



2020 Full-Year Results

Transcript of the Analyst Conference

Wednesday, 24th February 2021

SLIDE 2**Arthur Carli - Head, Investor Relations**

Hello, everyone. Welcome to Axway 2020 Full-Year Results conference. My name is Arthur Carli, and I am in charge of Investor Relations for the Group. As you will discover in a few seconds, due to travel restrictions, Patrick Donovan and Roland Royer will be connected today from Axway HQ in Phoenix, Arizona. Their presentation should last about 40 minutes, and I will be back with you right after for our traditional Q&A session. As usual, I would like to point out that this presentation contains forward-looking statements, and that all documents related to Axway results announcements are available on our website investor.Axway.com. With that, I hand over to our CEO, Patrick Donovan. Patrick, can you hear us well?

SLIDE 3**Patrick Donovan - Chief Executive Officer, Axway****Opening Remarks**

Yes, I can, Arthur. Thanks for the introduction. As Arthur mentioned, unfortunately Roland and I could not make it to Paris for the Analyst Conference and are with you virtually from our new headquarters here in Phoenix, Arizona. We look forward to the next time we could be with you in person, but for today we will be with you virtually. And before we jump into our 2020 Full-Year Results, for the employees on the line, I just want to say a quick thank you as 2020, and rolling into 2021, has been quite a difficult year. And I have been amazed every day with our employees' ability to move to a remote situation and handle everything thrown at them this year and starting in 2021 as well. And hopefully, we can go back to a normal situation for them.

So, today, on the agenda, I will start out updating you all on the last three years' transformation and our success in accomplishing our goals in our new business model. And Roland will join and talk about the hyper focus we have on our customers not only for the last three years but going forward in what we do. And then I will cover the 2020 financials that we just launched the press release a few hours ago. And I will give you some 2021 targets and future ambitions guidance, as well as opening it up at the end with our – the Q&A session. So, let us go ahead and jump in.

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So, really quickly before we get into detail, Axway sort of celebrated a very important milestone. This January, Axway celebrated 20 years of operations. Initially, we were a subsidiary of the Sopra Group until our IPO in 2011. During all those years, we have been happy to be able to serve our customers well and provide them an enormous amount of value, and we look forward to doing it for the next 20 years as well. So, that is why we took on this ambitious transformation three years ago, because as you can see, we started maturing and flattening the revenue curve. We had to update our business model, our visions and do a lot of work internally, so we get back to growth and get back to margin and serve our customers well for the coming future.

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So, let us dive into what we've done over the last three years and the success we've had in this transformation.

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So, in 2018, we started the three-year journey where we wanted to do things like upgrade our product offering. We wanted to redefine our offering vision, getting closer to our customers, and moving to a more recurrent revenue model – a subscription model. This required us to do a lot of internal things, not only invest in our products, but to strengthen our management teams or leadership teams or go-to-market teams. We needed to improve our employee engagement to be aligned with the vision and the strategy of their company, because these employees have to increase the closeness with our customers because a subscription model is one which customer proximity is key. We also needed to improve our branding or our overall awareness. We have been doing a lot of great things within Axway, but we were not very loud about that, so we have been taking on that task as well.

So, in 2018, we launched a hybrid integration platform vision, and we branded it Axway. We set forth some ambitions, we called them, all around employee engagement, customer satisfactions and financial targets and leadership in the hybrid integration platform space. And I am happy to report that over these last three years, we've been successful in meeting all these ambitions. And we have really set the foundation for the next coming years.

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So, a key part of this transformation was to invest quite a bit in our product and our go-to-market activities. We had to, like I said, change some of the leadership, change some of the momentum to really come out of this three-year period ready to attack the market. This investment was made while we were also going to a subscription business model and changing the way we contracted it and engaged with our customers. So, it put good pressure – quite a bit of pressure on our profit – profits. So, as you all experienced and saw with us, in 2019 we had a low point, and we were projecting to come out of it in 2020 until clearly COVID hit. But I am pleased to share that even with COVID and the crisis, we were able to react quite quickly, still meet our main objectives. And we were able to grow our top line organically 0.5% to €297.2 million. We had about a €4 million currency impact, or else we would have been above the figure for last year's – well, in total growth. And we were able to deliver an improving profit, giving back above the 10% line, so we finished at 10.4% or €30.8 million, up 19% from last year. And we also were able to really accelerate and move forward with our subscription business model as we could see in our subscription revenue growth, our ACV growth, and our strong signature growth.

