2023 Full-Year Results
Transcript

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PRESENTATION

Arthur Carli: Ladies and gentlemen, good evening, and welcome to Axway Software 2023 full year results presentation. My name is Arthur Carli, and I'm in charge of Investor Relations for the company.

I'm here with you today to remind you a few things. First, you should note that this event is live and is being recorded. A replay will be available on Axway's website as early as tonight. Second, you should note that this presentation contains forward-looking estimates that are subject to risks and uncertainties, all described in Axway Universal Registration Document.

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

Patrick Donovan: Thank you, Arthur, and thank you all for joining us here today. I'm really excited to be coming to you today to describe two very important things for Axway. First, a fantastic year. We've had record profitability, very strong growth and the return of free cash flow. And we'll go into more details about that over the coming - first part of the presentation.

And then second, we've made an exciting announcement about 15 minutes ago. So if you haven't seen it yet, you'll look forward in your e-mail or on the website, if it's posted there yet. We've made the announcement that we have entered into discussions, exclusive discussions with Sopra Steria to buy the majority of the software assets of Sopra Banking Software. And we'll come at the end of the presentation and go through those details.

So first, I've got Roland and Cécile with me here, and we're going to go through the fantastic 2023.

So in 2023, we've had very solid performance for the second year running. We've been able to grow revenue and grow ARR. We've increased our profitability as planned, and we've also had the return of free cash flow to the good level as planned. We've built an efficient organization that allows us to achieve these goals. And we've also addressed our portfolio and addressed certain parts of it that needed to be addressed, and we've also added to our portfolio to give our clients a better experience and the richer experience with our products.

And we did all this with a high employee engagement and strong customer satisfaction. And because of this, we're able to translate that into very strong financials. In 2023, we were able to grow 5.8%, very similar to the growth of 2022. We've had a record profit on operating activities at almost 20%. We were able to achieve this goal of 20% in 2023 because we had a better than expected fourth quarter, having a mix of a little more customer-managed contracts than expected, and that was able to drop to the margin as we had the run rate of a company of expense coming out of the year at 20%.

So we're very pleased with that and being able to achieve our goal a little early. We've had a very nice earnings per share for the - for 2023 at €1.71, and as I said, our free cash flow hit roughly 6% of our revenue, right in line with our expectations. And Cécile will go through more of that in her presentation. So we have the financial capabilities where we're ready for the next phase of our program.

And with that, we always do it with the same three constituents in mind: our customers, our employees and our shareholders. And as we finish the 2021 to 2023 business plan, we've been able to achieve almost all our goals for each of these three constituents.
For our customers, we've seen year-after-year improvement in the NPS. We've been able to offer a stronger product portfolio and we see increased usage of our products within this strong customer base. For our employees, we're tied for the highest employee engagement score in our history of tracking this metric. And we've had a very stable workforce with 13% attrition, which is right around our expectations for normal run rate.

And for our shareholders, we've had 2023 at the growth and profitability levels exceeding our guidance, and we've created a strong financial structure that we can look for what's next in our programme.

I wanted to spend just a quick moment on our strengthened product portfolio. In fact, I believe in 2021, I talked to you about rationalizing our product portfolio and really running the products inside Axway's portfolio with the discipline needed to be a portfolio-based company. This year, we've added to our portfolio, and we've done that within our product lines. So we've talked about before, but it doesn't hurt to mention them again.

We've added AdValvas, which gave our B2B product line e-invoicing capabilities. And especially in the European market, we're going to see the regulations come through that we need to address with our B2B capabilities in our product.

We added Cycom Finances in the second part of the year, which expands our AFAH Solution or Financial Accounting Hub and provides additional capabilities to the users. So we are excited by these external expansions.

But we also now are doing internal expansion. So for 2021 and 2022, we've been building a new product under the API Management product line called Amplify Enterprise Marketplace. And we had, in 2022, launched it with some early adopters had great success, and now we've been training our sales team and really launching this product in earnest and have been able to build a very nice pipeline and closed approximately 15 transactions over 2023, and we see this growing as we move into 2024. So it's been exciting that we've been able to address different things within our product portfolio.

And overall, for 2023, I'm just really pleased where we ended up, the $319 million of revenue, very strong profit and operating activities and continued subscription growth and ARR growth.

So I'll go ahead and turn it over to Cécile and let her go deeper into the 2023 figures.

Cécile Allmacher: Thank you, Patrick. So going through 2023 income statement, you see the total revenue is up 5.8% organic and 1.6% on total, higher than the guidance, which we announced back in January in our press release.

Our cost of sales decreased around services and subscription cause inconsistency with the revenue trend. Our gross profit is slightly higher at 72.7% versus 70.9% in 2022. Once adjusted from the currency impact, which is €3.6 million, we were also able to pull back some of the operating expenses, as planned.

Sales efficiency ratio improved, while we continue to grow our bookings and to boost our go-to-market activity. Our R&D on core products continued to decrease and we were able to focus our investment on our incubation zone product. We were consequently able to generate a higher margin at €62.8 million or 19.7% of our revenues, up from the 14.7% of the prior year.

Our operating profit is inclusive of about €15.2 million of amortization on intangible assets, non-cash stock incentive expenses as well as restructuring costs. Overall, our net profit finished at €45.8 million or €1.71
per share versus the minus €40 million or minus €1.85 per share in the prior year, which by memory included €82.1 million write-off of unamortised goodwill, which is non-cash.

