically and organically.

So with that, I'll turn it over to the operator to open the phone lines for any questions. Operator, could you let know if there's any questions in the queue?

Questions and Answers

Operator: Thank you very much sir. As a reminder, you can ask a question by phone or by chat. By phone, please press star one on your keypad to access the queue. By chat, click on Ask a Question button in the bottom right corner of the player. We'll pause just a moment to allow everyone the opportunity to signal for question. We will take the first question from Derric Marcon from Société Générale. Your line is open. Please go ahead.

Derric Marcon (Société Générale): Good evening, everyone. I hope you can hear me well. I've got four questions, if I may.

Patrick Donovan: Okay.

Derric Marcon: The first one is about the annual recurring revenue and the trajectory that you had in Q4, so plus 12.5%, a significant acceleration compared to previous quarter. What we should read in this acceleration? And what we should expect for 2023? I know that conversely to some of your peers, you do not guide on ARR growth and you prefer to stick to good practices with revenues. But would be helpful for us to understand the trajectory and the moving parts that are there.

My second question is about Amplify integration. Can you help us to understand what's the opportunity behind that in terms of revenue for this year, but for also the medium-term targets?

The third question is about current deferred revenue. I'm surprised to not see any acceleration there. So Cécile said flat year-over-year while you have a significant acceleration of subscription revenue, especially customer managed, which should normally, in my opinion or in my mind, create some deferred revenues.

And the last question is about the average migration with supplier. I'm a bit surprised because 2.1 is maybe a good number, but it's below what it was one year ago, 2.4. So, can you explain here what are the moving parts? And what has – what is the cause of the decrease year-over-year? Thank you.

Patrick Donovan: Sure. I'll take the first two questions and let Cécile answer the third and Roland answer the fourth.

So with the ARR, we're still building this out and trying to build it as a metric to track going forward in our business models. And so we've been a little bit cautious to start disclosing this. And what I wanted to do is disclose on a constant basis, the year-over-year growth in the computation. What is the next steps is actually being able to convert that ARR growth that we're seeing into actually how it flows out into revenue. And that's the next step. It's quite a complex calculation for the way our revenue accounting is being required.

So ARR, just to define it for everybody. What it really represents more concisely is actually an annual cash number. And so we're taking the maintenance, the annual value of the maintenance contracts that we have currently. We're taking the customer managed contracts and the upfront portion, we're retreating those to match our cash flows, the annual billings. And so those are baked back into more of a cash basis.

And then we're taking the Axway Managed. And again, those are billed annually. So that's the annual basis. So that combination is what we're tracking period-over-period to see if we're growing and if that's a measure of our future growth and our cash flows more predictably than our revenues because of the mismatch with the revenue accounting policies under IFRS. So we're still trying to perfect the model of how we guide on this. But for internally, it's a good indicator of how we're building up this cash flow machine that should be increasing period after period. So that's how we're looking at today. And I hope that for next year to come back and do a much more detailed presentation of how we see that building into our models.

So, we're just sticking on a financial indicator today that we are building up this layering cash flow effect of the way we're doing our business and the strong growth being from the strong growth of the LTCV contracts that we've signed over the year.

On the second question with Amplify integration. This was a startup company that had no revenue and we still had some work to do on the product. So we had done some soft market launch, if even that, we had a product line GM with the sales team talking about certain opportunities we saw in the market. We picked up a few customers that were about to get live on to get these early adopters into the system, so we could further harden the product and then do a full launch sometime around spring/summer and train all our sales teams and actually put some marketing money behind it.

So impact for '23 will be still a bit immaterial. But what we saw was the future. So you're going to start seeing us look at a product strategy where we're strategically buying companies like DXchange that's going to serve the core product lines that we look on. So this is not going to be a separate stand-alone product. This is – can be sold stand-alone. Amplify integration can be stand-alone, but we really see the value for it with our enterprise customers around our B2B product line or MFT product line and our Amplify product line as well as our Accounting Financial Hub.