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So, going a little deeper in the subscription business model, we were pushing to have subscription revenue versus our traditional licence revenue. And, as we moved forward, we were not only getting this demand from our customer base, but we also took internally a project to be ready to handle this demand and to be closer with the customer. So, why say that?

The licence model, as you remember, was one where you would do a big sale cycle to get the licence sale, you would start a service project to help install your software and then you would move into more of a customer-management, customer-support model. And then, you would only really re-engage if there is another sales opportunity or something along the way.

Under a subscription model, you have to constantly be engaged with the customers because this contract will come up every two, three, four, five years to renew. And they have to see value in that subscription, or else they won't renew. And so, you are constantly having to be close to your customers, proving the value, proving the value of your technology and your people every day. And we have built the company to do that, and we are starting to see the result of the efforts by the left chart, which is our growing subscription revenue versus licence. But more importantly, on the right-hand side, you see a chart which in red is the subscription revenue, blue is the maintenance revenue. So, combined, that is what I call our recurrent base of revenue, which has moved from the mid-50% in 2016 all the way to 79% of our revenues in 2020. And we look for that to continue to grow as the base of our revenue as we move into 2021 and beyond.

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So, to do this and accomplish this for our customers, we have to have the team of Axway with us, the employees with us. When we started this journey in 2018, we were really, as you could see on the employee engagement score, at below the threshold of 60% that we were targeting; we were down just slightly below 50%. In this survey that we utilised, having a score of 60% is the target to have all your employees with you, understanding your strategy and vision. And the momentum is there to make that journey, your strategy successful.

So, we took a lot of initiatives within Axway, at the leadership team and beyond, in opening up many new communication channels. We started the survey process annually to get the employee feedback, and then more importantly it is hearing their voice and taking their actions on these concerns, because we really wanted to make Axway the place for us to be. We wanted it to be a place that attracts plus recruits, and keeps employees engaged and with us for the long term.

And you can see this effort paid off. Year over year, we increased our employee engagement, almost hitting the 60% in 2019, and we far surpassed it this year going up 19% in 2020 to score 69%. We look to keep that and build on that for the future. This has a knock-on effect of also decreasing your attrition, and so that keeps the mindshare in your company so that your employees have the knowledge of the customers and the technology to be able to move quickly with them.

So, as CEO of Axway, I believe we, as a public company, have three constituents that we're serving every day: our employees, which I'm happy to share what we've done with our employees over the last three years; our customers, which Roland will cover later in his presentation, in which we've made fantastic

improvement and hit our vision as well; and our shareholders, which hopefully all of you have seen the nice improvement we've had in the market over the past year.

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Another key point of our ambitions of our three-year journey was the vision of our technology, and that was around a hybrid integration platform. So, when we started even talking about a platform back in 2015, I believe it was, we had no clear path of how our customer was going to build it, what technologies they would choose; we just had an idea of where they would go.

And so, we built a platform, and I shared with you in 2018 the hybrid integration platform that we had in mind at the time, which contained our API offering, our MFT offering, our B2B, as well as several other core offerings, as Axway is all a core part of this platform. So then over the past three years, we have been working with our customers, seeing how they've built the platform, seeing how the technology has evolved. And the analysts have evolved also, how they talk about the platform.

So, today, as we sit here today, a hybrid integration platform is really an integration platform built on that API management layer which is at the heart of this platform, connecting your heritage assets either on premise or in the cloud, and adding some value-added services on top, all while doing this in a way to control and govern and provide security around this integration platform, so the teams can move faster, get data and use it in very innovative and quick ways to build brilliant consumer experiences. So, this is a long way to say that the platform we envisioned when we started this journey has really taken focus. We have not changed the vision of Axway. We believe customers are going to build and go towards a hyper integration platform.