Let me now go into detail on the revenue by activity. So license revenue dropped 13.7% organic, which is in line with our forecast and the confirmed move to subscription. The license activity is now mostly based on specialist products that are not available for subscription.

Maintenance revenue decreased 19.4%, which was expected with both the decrease in license revenue and the migration to subscription but is still showing a satisfactory level of renewal with a 98% rate. Subscription is growing 27.4% organic with three strong first quarters.

When added to the maintenance revenue, we reached 85 - 86% of our revenue under a recurring contract. So in terms of product revenue, we are growing 6.7% organic compared to last year.

Service revenue remains relatively stable organic. We had a lower activity level or approximately 15,000 days less delivered compared to 2022, resulting in an annual revenue of €36.8 million, which is a 0.6% organic decrease. This is stabilizing as anticipated at around 11% of Axway's total revenue.

Overall, our revenue finished at €319 million, up from the €314 million reported in the prior year.

So focusing now on the subscription revenue. We observed a growth in both Axway managed and customer managed contracts. By memory, Axway managed as a SaaS revenue recognition pattern over the contract term, whereas customer managed is an on-premise subscription with an average 50% revenue recognition upfront as per IFRS 15.

So Axway managed increased 16% organic with both the full impact of the contract we signed back in 2022 to which renew and new need to be added. Customer managed increased 41.7%, with €93.5 million of upfront revenue versus €78.7 million back in 2022. All this resulted in a 27.4% organic growth, confirming that the strong recurring base with the existing contracts and the renewals start layering as planned.

A few words on our balance sheet. Our cash and cash equivalent finished at €16.7 million with a net debt of €75.6 million. The increase in net debt is mainly due to the acquisition of AdValvas in Belgium and Cycom in France, which Patrick mentioned earlier, and to the shares buyback to serve our free shares plans.

Our DSO went up to 182 days as we have added more customer managed and premise subscription contracts. If we retreat the unbilled part of our DSO, the DSO is down at 76 days for 2023 versus 68 days in 2022. This is mainly due to the increase in invoices we issued in December, but which are not due yet. And this is due, as you can imagine, to a high volume of signatures in December. We don't have any issue from a cash collection standpoint.

Our current deferred revenue, which is mainly made of maintenance and subscription ended at €49.1 million, which is decreasing compared to last year, mainly due to the maintenance decrease. Our assets increase is mainly due to the goodwill accounting for the acquisition of AdValvas and Cycom and by increased account receivables.

Our equity mainly includes the dividend payment for €8.4 million and shares buyback for €4.4 million.

Our cash flow now. So for 2023, we are down €1.8 million compared to 2022. Our EBITDA has significantly increased in 2023 and reached close to €70 million, improving as well our net working capital, which is increasing by €7.5 million. Free cash flow is also showing a nice increase of €16.6 million, as anticipated.
Our remaining two banking covenants were met, and as confirmed, we still have the availability of our credit line to use, should we need it.

Let’s now do a quick focus on the free cash flow chart, the one you know, and we always go back to. As shown on the graph, free cash flow started improving last year. And as anticipated, is increasing nicely this year to reach 6% of revenue. We expect this to continue improving in the coming years with the layering of the annual billings from the subscription contracts.

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. Thank you. Thank you, Cécile, and good evening, everyone. I’m actually extremely happy and proud of the results of last year, results that has been built by an extreme focus, energy and discipline of the Axway global team.

Our customers continue to be satisfied, renewed high rate and are expanding their usage. We are attracting new customers with historical use cases and new cases with our product and our regions all performing well and the distributed GMs model is working, allowing them to deploy the right product in their market. So a very good year, and we are ready for the future. But let’s look at how we did it.

The first slide and the first KPIs that we are following for years is on - our focus on customer success that continue to bear fruit. The measurement of the customer satisfaction that - and the experience of our customers reached a record high last year with 37 points of NPS, a level that we aim to sustain for the years to come. The overall renewal success rates remains high at 94%, and the average multiple - migration multiplier at 1.9 demonstrate the value of our new product and solution that our customers continue to adopt in the subscription model.

These three KPIs are clear indicators about the value that the customers sees in our product and services and their partnerships and their loyalty is the foundation of our success. However, we are not working only with our historical customers. The competitiveness of our product and the quality of the services also enable us to attract new customers.

Last year, more than 100 customers selected Axway as their partner with an average price - contract price close to 200k per customer that result in 15% of the booking value with new customers. Patrick mentioned the Amplify Marketplace - enterprise marketplace. We had 15 new customers that decided - selected Axway Amplify marketplace to monetize their digital assets.

One thing important that we need to mention there, it came from all the regions and all the verticals. So we had financial institution in the US, utilities in France or retail in South America that selected this product for their digital marketplace. We also had a large contract on our B2B solution in the US and in Europe.

On this one, we’ve seen a trend and customers modernizing their management of their EDI systems and selecting Axway managed services to do so.

And still on the new customers, we've seen with Axway financial hubs also selecting Axway financial hubs new customers coming from different industries that we had in the past. Industry and also, for example, the largest publicly held company, selected Axway financial hub to modernise their financial system, managing multiple finance back-end and adding to a fast close and financial consolidation.
The successful - with the success of 2023 came from all our geographies. In North America, we have several financial institutions selected Axway and came from - moved from competition to adopt the more secure and reliable MFT solution. And in South America, our strong leadership position in the API management is continue to be the fuel of the success of the region.