So all four of our core product lines will benefit by this functionality that will add on and do either upsells to our current pace or we will be able to target new opportunities that we couldn't in the past. But for 2023, I don't expect it to add materially to our growth as we're still finishing out the technology build.

So Cécile, why don't you take the question on deferred revenue?

Cécile Allmacher: Yeah. Okay. So let me give you a little colour on the current deferred revenue. What do we have in current deferred revenue? Actually, current deferred revenue is made of subscription and

maintenance revenue, which we billed in advance. So this includes generally revenue we billed for a year in advance.

So when we signed the contract, on maintenance, it's generally one year's contract, which are renewable. So, we bill beginning of the period. And for subscription, you have three years contract for which we bill the first year independently, whether this is Axway Managed or customer managed, the billing is generally on one year. That's what is in current deferred revenue so far.

Why is it not increasing? Because in there, you have maintenance decreasing on one end offset by the increase linked to the subscription Axway Managed, which we invoiced due to the great momentum we had on Axway Managed The two are kind of offsetting each other, leading to a flat current deferred revenue.

Now to go back to you have a point, referring to the customer managed part. The customer managed part, the upfront part is in unbilled currently. So it is not in the current deferred revenue. It's really unbilled invoiced to be raised in the future. And that's where you have a big increase. If we look into detail on the accounts receivable, the unbilled part of it increases €27 million over 2022, and this is the customer managed effect.

Patrick Donovan: Maybe, Roland, take the last one on the multiplier.

Roland Royer: Multiplier, yes, and 2.1 is, I believe, a really stronger multiplier for our customers. However, as you said, lower than the one that we reported last year. The impact and the fluctuation can be explained, depending on the type of customer, type of size and duration of these deals because depending on the type of deals and contracts that we are migrating, large, very large one or the second tier of customers, and depending on the number of years that the customers are committed. So, this multiplier fluctuate a bit.

In between the, let's say, 1.5 to the – to higher than the 2 or 3 points, depending on the capabilities, the capacity that – and the new component that the customers are buying during that migration. So really depending on the typology of the deals. This year, we had, especially on Q4, long – large, long commitment from customers that decrease a bit the multiplier.

Patrick Donovan: Yeah. And if you remember, when we started allowing the migrations from maintenance to subscription within our sales base back in 2019, I think as we really started this programme, we did the internal computations and came up with a multiplier of 1.5 as the low bar. We didn't want to take any deals below 1.5. We didn't think that was a valuable transition for us from a financial basis, and we didn't think it was really valuable for the customer at that time.

So when an event happens with a customer that allows us to upsell product, add additional features or to meet their needs in certain other requests they have, and it gets over the multiplier of the 1.5, then we're interested in the conversion with the customer, and we're trying to do this responsibly over time and not just flood it all in one year. And we've done that. And if it fluctuates at 2.4, 2.1, I'm not too concerned as long as it's above our 1.5 threshold.

And when I look at and listen to our competitors, most of them are still below 2. So I feel we're quite strong in this conversion.

Derric Marcon: Perfect. Can I have just a quick follow-up on figures and statistics again? I just look to the renewal success rate, 94%, stable compared to last year. And I think you mentioned during the presentation the renewal rate for maintenance contract is 95%. Does it mean that the churn on subscription model is higher than the one you had with term license?

Patrick Donovan: You can take that.

Roland Royer: Yeah. In the overall subscription, we had some of the disposal product that were actually having a higher churn rates.

Derric Marcon: Makes sense.

Patrick Donovan: That churn continue for 2023.

Derric Marcon: Yeah. Thank you very much.

Patrick Donovan: Thanks, Derric.

Roland Royer: Thank you.

Patrick Donovan: Operator, other questions from the phone lines?

Operator: We don't have any questions over the phone at the moment. So I'll hand over to Mr Arthur Carli for questions by chat.

Arthur Carli: Yes, Patrick, I have a few questions on the chat.

Patrick Donovan: Okay.