But with our technologies back in-house, we see the API management layer becoming the absolute core part of this platform with some surrounding assets around it. And technologies like our B2B and MFT offerings, they will be utilised by the platform and they will be providing data that flows into the platform, but they will not be at its heart. And this is what we see our customers doing and building. So, when we say – and we will brand very clearly coming out this year – Amplify; Amplify will be at its heart – or API management layer.

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So, over the last years, we have moved from the broad vision to the very focused vision now, which is, at its heart, like I said, our API management layer. It is going to be able to be one place where you could see all the APIs that are being exposed by your company in a catalogue, and this includes the APIs not only of our gateway, but other gateways that a company may have. As Roland will cover in his presentation, we are seeing all the customers have multiple API solutions. So, we are able, with our amplified platform, to utilise all this data, all these APIs in a way that we can group them together to help our customers gain control, speed, security and to expose those to use them in very new ways.

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So, at its heart, the platform is reliant on an API management layer. Our team took enormous effort over the last couple of years working on the product, our vision, our deliverables and working with the analysts to get them to help understand what we are doing with our technology and where we are trying to take it. And I am extremely pleased that at the end of 2020, we were able to report leadership in both the Forrester Wave, which was the first time for us, and the Forrester Way, which was the first time for us, and the Gartner Magic Quadrant for API Full Life Cycle API Management. We were only one of four vendors to achieve this dual ranking, and this was a huge accomplishment by our teams to achieve this over this last several years.

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So, with this Amplify platform, we are ready to Open Everything for our customers. Over the last 20 years, I have said we've been able to help our customers move and integrate ever securely. And now, we are ready to take the journey with our customers, to Open Everything and utilise these data flows in new and beneficial ways.

So, with that, I will now turn over to Roland to go deeper into our focus on our customers over these past years and in the future. Roland?

SLIDE 14**Roland Royer - Chief Customer Officer, Axway**

Thank you. Thank you, Patrick. And good afternoon, good morning, everyone. Yes, today, I will take a few minutes to share with all of you some of the key successes of the year. And to do that, I will use a few indicators illustrating the performance of the transformation of our business and operation from the year out from last year and the year to come.

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So, let me start first with the customer. And I have been talking about the importance of customers, their experience, their success, for years. And you may remember me saying a great technology alone is not enough. And over the last few years, we have been driving several initiatives to improve our customers' overall experience. In 2021, we moved fully virtual, we even get closer to our customers, working closer with them to improve the product and build a solution that they need and love. And all the efforts to focus on getting closer to the customer and building a fully customer-centric culture across the whole organisation resulted with an NPS score – the Net Promoter Score – of 25, the continuous integration of 38 points since we kicked off the programme in the middle of 2017.

And I am extremely proud of the tremendous results which fully reflect who we are as a company and the essence of our culture. And this 25 mark on Net Promoter Score put us on the top quartile of the B2B

software enterprise company in terms of overall NPS score. The NPS is really an indicator of the trust and our loyalty, and that is why we started to implement that in 2017-18.

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The trust relationship that we build over the years with our customers, combined with the value of the different solutions of our portfolio, is clearly reflected in the year results. As you can see on the left, 92% of the signature value of our customer – has been made on our customer base.

And on the right side, you see that the renewal success rates of all the recruitment revenue, that Patrick mentioned before, also has about 90%. These two critical metrics really were critical in the year like the one that we had for the success of the year. But these two critical metrics put us in a very, very good position for the years ahead of us, as we are executing a land and expand model in the subscription world.

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And talking deeper on the subscription, we started this transition to subscription a couple of years ago. And we started with creating new offerings with a conception-based model. And last year, we saw a rapid adoption of this model across the globe and across all industries, which was different than what we see in the previous years.

And in the B2B world, we need to consider the full chain. Our customers are actually increasingly providing services as a subscription to their customers. And by following the same model, we are better meeting our customers' expectation and thus becoming more competitive in the market.

We have seen this year several of our key accounts transitioning from this perpetual model to on prime subscription, and we're also seeing our customers, and more and more customers, asking us to manage their solution – their MFT or B2B solution – as a service in the cloud. What was completely impossible to have as a discussion with a bank or financial institution a couple of years back is now part of every discussion that we have with them. So, in 2020, we achieve an important milestone in this transition of subscription with 80% – close to 80% – 79% of our signature booking value made on the subscription model.