As you saw in the figures in the press release, EMEA had a very, very strong financial success last year, an amazing performance in the region in converting our customer base into subscription offering, adopting the new version and the new solution, but also being very successful in the region with new customers. While we, for example, are mainly known in Germany for our B2B solution, last year we had multiple great success with our MFT and API management, with verticals like automotive, where we're strong but also tech and pharma.

And finally, in APAC, we had a strong year, where we saw the shift of the customer demand really strong to move to Axway managed solutions. That impacted our revenue growth as we don't have the upfront benefit of our customer managed, but that created a nice growth of the ARR in the region.

The success coming not only from the region, but also have been built with the - across the product line, thanks to the new capabilities that each product line have delivered along the year. MFT new releases focusing on security, reliability and leverage the cloud technology that our customers are demanding.

The acquisition of AdValvas, mentioned by Patrick, brought a nice completion of the B2B offering to provide a wide range of capabilities to modernize the customers' B2B EDI system and help them to address the e-invoicing compliance regulation in Europe. And while we continue on the API management place to expand - to win and expand with our customers, 2023 we really saw the take-off of the Amplify enterprise marketplace for both governing the API across multiple platforms, but also to drive new businesses, a new business model monetizing the APIs and digital assets.

And finally, the very active year as well on the Axway Financial Accounting Hub, where we had several of our historical big European and French customers that move to the new offering subscription with multiple years contract. And the acquisition of Cycom was a very, very important add-on during the year.

Not only because we managed to sign the first contract we had on this product with BNP in France at the end of the year. But for the strategic partnership that we established with KPMG, thanks to this acquisition.

And finally, in closing, as you saw, product, all the regions. When I look ahead, I'm very, very optimistic and grateful to our customers, our partners and our employees for the past year and for the year to come. We have a strong team in every region with a clear focus with strong energy and executing with a strong discipline.

Each product line, led by general manager are staying very close to our customers to define and build the product that they need. And I have no doubt that our continuous focus with our customers for their success will continue to generate our success and our growth.

And with that, I'll hand it back to Patrick. Thank you.

**Patrick Donovan:** Thanks, Roland. Now I want to talk a little bit about our focus and ambition. And so we - as we’re ending this cycle of three years of a business plan, we wanted to go back to our purpose of Axway, Axway’s why?
And our purpose is to be an independent technology provider that provides sustainably growing technology provider that sustainably grows enduring value, based upon trust, or three constituents, our employees, customers and shareholders.

This purpose allows us to set the building blocks as a foundation for really what is a software house. And so with the purpose, we've been able to leverage that and build out the vision and mission of Axway as a software house, having the product portfolios of MFT, B2B, API management, our Financial Accounting Hub and Specialized Products that have their own unique purpose. And they have their goals and targets for the year.

We set the business plans for these different product lines, and we try to deliver the best value and service to the customer with those specific offerings. And so we continue to refine and look at these product lines and how we can best serve the customer with the products in them, the capabilities in them. And we also have an eye to the market, is there anything that could help grow with our external growth program in each of these product lines.

But as many of you have talked to me about over the years, there has already been a consolidation in a lot of our core product lines in the market. So there's not that many vendors left in each of our core activities. So as we set the budget and the plans for 2023 with this and then as we're looking forward to 2024, we set a new purpose and vision and mission with this software house approach and looked, okay, if we have an external growth target, we could look inside our core product lines but also look outside of our core product lines, as we are now running a successful software house.

And we're doing this to continue to grow enduring value for our three constituents. And we're tracking some internal measurements on how we're doing over the course of our journey such like NPS, which Roland mentioned. And if you remember, we actually started with the negative score, the score range goes negative 100 to positive 100. And at the 25 NPS score level, that started putting us in the top quartile of software companies in our space. So we reached that level in 2020, and we've continued to climb after that.

So I'm really pleased with all the hard work by the Axway team on continuing to improve the value we bring to our customers and the experience for our customers. And we still want to target to do better.

For our employees, we started tracking back in 2018, our employee engagement score. And the survey we use has a score level at 60, you have enough of the employees with you in your mission that you could achieve your goal. And we crossed that level again in 2020, but we've hit that high point this year as well with the feedback we've received from our employee group.

And for our shareholders, over the past five years, we've continued to build a very structured approach to get back to profitability levels that we would expect and really take the focus that we've had with the product lines, with the regions, with the teams and looked at ways we could continue to grow organically our business. We needed this financial health to take the next steps.

And so this year, 2023 has been a fantastic year. We've hit $63 million of profit and operating activities, which was a record for us. We had set the target to get to 20%. With the strong Q4 closings, we got there a little earlier than planned, but we're there now, and we don't anticipate looking back. We plan to stay at or slightly above the 20%.
And when you look at 2013 to 2017, that's the last five-year period that we were under the pure license model and operating as a software license company. So we've been able to improve our average growth rate over the five-year period by a percentage point, and we're able to improve our profitability through our focus in the last five years reaching this year's result. So really pleased with what we've been able to accomplish, the team has been able to accomplish through their hard work over the last five years, and especially over the last three years of our business plan to land exactly where we expected to land coming out of 2023.

So when we started the journey back in 2021, I was here in front of you talking about our medium term ambitions. We wanted to return to a profit of operating activity above 15% because if you remember on the last slide, we started about 8.6%, which was our low, and to gradually move towards 20%, which we're hitting as we come out of 2023. We wanted to sustainably increase our earnings per share over €1 per share.