Arthur Carli: So, the first one coming from Antoine Lensel at Kepler. He is surprised by the amount paid for the acquisition of DXchange and he would like you to elaborate a bit on the benefits and synergies you are expecting from the acquisition?

Patrick Donovan: So the amount disclosed, I think, probably in the cash flow statement file was above what we paid. We paid, if I remember, just under €10 million upfront cash. And that was reflective of the work that was done by the team for many years on building up the product to where it was and the state it was. And they had already their first alpha customer.

The benefits we're expecting to get from this are to add value across our portfolio. So this will become an add-on application with each of our product lines that will also be able to be sold independently. And over the next couple of years, we're going to see the growth in the sales of that product line improve year after year.

But the bigger, longer term play is that I truly believe this was more of an opportunity to add a product capability and set that is a very hybrid approach, both on-prem in the cloud and the way it was architected and designed in the approach to the market for this integration platform, yes, it will give us a product to sell in the short term. But in the long term and as we come back to you for 2024, that's going to be a key component of our product strategy around all four products to where if we were able – ever able to see any of those products start converging back to the hybrid integration platform concept that we shared with you, it would be inclusive of that acquisitions technology, and that would be part of the heart of that as well as the API management platform and marketplace.

So, we have all the pieces. We're missing some key pieces to have a true platform experience with the integration capabilities. And now we have it. Now we have to make sure the design and architecture as well and look out into the future over the next several years of where our customers are going to expect for us. So it was really a opportunistic investment in the future product strategy.

Arthur Carli: Two other questions from Antoine Lensel at Kepler Cheuvreux. So the first one, do you need or expect more share buybacks to fund employee plans in 2023 as well? What cash impact could we expect?

And the second question, why did License & Maintenance cost of sales increased in '22 in absolute terms? How do you see the gross margin evolving in 2023? Could we see a tailwind from the disposal of 2022?

Patrick Donovan: So I'll take the second one and then let Cécile do the first because actually, the second one is quite easy.

The increase in absolute value was foreign currency, the US dollar moved quickly. As a percentage of our sales, we've been quite stable in the gross margin. And it's going to start stabilising in this region. But most of our cost growth, both in the cost of sales and in operating expenses was driven by the US dollar impact.

Cécile Allmacher: Okay. So on the share buyback, so as I explained in the slide, we took the opportunity in 2022 to accelerate the buybacks as much as we could to be able to serve the future plans. So we are now covered for our future employee LTI plans for the one that are to be released in the three coming years. We will continue those buybacks in 2023, but at a very lower pace.

The impact we could estimate, so we had a €13.6 million impact this year related to those buyback. If we go back to a normal course of buyback, I would expect something between €4 million and €5 million per year.

Arthur Carli: Thank you. No more questions from the chat. Operator?

Operator: We have two participant giving up. We will take the next question from Jérémie from HC Capital. Your line is open. Please go ahead.

Jérémie Couix (HC Capital): Hi. Good evening. So a couple of questions. Maybe the first one is on the working capital. So you had a large outflow this year. So we are now at something like, I think, 70 days of working capital, 75 days. Where do you expect the normal level to be over the next years? That's the first question.

The second one is it seems like you lost 11% of headcount this year. Do you have some exceptional costs? Do you have all the benefits already? Or do you expect much lower cost next year? And especially on the marketing part, it's still 30% of your sales. Do you expect here to have a large pool of, let's say, efficiency gain over the next years or not?

And then one last question, just to understand. So the business you divested contributed to €9.3 million of sales in 2022. This will go to zero next year. Can you give us an idea of the loss of these businesses? And then in terms of cash flow, did you receive the cash from the disposal or not, and what was the amount? Thank you.

Patrick Donovan: Okay. Cécile, do you want to take the first one on the working capital?

Cécile Allmacher: Yes. So the working capital, the decrease we experienced this year is mainly due to the big boost we had in Q4 on the customer managed contract signature. As you know, when we sign a customer managed contract, we have a distortion between what we recognised as revenue and what we bill, meaning that we recognise 50% of the contract in terms of revenue, but we bill only part of this one year. So this is creating the discrepancy you will have between the revenue and the cash flow, creating that gap in working – in terms of working capital.