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I talked about the focus on customers first, I talked about the transition to the subscription. And although I said great technology alone is not enough, great technology is still table stakes. And over the last year, we have seen a great success with our Amplify, our API management platform, with a signature growth of 30% being the double of the signature growth that we had for the full Axway portfolio.

We have seen our customers significantly increase the conception of the platform, either because they were actually deploying and adding better growth and growth of the usage, because they were deploying some new services to their customers; or either because they were now deploying and using the APIs and the API platform internally after adding usage for external APIs only or vice versa.

And we have mentioned here on the slide, we have got four API Amplify signature above the 1 million mark, two of them from North America where – and I am happy to report that we have seen a strong high growth of the signature of the Amplify in this market, so overall putting the Amplify – the API platform management really about a quarter of our signature metrics for last year.

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The last indicator that I would like to share and can elaborate on with you is the one with our partners as our partners and the collaboration with our partners is critical as we are to scale. And if you see on the left part of the slide, since 2018, we have seen an acceleration of us working with partners. And we almost doubled the percentage of our bookings that is related to our partner engagement.

We have got partners worldwide, and we have got partners covering the full Axway portfolio. However, you can see that because part of the revenue generated with partners is also on Amplify. One specific success that we are showing you: the success that we have had with the programme that we named API Boost with Sopra Steria in France and in Europe, helping them to modernise their customers' infrastructure in resulting with a nice increase of our combined booking year-over-year by a more than 2 times ratio.

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So, 2020 will remain in everybody's memory. And from a business perspective, all industry were impacted at greater or lesser degrees. However, I believe that the biggest impact is yet to come, and it will be concerning how the business is conducted in the future. And according to McKinsey on the slide, you see that companies have accelerated their digitalisation of their customer interaction and supply chain interaction by three to four years during this period. And we will see them, they will continue to grow significantly – the share of digitally-enabled products or services in their portfolio.

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And APIs is at the core of this transformation –of this business, where the exponential usage, growth of the usage, the volume, the use cases, and the customer experience. Significant research said that more than 50% of the enterprise market is now operating multiple API gateways. And you can see on the slide there that IDC is even seeing a far higher percentage in Europe. This proliferation or sprawls of APIs and the associated gateways provide a strong opportunity for us in Axway with Amplify, and most likely managing the gateways and from multiple environments and multiple vendors. As Amplify increase, the government's capabilities for the IT department will also increase the developer productivity through API discovery or API re-use.

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And as we saw from McKinsey and others, and Patrick alluded to as well, the dynamics of the Axway market are changing. And as we built our strategy for the next years, in the end we built this 'One Game. Two Plays' that we are using internally to embrace each change. And our core portfolio, MFT and B2B offering, they are critical for our customers and absolutely critical to Axway. Other – why we expect fewer on number of new – net new customers in these areas, we have a strong expectation for all current customers' contribution to our deals flow and our turnover.

Our Amplify platform on the other side, the API management related offering, represent the new customers acquisition potential for Axway. And these new customers are extremely critical for us, as we have been so effective in retaining and expanding our customers over the long period of time.

So, as such we have already practically adjusted our go-to-market to align with these different needs and momentum. For our core portfolio, we are investing deeply in our key accounts, strengthening the relationship and the alignment between customers' requirements and product rollout; and ensuring that we are their MFT and their B2B provider of choice for the next decade.

On the Amplify side, we accelerated our efforts in products and product management, in marketing, in partners themselves to ensure that we are adding new customers at the rates that match our leadership position.

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So Axway has been recognised for years as a leader in our market. However, in the past, we had not reached parity in the awareness with some of our competitors. And as such, we change many of our marketing approaches to match the needs of our buyers' journey and to establish ourselves as a sort of leadership position.