And if you take out the non-cash write-off of goodwill in 2022, we achieved it in 2022, and we definitely hit it for 2023. So we've met that mid-term ambition as well.

But the thing that's always been hanging around my neck is the €500 million target. And let me revisit for a minute why that was important. We believe back at the IPO in 2011 that when we are doing about €200 million of revenue, my memory is a little bad that far back, but in 2011, when we did the roadshow, we talked about getting to €500 million of revenue and to have a strong profitability around 20% or better.

And at that time, we didn't have the financial strength to get there. And over the past years in our journey, that's always been our ambition, we've not given up, but you have to have the financial strength to be able to look in the market and execute on that program. So as we set 2023 in motion and kicked off the budget, we started looking in the market for external growth opportunities to build that pipeline of discussions that in 2024 or 2025, we could start looking how we deliver on this target, that's always been elusive and out there.

So as we look forward to this three-year business cycle, we wanted to maintain that profit operating activities at 20% and always looked on how we could improve. We expect the free cash flow to come back to us in 2024 and 2025, continuing to grow nicely back to normalized levels, as Cécile presented in her presentation, and we want to achieve the $500 million of annual revenue growth.

And so with that, we started on a journey of discussions externally, but we found a great opportunity within the Group.

So within the broader Sopra Steria Group, they have several software assets, and one of them was Sopra Banking Software. And we had this unique opportunity to look within a Group of companies and actually take the core software within Sopra Banking and to look to carve it out and to run it under the software house model that we've built.

So we've made - we've started exclusive discussions to acquire about 80% of Sopra Banking Software's business. This will allow the combined companies to be at scale and for both of them to run as a global software organization, transforming into a subscription model across both businesses. This will allow us to achieve about a total combined revenue of €650 million, well above the mid-term target ambition that I shared with you a few minutes ago.

And the unique thing about this opportunity is what I'm really excited about is both Axway and SBS share a large part of the DNA at their core. We have common values. We have a very common background, both
started within Sopra Steria, and we look at the world very similar, and they've been progressively building a software company, and this will help them accelerate on that ambition they have. And this is going to complete our journey to being a true enterprise software house at critical scale.

And so a few details on the transaction in SBS itself. So we intend to acquire most of Sopra Banking Software activities from Sopra Steria at an enterprise value of €330 million, which is on a revenue of about $340 million or about 80% of the current SBS perimeter. Tomorrow, Sopra Steria is going to announce the revenues for the broader Sopra Banking Software primer. But we're looking at those products that are software based that fit our model. And so we're going through the process of a carve out now. And over the next coming weeks, we’ll have the first view of the perfected carved out business where we can deeply analyze and go the next steps in our planning for the long term.

Let me give you a few key elements about Sopra Banking Software. They have about 650 customers worldwide. We're anticipating this 2023 carved out revenue to be somewhere around €340 million. They operate in about 80 countries and have about 3,500 employees, financial service experts that will come with the transaction and they have about 29 locations worldwide.

They have both a core Sopra Banking Software platform and the Sopra Financing platform that is about - if I remember correctly, about 75% on the core Sopra Banking solutions, with clients like BNP and Société Générale and Barclays and S&I. And on the Sopra Financing platform, they have about 25% of their revenues with customers like Santander and BMW and Mercedes and Xerox. Several of these are joint customers between the two companies.

And we'll look to build, as I mentioned before, a very robust enterprise software house. And we will look at the Axway side to provide the integration activities, and for Sopra Banking Software, SBS, to provide the banking applications. And we'll run each of those in the best way possible for the customer base that they will get the experience that we expect them to get for the long term.

This will be an enterprise software house at scale to ensure our long-term independent project that is the core of Axway's purpose. This will accelerate SBS’ activity and transition to subscription and product models and really allow them to run as a software company with the applications that come over. This is going to strengthen our Group’s firepower and visibility in the market, and we’re going to be able to leverage the 5,000 total employees and experts around the world.

And to give just a high-level view of the key financial elements, obviously, we just announced €319 million of Axway revenue and about €340 million of SBS revenue will be carved out. And so the combined entity after eliminating the revenue that we generate through an OEM relationship, will be somewhere around €650 million in total. And Axway's profit on that operating activity for 2023 is about 20%. And for SBS, it's in the mid-single digits. This is still being worked out on what activities come over into the carve out.

And so we estimate that for 2023, it'd be somewhere between 10% and 14% operating activities for the combined company. This will immediately double Axway's revenue in the market. And we are going to look - as I said, we’re going to not give up on our target to be over €500 million and over 20% profit on operating activities. And so we’re going to look to progressively get the Group to 15% to 20% back to 20% profit on operating activities over the mid-term.

And a few words on the transaction financing. So we've offered €330 million for the carved out assets of Sopra Banking Software. And we'll do this with a combined capital increase through a preferential
subscription rights offering of €130 million and €200 million in new debt facilities, which we already have a comfort letter from the banks for that balance.

So the financing is structured and available to us, and we just have to work through all the details of putting those credit facilities in place, putting together the prospectus and doing the rights offering. And Sopra GMT to ensure this transaction is successful, is becoming Axway’s referential shareholders. So they're going to make an offer to buy 3.6 million of the Axway shares from Sopra Steria Group, representing about 16.7% of Axway's capital, and the total combined block will not change, but GMT being able to buy these shares will allow Sopra Steria to receive the cash and pay down some of their debt from their acquisitions over the prior years and would allow GMT to now be able to subscribe to not only the rights offerings of both the Sopra Steria and GMT shares, but to secure and backstop the remaining of the rights issues that aren't picked up by the market.