We expect with the layering of all the renewals we will have in the coming years, to have that going back to normal starting 2023, and we should see a real improvement in our working capital by that time.

Patrick Donovan: With regards to the rest of the questions. On the headcount, yes, we did drop the headcount. I believe we finished about 1,525 coming down over the prior years. The full impact of that adjustment was not in the 2022 headcounts. I think our average headcount for the year may have been about 1,620 or 1,630, which would be compared to about 1,710 in the year before. So we are down at about 15 – just over 1,500 people.

And that was – when I talk about the focus in delivering with focused operational efficiency, we're going through the organisations and really looking at where we're spending our money, spending our time. And if it's not giving us back value, if it's not helping our customer roadmap, if it's not delivering customer satisfaction, we're making adjustments either by reallocating the spending or we've had to make some adjustments throughout the year as well. Included in that drop is about 55 people, I think, that went with the disposed product lines as well.

And so we've really tried to become efficient organisation, and we've done this over the last several years, leveraging a bit the great attrition and being very selective in when we hire back to make sure that we're going to get the return for the investment. So I believe the adjustments we've done over the last several years to land at the headcount we have now is going to start stabilising and we should not see any drop from our revenue delivery, our product delivery or the investments we're making. We really tried to do this target with where we were getting the return for the investment and where we were not, we pulled back on it. So that should come back to us.

Now one of the questions you asked was on sales and marketing. So when I look across the company, we were spending a lot in sales and marketing efforts that wasn't bringing back the return we expected. And then where we were winning, we had a fantastic year with our sales performance this year, we often were overcompensating and having too many people participate in the deal when in reality, you had a few key people that were driving it and should be fairly rewarded for their great efforts.

But then we needed to optimise that team so that everybody is driving behaviour and performance that delivers a return. And that if they're not part of the deal, then they don't get paid for the deal basically. So, it's been a lot of work this year to really bring that level of focus, but that should help drive lower sales and marketing costs and have a much greater sales and marketing efficiency. And I don't expect – quite frankly, I expect the opposite to happen.

I think our sales efficiency will go up. I think the sales team that's here should all have a much greater chance at winning and making money with Axway, and our marketing is going to be a lot more targeted and focus at what the customers – where our customers are and how we could reach them.

And given our products and our portfolio, the best marketing we could do is making our customers happy and letting them market for us through their word of mouth, through references, if they leave to another company, take us with them and keeping our current customers. So that's where we get the biggest bang for the buck and the data proved it out when we dug into the data of where we are doing business, where we are getting our leads, etc. And so we're aligning our efforts based on the data that we were getting back from how we are performing with our sales.

The €9.3 million revenue for Syncplicity, Mail[?], etc, yes, it won't – that were disposed. That won't reoccur in 2023. And you had asked me about the margin impact. Well, in 2021, the margin impact of that portfolio I was talking about was about 1-2%. We had optimised a bit in 2021. And so it's only going to be about a 1% improvement in our 2023 figures.

Clearly, as we built our 2023, we had a very strong inflationary base in our wage growth that kind of offset the impact of that – those disposals and offset some of the good work we have done on the cost optimisation. But even with that, we still believe we're going to hit the guidance target we're giving between 15% and 18% of profitability.

And then the cash flow on the deal was the final question that it was immaterial amount of inbound cash flow at the time of the transaction. These were not strongly attractive products to sell in the market. And so we got transactions that were structured that we will win as the buyers when we did get some upfront cash, but it was offset against what you see in the impact below the line. I think I hit all your questions, Jérémie.

Jérémie Couix: Yes. Thank you, Patrick.

Patrick Donovan: Okay. Thank you. Operator, any further questions?

Operator: We have a last one from Blain Eric, Finance Connect. Your line is open. Please go ahead.