This includes, first, converting our marketing to be far more digital and to develop ourselves as a source of quality insight in areas far beyond the historical technical leadership that we were in. For example, you will notice on the bottom of this slide a few logos like the Catalysts, the group that I introduced to you a bit more than a year ago, of experienced entrepreneurs or academics working with our customers to – working on a digital transformation. But also, you can see Transform It Forward or Mr. Open Banking, two podcasts with global leaders about the reality of transformation and the development of new markets. All of these efforts and all of these new marketing missions are designated to place Axway into consideration for much more opportunities.

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So, our path to growth, and our priority remains clear. It is all about maintaining the trust with our customers, ensuring that we continue to deliver value and innovation to help them getting to their desired business outcome for the next 20 years.

And with that in mind, we have organised ourselves; we have developed a highly differentiated set of offerings that positions us well as we move into the next step of our journey.

And with that I thank you all, and I hand it over Patrick. Thank you.

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Patrick Donovan - Chief Executive Officer, Axway

2020 Financial Results

Thanks, Roland. I will go into a quick note on our 2020 financial results that we just announced in our press release today.

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Going into our income statement, for 2020 we finished revenue at €297.2 million, which was a growth of 0.5% organically over 2019, taking into account the €4 million foreign currency hit primarily coming from the Brazilian real and the US dollar's impact in the financial statements. Our cost of sales and gross profit remained stable just above 70% over the two periods, and our operating expenses dropped by about €7 million. Our goal over 2020, as we started the year before the COVID impact, was to keep our R&D and GNA flat, which I am happy to report here that we did; and to anticipate a growth in our sales and marketing. But that was quite a challenge this year because we were unable to travel; we could not run the tradeshow and the live events to try to gain the new customers in the way we had in the past. And we also took about a €3 million or so hit from the foreign currency, from the impact of the cost – on the cost side of the real and the dollar as well. So, our sales and marketing costs had dropped, but we did have some success moving quite quickly to a virtual way to try to engage some new customers and prospects.

Overall, our profit on activities – operating activities – finished at 10.4% of our revenues, up from the 8.6% in the prior year, or €31 million in total. Our net profit finished at €8.5 million of €0.40 a share versus the €5.4 million or €0.25 per share in the prior year.

Going a little further into our revenues, our licence revenue remained under pressure all year as our customers is preferring and moving quickly to the subscription business model.

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Our licence revenue finished at €25.8 million, down 50.6%, which was offset by the strong growth in subscription revenue finishing 65.8% over last year at €97.3 million, which included the upfront portion of the subscription contracts amounting to €44 million within that €97 million.

Our maintenance revenue dropped 4.5% to €138.2 million, which was fairly well expected as we have the traditional attrition of around 8%, we get per year in the maintenance space. And then we had dropping licence revenue year over year, so mathematically this would cause the maintenance to drop. And we had some migrations. We started seeing migrations from maintenance accounts to subscription as the customers were engaging us in up-sales, cross-sales or additional needs coming from the platform or the subscription contract model.

Services dropped with a heavy hit, as I mentioned in the first half of the presentation of the COVID, dropping 10.6% finishing at €36.0 million a year, when we had expected services revenues to be flat or slightly growing for the year.

Overall, I am really pleased to see that, as I shared with you before, our recurrent business revenue model has now taken up 79% of our total revenue growth, up from the 69% in the prior year.

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As you can see here, licence revenue was consistently dropping quarter over quarter when compared to the prior year as the move to subscription was happening. And as I mentioned, we had dropped the maintenance 4.5% but on the opposite side, we had our subscription business quickly accelerate.

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So, as this graph shows in red, we had the new ACV contracts improving when compared to the prior half kind of consistently, and the revenue also growing consistently as our customers continued to adopt the subscription business model. And in early 2020, starting maybe at the end of 2019, we started seeing the customers engaging with us as well to convert from a traditional licence and maintenance model into a subscription, which we will continue to see over the many years to come.

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So, with that, our subscription revenue offset the drop in licence revenue quarter over quarter. Our subscription revenue grew nicely every quarter throughout the year consistently.

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Our signature metric, which is really a measurement – if you remember when I created this – a measurement to track the sales effectiveness in doing contracts with the customers, grew 15% for the year, quite strongly on the back of the strong ACV growth and strong business, as Roland covered, with our existing customer base.