And to do so, they're welcoming in one equity partner that will help secure the financing for this deal. So the time line and considerations we're looking at, we've done the announcement today to the market. We've started the consultation process with all the employee representative bodies and we'll be working with that over the coming months, providing them the information they need to review the project.

We're going to go through the regulatory approvals. We're not anticipating any challenges there, but we have to respect that step. We will be then signing the purchase agreement with a target to closing somewhere around the end of Q2 2024 or Q3 at the latest.

And so with that, George will go ahead and open it up to Q&A.

Questions and Answers

Operator: Thank you very much, Mr. Donovan. Ladies and gentlemen, as a reminder, you can ask a question by phone or by chat. By phone, please press star one on your telephone keypad to access the queue. By chat, you can click on the Ask-a-Question button on the bottom right corner of the player. We'll pause for just a moment for everyone to signal. Our first question is coming from Paternoster calling from Kepler Cheuvreux. Please go ahead.

Hugo Paternoster (Kepler Cheuvreux): Yes. Good evening. Can you hear me?

Patrick Donovan: Yes, we can hear you fine.

Hugo Paternoster: Very well. So my first question will be related to actually standalone and on your business, and mainly regarding your organic growth guidance for the next year. Just wonder what part of this is coming from price increases? It would be my first question. The second one would be to better understand the trend within maintenance, which has decreased a lot in 2023. How should we think about the trend in maintenance and potentially in subscription going forward? And I will have another one on the follow-up.

Patrick Donovan: Maybe, Roland, do you want to take both of those?

Roland Royer: I'll take them. And I'll start with the maintenance because we have that one every year since we - for the last three years, we entered this period of transitioning from the on-prem license, historical
license maintenance model to the subscription. We continue to take to convert the part of our customers from this offer and lease model to subscription.

So part of the subscription growth is actually also moving from maintenance to subscription. That’s what we are managing with the migration - average migration multiplier that I mentioned. Each time we are converting some customers. And in average, we are actually moving - when we are moving 100 of maintenance, it’s converted to 190 subscription annual contract. So that’s on the maintenance thing.

The - on your first point on the price increase, we actually – the growth is - we are using the increase for renewal and CPI or normal increase. We don’t have an aggressive plan to pressure our customers with increases. We are working on values. We are providing new capabilities, new products and the increase of the price is really limited to the inflation price that we apply sometimes on renewals.

Patrick Donovan: The increases we get through CPI or other indices that we’re allowed to put through in these contracts is, normally, these are negotiated contracts. It helps offset the attrition also we experienced in our customer base. And then we have upsell during the renewals as well. So it’s a mixing part of different things that gets you a growth. But we take all those assumptions and put them in the mixing part to get the forecasted revenue growth we have.

Hugo Paternoster: And within - a quick follow-up on the maintenance revenue. Do you estimate the level of maintenance revenue that is still to be migrated towards subscription, if it’s possible to have that all or a particular amount?

Roland Royer: So the estimation - we still have maintenance. We started three years ago with 130. We still have maintenance of €18 million revenue. We will see in the next years, still a decrease of maintenance as part of it will migrate. We have included in our model a percentage of that, that will be translated. We expect to continue to see a decrease of our maintenance, but an increase of our recurring revenue.

Hugo Paternoster: Okay.

Patrick Donovan: And we don’t know where we expect the floor value to be at this point.

Hugo Paternoster: Okay. And the other question that I have is on the M&A and mainly on SBS. Basically, SBS is coming from a low level of profitability. What would be your plan in turning around this activity? And if you could share with us some detail regarding the level of, I don’t know, subscription SaaS percentage of revenue they have there and maybe more details on the activity?

Patrick Donovan: Sure. Sopra Banking Software, if I remember right, it has about 50% of their revenue is coming from license and maintenance and about 20% from subscription, in the run of the subscription and the remaining 30% coming from services. And so that’s the mix of the revenues that’d be coming over.

Like I said, we’re still carving out, so I’m just going to give - approximately at this time, we’ll have come back to you with more details as the deal comes closer to closing. And they have mid-single digit profitability. Again, we’re finalizing that with the carve out.

But when we look at the achievements that we’ve been able to accomplish in Axway, when I’ve been meeting with the teams and going deep into details, I see the same opportunity that with focus on what they’re doing and what they’re building and how they sell, we will be able to gradually get them up to the same levels of profitability of Axway and not lose anything in the employee experience or the customer experience.
So the good thing is, we've learned this over five, six years in Axway and we've learned the things that work and don't work and we could bring this experience to helping the SBS team accelerate their journey and not make the same mistakes we made. And so we're looking to get them at a good level of profitability in Axway over the next three or four years after acquisition, though.

**Hugo Paternoster:** Okay, very clear. Thanks a lot.

**Operator:** Thank you, Mr Noster. Ladies and gentlemen, once again if you have any audio questions, please press star one on your telephone keypads. We'll now move to Mr. Erik Karlsson from CapeView Capital. Please go ahead.