Eric Blain (Finance Connect): Yes. A part of my question were answered. Just one – two small points about the turnover and about inflation, which can you give some colour?

Patrick Donovan: Yes, on the revenue and the inflationary impact, I'll make a comment and if Roland wants to jump in, I'll let them as well. So a lot of our contracts are longer term with our customers. Normally, once we're in, we're the backbone of a large enterprise system. And so they want to know their budgets basically for the coming years. And so we have pretty standard CPI or other indexing available to us, often capped. And at the current inflationary times, often the cap has hit before the inflationary rates in the market.

Certain contracts are locked in over the three or five years of pricing and we only get the opportunity to apply inflationary factors in the coming years. And so, unfortunately, if inflation on average is something, say, 5% or 6% worldwide, we're not going to see that come through our revenue. It's going to be a little bit lower and often happens on a renewal or in the contractual phase. But Roland, I don't know.

Roland Royer: The only thing – I think you covered it. But the only thing we can add is when the contracts are not fixed and everything, we are passing this inflation. And that's part of the – that's part of the well managed maintenance renewal that we've seen this year and the way that the maintenance drop was even lower than what we initially expected.

Patrick Donovan: Yeah.

Eric Blain: Okay. Thank you.

Patrick Donovan: Any further questions, operator?

Operator: Yes. We have a follow-up question from Derric.

Patrick Donovan: Sure.

Operator: Your line is open. Please go ahead.

Derric Marcon: Thank you for squeezing me in again. Two for me. The first one is, Patrick, about the Axway Managed, the traction that you had this year, which is, of course, less impressive than the one of customer managed. How do you see that? And does it become an issue if we consider that without scaling that business significantly, your chance to obtain rebates or discounts from hyperscaler is much more limited than maybe what you thought two or three years ago. And so it will be, in that case, much more difficult to increase the profitability of that business, the gross margin of that business? That's my first question.

And the second question is for Cécile. Can you help us to compute the contribution of renewals in 2022 to the total revenue number. And what do you expect for 2023 in terms of contribution from renewals?

Patrick Donovan: So the first one, on the Axway Managed. We've been growing the Axway Managed revenue close to 20% the last several years. Now it's coming from a smaller base. I think we're up to, what, about €45 million in Axway Managed revenue. And so we're growing year-over-year about 20%. So, the growth is nice.

What you see in Roland's chart, I think it was 19% of our overall bookings were actually managed. And that's about a bit reflective of where our customer base with our products are expecting from us.

Now a lot of those customer managed contracts are cloud contracts. They're just not – a lot of the large institutions we deal with believe that they need to control their cloud experience. And so, they want to buy effectively the customer managed and put it into their cloud network and run it with their cloud operations team.

So even in the customer managed, there's a very large portion of cloud type of deals, but we're providing the technology and not the service. So that's the difference with Axway Managed. But we're growing 20% year-over-year in revenue and we'll continue, I think, to see that level of revenue growth.

And with the leverage on the hyperscalers and the inflationary costs of their utilities and others they're trying to pass on costs, it's going to get harder to keep down the cost base, pass on. But where we do have opportunities, and we're looking at this very strongly, is how we could build our products to run more and more efficiently.

In our cloud network and our Axway Managed service as well as letting the customer benefit from that development to run it more efficiently in their cloud network. So that's how we're going to try to tackle and offset and even more than offset the growth coming from the hyperscalers that they pass through on the cloud costs.

Derric Marcon: And Patrick.

Patrick Donovan: Yeah.

Derric Marcon: Does it mean, Patrick, that with 20% CAGR, it's enough to obtain additional rebate every year with hyperscaler or are with 20% CAGR, you have no pricing power at the end of the day?

Patrick Donovan: No, we do have pricing power. So we – already with the levels of spend we have primarily with Amazon at this point, we do have pricing power, and we do have negotiated discounts based on our volume. And if we could continue to grow it, we'll get even higher discounts, but the ones we have are based on the volume we have today. So, we do have a little pricing power and we could get more if we continue to grow that line.