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A few words on our balance sheet. Our cash and cash equivalents finished at €16 million with a net debt of €24 million. Our DSOs went up to 95 days as we have added more subscription contracts which build annually versus all upfront. And our current deferred revenues finished at €54.7 million, while our assets and equity were quite stable with last year.

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Looking at our cash flows, our free cash flow was relatively flat at negative €0.7 million for the year compared to €0.6 million for the prior year. But you will see our free cash flow now start to improve as these annual subscription billings from the subscription contracts start to layer on top of each other and start improving or changing in their working capital requirements, getting back towards, over the long term, the roughly \$20 million-plus we were doing in free cash flow consistently.

All of our banking covenants remained quite in line with the covenants within the lines, and we have the full capacity of the line available to us.

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So, looking forward to 2021 and our future ambitions, what we have spent, the last several months – really building the strategy for the next three years and our business plan for our next three years. This strategy is not a revolution, but really an evolution of the strong foundation that we built over the past three years. And we have invested heavily in our technologies and our product, and our product management and R&D teams over the past three years, to get the portfolio and offering where it needs to be, to offer our customers the Amplify experience and also continue with our strength and our legacy technologies that provide value every day, such as MFT and B2B. So, we have done a good amount of product investment.

And I have had Roland share a lot of our strategy here today, which is around our go-to-market and really attacking the market with Two Plays, with One Game; one ambition as Axway, growing revenue and improving margin. But we are now hyper focused to push growth with the Amplify platform, and we are organising our sales and go-to-marketplace around a strong growing market that should be growing double digits year after year; and having to invest in that go-to-market and invest in the product continuously to really find and differentiate ourselves from our competitors. And it is a highly competitive market.

And on the other side, we have a fantastic portfolio of products that are very – achieve this goal. They are already market-leading, they're already differentiated. We provide strong enterprise level value with our MFT, AI Suite, B2B, Validation Authority and many other products. And these we will run as a very strong business aligning very tightly with our customers, the customer roadmaps, what they expect from us as a vendor, which is all around security, quality of our products, easy to use, easy to operate. And we will run a very successful profitable business with our core base of assets.

So, the two combined, if we execute strongly and well, will deliver top line revenue growth and improving margin for the years to come.

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But with that, we have a limited visibility right now, as we speak, coming from the COVID crisis and the ability of our sales teams and our marketing teams to get out really attack the market. We have learnt fantastic things about how to do this virtually, but we still have to get out there and get in front of people. We look forward to hopefully doing that later in the year as the situation improves, but we still do not know

if there's going to be a rolling economic impact behind this. So, we have limited visibility on the impact to our customers over the next year or two, of the coronavirus situation.

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But with that, for 2021 what we currently see is a targeted organic revenue growth between 2% and 4%, and a profit on operating activities between 11% and 13% of our revenue.

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And for the mid-term ambitions, we will continue to remain on trying to target, over the next three or five years, a top line revenue of €500 million, which will clearly require some inorganic growth through M&A and some organic growth, obviously. And we want to return the operating margin on business activities to rates above 15% and gradually move towards 20%, all of this to hopefully produce an earnings per share for shareholders of above €1.00 per share as quick as possible.

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Over the coming quarters, we have several communication opportunities with you, and events. We have the traditional publication of our Q1 revenues in April, we will have our shareholder meeting at the – towards the end of May, and we will come back to you at the end of July with the publication of the first-half results. But as we have shared a lot of our strategy here, we will come back and go deeper in it, having our technology teams, our marketing teams and others join me and Roland at our Capital Markets Day that we are looking to schedule at the end of Q2. We are waiting a bit to see if the travel restrictions lift, so we could come and do this in Europe and potentially be in person, or at least on the time zone. So, we will be coming back to you shortly with the date of the Capital Markets Meeting, and we look forward to seeing you all there and going deeper into the whole strategy and our whole situation.

So, with that, I will ask Arthur to join me and open it up for Q&A. Arthur?

Q&A SESSION

Operator: And as a reminder, you can ask questions on the chat if you are following the presentation on your computer, or by phone if you are connected to our conference call. By chat, please send your question at any time, and by phone please dial star one to enter the queue. With that, I hand over to Arthur Carli, Head of Investor Relations.