**Erik Karlsson (CapeView Capital):** Yeah. Hi. Thanks first of all for taking my question. I'm interested in the growth profile of SBS. If you look back at the €340 million that you called out, and I know this is still preliminary. But has it grown faster? Is the business that has grown faster or slower than your current business, so to speak? And what do you see for the next few years? Is it more of a stable type business or is it a growth business? How would you characterize it? That would be helpful. Thank you.

**Patrick Donovan:** Sure. the integration markets we're in with our core products, MFT, B2B, what we do in API management and the Accounting Hub, we see - and we've shown with our history of organic growth every year of around 2%, 3%.

And so with SBS, their experience about 5% or 6% growth year-over-year from what we're estimating the carved out revenue will be, so slightly above the Axway run rate. And as they move to the subscription model, we'll be looking for ways to boost that as well.

One of the really exciting things of this acquisition that we didn't mention. We already have an OEM opportunity. We already have an OEM relationship with SBS. And so we are looking - we have our Accounting Hub product and our API management product in some of their offerings. We're looking to be able to boost their capabilities of their offerings to their clients. And so hopefully, that will further enrich what they can provide to their customers and also further enrich the wallet share. But right now, we're not forecasting that into the deal. We could do this just on the business model stand-alone.

**Erik Karlsson:** That's very helpful. Thank you. And sorry to ask a negative question, but big deals are always risky and we know you guys are very cautious. But what would you say is the biggest risk or a factor in this transaction?

**Patrick Donovan:** Well, we're taking on a higher debt level than we've had before. And so clearly, we're going to have to operate very efficiently and get to the targets as quick as possible that allows us to build up that free cash flow to where we could get our debt ratios down to manageable. We should be around - estimated around 3.5 leverage ratio, and I'd like to get that down in the shorter term.

**Erik Karlsson:** That's very helpful. And maybe one more question, a big acquisition and very exciting but it also requires focus. And you have quite a few business lines for being kind of a mid-sized software company. Is there anything that you would consider divesting in the rest of your business that doesn't really integrate with SBS that you think could provide you with greater focus going forward?

**Patrick Donovan:** So right now, what we've set up in 2022, we took the opportunity to divest the products that didn't fit in the portfolio going forward or that weren't meeting our objectives or delivering the value we expect to our customers. So we took 2022 to clean that up. And then now we've been looking at stabilising
our core portfolio for the market, and we think we have the right mix. And the way we’ve structured the leadership teams within the portfolio, we have a general manager, an organization that’s running a very efficient operation.

So there’s no reason for us to sell it, and that’s not really what we want to do. We’d rather be with the customer for the long term. And for us, getting rid of a product in our portfolio is quite disappointing at the failure. So we don’t want to do that to our customers. That’s not the goal of a model. We want to be with them for the long term.

And so we’ve got the right product portfolio model within Axway, and now we’ll be adding another product family coming from SBS, and we’ll be looking at the core products that they have to make sure that the ones that the customers are going to expect from them and the value proposition that they could bring that we’re going to keep and make is focused of their operations that we’ve been able to do in Axway.

The interesting thing you mentioned the focus or there’s something interesting about this opportunity because I’ve heard it before, and I’m very aware of it.

Moving into another product family outside of the integration core is a risk. I get that. But I see it as an opportunity because we’ve been working closely with the team at SBS for many years, and we have a really strong relationship with the team. And we’ve been building the companies in the approach very similar. So we have a good relationship already, and we will bring the good team that they have in leadership team and just look to help them achieve their goals even faster.

We’re not looking to take them over and crush their spirit or do anything like that. We want them to be in place running the organization that they expect to have and that we expect they could get to and to work behind them to help them any way possible. But on the Axway side, the message is clear. We have the budget for ’24. We have our objectives for ’24, we need to deliver them to make this possible. And so the message internal to the team is this should not be a distraction. We need to focus on the value we’re bringing to our customers, build the products they expect and continue delivering on the Axway side so that allows us to do this acquisition and to continue to look at acquisitions in the future.

Bringing in the partner - we’re an equity partner, so this is quite exciting for me because this brings in a partner that we could also work with within Axway as we look to what’s next. Because now we have two vectors here, banking applications and infrastructure technologies, integration technologies that we could look at in the market. And if we manage this well, this will give us great opportunities on both sides to take more steps in external growth.

**Erik Karlsson:** Thank you. That’s very helpful.

**Patrick Donovan:** Yeah.

**Operator:** Thank you, Mr. Karlsson. Our next question will be coming from Derric Marcon calling from Société Générale. Please go ahead sir.

**Patrick Donovan:** Hi, Derric.

**Derric Marcon (Société Générale):** Yeah. Good evening. Thank you very much for taking my question. I’ve got a couple of questions, to be honest, and very interesting deal tonight announced. The first question is on ARR. And correct me if I’m wrong, but I’ve got the feeling that the growth rate of ARR slowed down a bit
in Q4 compared to what we have seen over the first nine months. What’s the explanation behind that? That’s my first question.

The second question is on gross margin for your Axway managed services line. So the Software-as-a-Service - your Software-as-a-Service business. Can you update us on where you are today and the progress that remains to be done to get a gross margin higher than what you had when you started this journey?

My third question is on the synergy that you see with SBS because I understand that putting all these strengths under the same roof will probably help the company to maximize the commercial synergy and so on. But if I look on the negative side, SBS is, let’s say, Europe-centric. You have a global organization. SBS is tightly linked to Sopra Steria services business, which is not what you do. So if you can do the puts and takes here, it would be very helpful.