Derric Marcon: Yeah. Thank you.

Cécile Allmacher: So as to the contribution from – of renewals on the 2022 numbers, I don't have a very precise figure. I would estimate that around 80% being renewals and generating the 2022 revenue. But more than that, I don't have a very detailed track of this.

Patrick Donovan: Well, when you're saying 8%, that include the migration?

Cécile Allmacher: Yes, exactly.

Patrick Donovan: The – doing business with our customer base, the renewals – are you targeting the renewals on customer managed subscription?

Derric Marcon: The renewal of subscription. So the contract that you signed and you renew it three years later and you've got again prompt revenue recognition in your P&L, not the total value.

Patrick Donovan: So in this year, if I remember correctly, of the upfront €78 million, we had about €7 million to €8 million of upfront revenue that was just recurring.

Cécile Allmacher: Yeah.

Patrick Donovan: And if I remember right, that number will more than double next year.

Cécile Allmacher: Yeah.

Derric Marcon: Okay. Perfect. Thank you.

Patrick Donovan: Operator, do we have any further questions?

Operator: We have a last follow-up question from Jérémie. Your line is open. Please go ahead.

Jérémie Couix: Hi. Thank you. Three questions, if I may. Just to clarify on the working capital. Should we expect something like a 50, 60 days average on a normal basis? I understand this year was a bit special because of the heavy Q4. But what would be a normal cycle now with the business mix you have, that would be helpful.

Then on the inflation impact in the revenue in 2022, can you give us any number on the contribution? I don't know, 1% or 2%, I don't know. And what would be the impact in 2023? Just to have a feeling.

And then one last question is on the multiplier. You mentioned the 2.1. Is it the same at the gross profit level? So adjusting for the fact that – if you switch to Axway Managed, then you will have more sales, but the gross profit will probably be down actually because of the lower gross margin. Thank you.

Cécile Allmacher: So, on the first question on the working capital, yes, the normal base should be around 50 to 60 days. So, this is at least what we expect for next year.

Patrick Donovan: And I think historically, we were around 56 to 60.

Cécile Allmacher: Yeah.

Patrick Donovan: So yeah, you're right with the target. And on the inflation, for 2022 revenue, we haven't that figure. We didn't track it or calculate it. So we just really re-held stronger than ever on our renewals that came up during the year that we would increase the price as much as the contractual allowance and not negotiate it due to the inflationary pressure, but I can't give you the exact impact in our 2022 or 2023 figures.

And then the final question on the multiplier and how that translates into gross margin?

Roland Royer: So the key point I will say on this one is the percentage of migration that is toward customer managed. Actually, the number of customers that we are moving from license, maintenance and migrating to Axway Managed is relatively slow – small in what we are doing. So, the impact – the potential impact of the margin on this one is immaterial.

We actually have a higher rates of new customers manage on the Axway Managed subscription than on the customer managed subscription. So I don't see this being a materially impacting the margin on the migration.

Jérémie Couix: Okay, thank you. And as you – maybe a last one. The new logo this year that contributed to what level of the new – of the total booking? What was the share of new logo within the total booking?

Roland Royer: Around 18%, which is – which was higher than last year.

Patrick Donovan: And a lot of that was Axway Managed, so we don't have the revenue impact this year.

Roland Royer: Yeah.

Jérémie Couix: Okay. Thank you very much.

Patrick Donovan: Operator?

Operator: And we don't have any further questions.

Patrick Donovan: And Arthur, do we have any chat questions?

Arthur Carli: All good on the chat.

Patrick Donovan: Okay. Well, thank you, everybody, for the questions in joining us here for our 2022 results presentation. We look forward to coming back to you at the half year accounts and hopefully delivering the same strong news as the full year of 2022. Have a good evening or rest of your day. Thank you all for joining us. Bye-bye.

Roland Royer: Thank you.

Cécile Allmacher: Thank you.

[END OF TRANSCRIPT]