Patrick Donovan: Arthur, are you there?

Operator: Arthur, if you are speaking, please unmute your phone locally.

Patrick Donovan: Operator, by chance do you have any questions?

Operator: Yes, there is a question in the queue. Our first question comes from the line of Antoine Lensel from Kepler Cheuvreux. Antoine, go ahead with your question.

Antoine Linsel, Kepler Cheuvreux: Yes, thank you. Good evening, everyone. And first, well done for the outstanding results. I have three questions, if I may. My first question is related to the subscription gross margin that protects Axway from an increase in the prices of cloud providers, and if virtual costs can be easily be supported by the customers.

My second question is on maintenance. With licence fees – stays flat to decreasing in 2021, combined with maintenance contract migration, how do you expect the maintenance to evolve in 2021? Is it fair to assume a decrease in the same magnitude than in 2020?

And my final question is on M&A: how the pipeline is looking, what will be the perfect target in terms of size, geography, and technology? Thank you very much.

Patrick Donovan: Thanks, Antoine. And, yes, we will go ahead and cover the three different questions. I will start maybe first on the subscription gross margin. Yes, we use – we primarily provide our subscriptions where we manage everything for the customer, because we have an Axway-managed and customer-managed subscription. Customer-managed, the main core engine, the customer keeps in their environment or in their cloud services with parts of it in the cloud of Axway. But when we are running the system for our customers, we primarily use AWS or Azure – Microsoft Azure.

It is a highly competitive market. You have Google, Microsoft, AWS as your leading providers, and so that competitive nature has really kept the cost structure of these offerings down. If we had growth in one of the different providers, we would be able to lift and shift. There would be quite a bit of work, but we would be able to move our products to a different cloud provider. But if all of them go up at the same time, we will have to look at ways to pass those costs on to our customers in the renewal cycles and renegotiate the contracts. But I would not anticipate that, at least for the coming future, the cost base to go up significantly in the cloud services.

With regards to maintenance, we dropped 4.5% this year. And with the strong subscription signings, and a lot of them coming from migrations of current customers, we could continue seeing maintenance drop quickly. It will drop probably at a rate approaching 10% or so in 2021, and this will be offset by a recurring portion in our subscription line, if the customer's moving from a maintenance relationship to a subscription relationship that is either managed purely by Axway and Axway Cloud, or in a hybrid mode with the customer managing it. But maintenance will remain under pressure for many years to come, but that will be replaced when we do lose the maintenance. If it is not in attrition, it will be replaced for a subscription contract that adds additional value to the maintenance we already have.

And your final question on M&A targets, we have just started. So, as we were coming out of 2020, I talked about we were just getting back into looking at the opportunities in front of us. It was very clear that we set the strategy for the next three years in our offering and our portfolio before we go back in the M&A market. Because these acquisitions either need to serve the Amplify offering in helping us quickly either come to market with some technology pieces we may be missing, or a customer base we want to target; or in the core business, MFT, B2B and others, we would be looking to acquire customer base and consolidate that market.

So now that we have the clear targets in mind, we are in the process of just starting to build the pipeline and looking at evaluating market. As I will caution – you know, M&A is a key part of our strategy – I do

expect it to be a very competitive market as we go into it, as we have a lot of money sitting on the side lines that needs to be spent on M&A. So, everybody will have competition, for sure. But I cannot give any more guidance at this time on specific targets or industries.

Operator, do we have another question?

Antoine Lensel: Okay. Thank you very much, Patrick.

Patrick Donovan: Thank you, Antoine.

Operator: All right, there is another question in the queue. Our next question comes from Matthias Durner from Discover Capital. Matthias go ahead with your question.

Matthias Durner, Discover Capital: Yeah, hi. Good evening, gentlemen. Thank you for the presentation. I would have a couple of questions, and if it is okay I will go one by one. So, the first question would be could you give some indication, you know, how much would you consider in your subscription line as like seasonally excessive due to these upfront recognitions? Would you say €10 million to €15 million is sort of, you know, let us say the seasonally excesses recognition in Q4? Or is there any ballpark you can give compared to the other quarters?