And my last question on the pipeline, the usual one for a software company. How do you see the year 2024 in terms of pipeline? Thank you.

Patrick Donovan: So I’ll let Cécile take the first two questions. I’ll talk about your third. And Roland, you can get the pipeline.

Cécile Allmacher: So on the ARR, as you saw in the press release, we changed the methodology - the calculation methodology and we reacted in terms of restatement for previous year. What happened is that previously, we were like running a very manual calculation internally because we didn’t have the tooling to be able to follow the right way.

And now that we have that tooling, we have switched to that automated model, meaning that we are able to capture more detailed information, and that has an impact on the way we are capturing, especially the Axway managed part. Previously, we were computing AR based on revenue. So meaning all the invoices raised on a given month were annualized.

Now we are basing our calculation on booking so that you have a discrepancy on the Axway managed side, which was not captured in the previous model and is captured in the current one. So that might explain the fact that the growth is not perhaps as high as you would have expected because that switch off model is having this impact on our calculation, and you can have in the Axway managed recognition some discrepancy in terms of timing of having it included in the ARR.

On the second question on the margin on the Axway managed offer, so the Axway managed offer is - usually, we have a gross margin around 70% and we are trying to optimize that every year by improving technically our products, meaning that we are going to need less space in terms of providers like AWS or Azure. And this helps us optimize at the end of the day, the costs that will be included in this Axway managed services in the Axway managed offer.

Patrick Donovan: On the synergies and the different questions asked around the synergies. You asked a bit about the risk on the European-centric versus our global-centric nature. Actually, they’re quite strong in a specialised product in the US, as well, they have a good presence in the UK and all throughout Europe. So it’s not that far off of our model.

When you’re looking at SBS as it sits with inside Sopra Steria, they do roughly about €450 million of revenue. I didn’t get a chance to read the press release that went out for Sopra Steria, but they do about €450 million
of revenue, and we’re carving out €340 million. We’re carving out the software-related activity, and you had talked about the risk of being so closely linked to Sopra Steria services.

Well, that roughly €110 million of revenue gap is what’s going to be remaining with Sopra Steria that’s going to be more service-style revenue, building a custom project for a big bank is really what Sopra Steria does well and won’t be coming with the project that will be carved out and left behind in the software assets and the software business will be coming over to the Axway Group.

What we’re excited about and what we’re looking forward to, we will now be able to run pure software companies in the Group, SBS and Axway, and develop on our already strong partnership with Sopra Steria. And we have - like I said before, we have OEM technologies in Sopra Banking. We’ll look to expand that.

Then as a Group, we’re starting on the framework of how we are going to work together with Sopra Steria helping - they will help us with what they do really well in services. And we will be looking for the combined Group to bring in the software expertise to the customer. So that’s how we’re looking at this tight length decoupling.

So you’re absolutely correct. Sopra Banking has had that tight link and especially in the financial services vertical of their business. The services will remain, the software will come over and we’ll continue having a very strong partnership going together to market, in many cases, to the large banks in Europe. So that’s how we’ll maintain that synergy and the strength and not lose it when we do the carve out.

I think you talked about also cost synergies that - to be determined. We need to identify the carved out parameter perfectly, and then we could look at how we could look for operating efficiencies in the model going forward. But it’s not unlike the journey we saw in Axway. Quite frankly, as we started both in the services business, and we both came out of the - coming out of the same service business, we know the triggers that will allow us to bring the focus to driving a pure software company. And so that’s how we’re going to get the synergies down the road.

Derric Marcon: But Patrick, will you try to open the list of partners for Sopra core banking to other names? Or do you think you will still rely a lot on Sopra Steria services activity?

Patrick Donovan: That’s not unlike the Axway story. Again, we have very similar DNA and background. So Axway started out trying to force deals with Sopra Steria. But the reality in the market, a customer may want our tech but may want multiple bids from service providers. And so we found a really good governance working together with Sopra Steria, where the goal of the combined Group is to win the customer business. That’s the ultimate goal.

And so if the customer has a preference in working with a different partner, we work together in the field level with the management teams to make sure someone wins the account, clearly, we want to win with Sopra Steria because that’s better for the Group. But if working with another partner is what it takes to win the account, we’ve reached the way to govern that. So we’re not hurting one side of the business or the other.

And we look forward to working with Cyril Malargé and his team at Sopra Steria and putting in place the same type of structure so that the Group is winning the account and has the best opportunity to win in the market. So we actually were quite collaboratively on that point.

Derric Marcon: Very clear.
**Patrick Donovan:** Pipeline?

**Roland Royer:** I'll take that.

**Patrick Donovan:** Yeah, go on.

**Roland Royer:** On pipeline, very, very good question. Very important question, as you said, for a software company. That's actually a KPI that with the regional GMs that are looking at the trend that we are tracking very closely in the second half actually to see and to be able to predict and build our budget plan based on what we are able to build during the second half.

And I mentioned different trends that we've seen. I can tell you that we had a better trend of creating pipeline while we were closing a very, very good year last year, and our pipeline based on product line region, continue to maintain a good level for building the right - building the plan that we've got.

How do we see that and the offerings? And I mentioned on the MFT. Pipeline grows because we continue to see actually customers migrating from competitor to us due to the security concern that they have on MFT. The marketplace, we mentioned the number of deals that we had and the growth of this business is actually the pipeline that we built was actually also a significant ramp-up of the pipeline, and I expect to see more successes this year than last on this one.

And I mentioned they are same thing. Same thing with the partnership with a new product and the new way we are positioning the offer and addressing new customers, and new verticals of the offering. The pipeline in Q3, Q4 continue to grow and give me, as I said, a good input for the success of 2024 with our growth.

**Derric Marcon:** Can I have just one very quick question on the ACV, new ACV? Maybe you changed here also the methodology because it seems to me that Q4 - the growth in Q4, if I compare Q4 2023 to Q4 2022, it seems a bit light compared to what we have seen over the first nine months.

**Roland Royer:** There is the new ACV and there's the, I don't know – let's assume I have a different way to answer. But on the ACV was a slight growth compared to the last year. We actually had also lots of long-term and multi years customers. The duration of - the average duration of some of the deals was increased.

So generating upfront, generating more revenue, but with an ACV slightly - with a slighter increase.

**Patrick Donovan:** And we had a fantastic Q4 last year.

**Roland Royer:** And - well, if we talked about the ACV and that's so back to the ARR growth that you asked at the beginning, the comparison of ARR Q4 compared to last year, last year was a great year but a fantastic Q4, a really, really strong Q4. This year, we had four very, very good and very strong quarters. So the Q4 compared to Q4 last year was slower.

**Patrick Donovan:** We'd much rather prefer this year than last year, weighting to the Q4 is a little stressfull. So this year, it looks like we'll have a more stable year-over-year as well or quarter-over-quarter.

**Derric Marcon:** Very clear. Thank you.

**Operator:** Thank you very much, Mr. Marcon. We now have a follow-up question from Mr Erik Karlsson calling from CapeView Capital. Please go ahead sir. Your line is open.

**Erik Karlsson:** Yeah. Thanks for taking the question. Just you talked very positively about the pipeline and the business prospects for 2024, but the organic growth guidance is only 1% to 3%, sort of inflation is 3%
plus in the world right now. Why can't you generate - and you did almost 6% organic growth last year. Why couldn't you generate more than 3% organic growth in 2024 as well?

**Patrick Donovan:** So we have been going through the migrations, and this migration from maintenance to subscription, and that allows us to have pretty strong uplifts in those movements until we've been able to generate a strong growth. When we look at the migration movement, Europe has had a majority of the migration opportunities done.

US and the other markets still have some opportunities, but those are going to slow down. And when we look at our long term, the organic growth has been averaging around 2%. So we're being a little cautious to make sure that we have a target that's achievable.

**Roland Royer:** And the trend that I mentioned during the presentation as well on the demand of customers for Axway managed, which is increasing, which doesn't generate the same impact on the upfront revenue. So we will see good bookings. We will see good ARR. We will see that we will maybe see a slower revenue impact on the short term.

**Patrick Donovan:** That impact - yes, I forgot that very important point. The move to Axway managed is strong, and we see it more and more in the market. Our customers have adopted the cloud very slowly, just - the larger enterprises with systems that are critical to their operations. And so they've been a little bit more cautious than, say, a sales database or something that's more not as technically precise in the backbone of the business.

And so our customers running the MFT or EDI have been slower to adopt the cloud. And even when they do, often they will take the customer manage and run it in their cloud. But bit by bit, we're seeing more and more Axway managed opportunities while the Axway managed opportunities and relative booking terms will provide us lower revenue in the beginning, which will put downward pressure on our organic growth, but build stability in our model for the long term. And so we are anticipating that to start being a trend.

**Erik Karlsson:** Okay, thank you.

**Operator:** Thank you, Mr Karlsson. Ladies and gentlemen, we do not have any questions by phone at the moment. I will now hand the call over to Mr Arthur Carli, for any questions by chat. Please go ahead.

**Arthur Carli:** So we've had a few questions on the chat about acquisition rationale and potential synergy, but I think you've covered that, Patrick. Maybe one that is not answered yet. What does mid-term means to achieve the 15% to 20% profit on operating activities you've been talking about?

**Patrick Donovan:** Sure. I mentioned earlier in one of my answers about three or four years is the midterm. Really, though, when we've looked at the pro forma type carve out accounts that were done to evaluate the size of the carve out that we'd be looking at, we got a feeling and we got the view of where we could work and bring focus and where we could look for operating efficiencies.

Shortly, we will have the carved out financials, and we can actually start doing the deep due diligence to really get a good sense. And when we have those, we'll come back and go into more detail on the transaction and give a little better guidance. So it's a bit early right now to talk about that. We've been working with a very small team evaluating if this is even possible coming up with the conclusion that was launching it, seeing the excitement really on our side of the opportunity work with a very similarly cultured organisation that we could see the opportunities in front of us working together and working with Sopra
going forward to really let all the companies unlock the growth and value and the opportunity in front of them.

So it's a pretty exciting transaction, not only for us but for SBS and Sopra Steria. And we're happy to have a strong partner in GMT to be able to allow us to make this happen.

**Arthur Carli:** That's all on the chat. Thank you.

**Patrick Donovan:** Okay. We've run over a few minutes on this, which I kind of expected today. But thank you all for joining us, and we'll be coming back to you over the quarters and throughout the year with more information as we have it and we can give you better info.

We'll probably look forward to doing a Capital Markets Day after the transaction closing to really go deeply into the model and what you could expect going forward of the combined companies. Thank you all for joining.

[END OF TRANSCRIPT]