Patrick Donovan: So, right now, we do not have enough runway and experience in the subscription. We have had about two years of strong push. So, last year, we did about €14 million of upfront, and this year about €44 million, so quite a strong improvement. We would expect to see that upfront portion also increase next year quite – quite strongly. Just based on, there, first, accounting rules, do I see seasonality? Nothing really more than the traditional seasonality of our business model, in which we normally have about, what, 40% in Q4?

Roland Royer: 40% in Q4, yes.

Matthias Durner: Okay. Okay, great. And the second question would be on your guidance. I appreciate, you know, how you explain also that the migration from maintenance to subscription is, of course, dampening a little bit more your growth. But, of course, it gives you the easy opportunity – or have that, basically, customer in the cloud and so on. Is there – the 2% to 4% growth guidance, would you say it is also conservative? As you explained, you are not quite sure around the economic effects of the pandemic and I guess the long-lasting effects. Or is there, would you say, it is the 2% to 4% are not conservative in that sense?

Patrick Donovan: I would say 2% to 4% is what we expect. It is not conservative. We do have some different elements that we are building on. So, if you look – and we will go into more detail on Capital Markets Day because it's hard to do in the short time we have here today. But with the subscription model, you have a portion of the contract taken upfront, but additionally a portion that is recognised every month recurrently over the life of the contract. And so, as we just started this movement towards the subscription model in 2019 and really picked up momentum in 2020, we are building this waterfall base of the recurrent piece that won't really start to take a strong enough effect until 2023, when it starts layering and giving us a very strong recurrent base that is there. And these contracts from 2019 and 2020 – start to come and renew in 2023, which gives us back the upfront piece too.

So, over the coming years, you know, I know we have done a lot of very exciting things in Axway, and we have got leadership and then the API management, we've moved to a subscription model. But we have to

allow time for us to build this baseline of the recurrent to get the revenue growth back up. That is why just a little this year of organic growth, and then we will see a few points more. And each year, hopefully we are building this base where we continue and consistently grow the organic top line revenue.

Matthias Durner: Okay, understood. And the last one, a technical question: any guidance on the tax rate for 2021?

Patrick Donovan: Well, effectively when we are at full production our tax rate, I have always said, should be in the low 20% as an effective tax rate. As we have invested in our products and put under stress the financials and lowered our profit, lowered our net income, the impact of each country we are operating in, their tax rate and our tax status in that country, as far as assets – our – our different tax assets, is different that we've not been able to get back to that low 20% level. But as we start coming out of this, we should start seeing us back in the low 20s for an effective tax rate. But for the next year, I am not sure we'll achieve that. That is about as much clarity as I can provide at this time.

Matthias Durner: Okay, but basically some improvement?

Patrick Donovan: I would hope we get some improvement as we start returning more to the bottom line.

Matthias Durner: Okay, understood. Thank you.

Operator: All right, there are no further questions in the queue, so I will hand you over to Arthur Carli.

Patrick Donovan: Okay.

Arthur Carli: Thank you. Sorry, Patrick. We have experienced a little technical problem here, but it should be fixed. Can you hear me well?

Patrick Donovan: We can hear you well, now, Arthur. No problem.

Arthur Carli: Great. So, I have got a few questions on the chat, and the first one is coming from Derric Marcon at Société Générale, so what was the growth rate of cloud and the SaaS revenue excluding upfront subscription licence in Q4? How is this figure compared to previous quarter?

Patrick Donovan: Q4 I do not remember off the top of my head. For the year, you could take the subscription revenue and back up €44 million in 2020 and €14 million in 2019, and I think you end up around 17%, 18% growth for the year.

Arthur Carli: Okay, thank you. One more question from Derric: French revenue significantly accelerated in Q4 2020. Can you give us a bit more of granularity about the different trends which you saw there? What are your expectations for France in 2021?

Roland Royer: I can take that one maybe. The acceleration and the great performance in France were really related also to, as I mentioned, several large customers, that came to renewal, that we upsell, as we did in migration. So that's – that will be more a spike in 2020, we will not see the same type of growth in France. There is seasonality on some of our customers like that, that we had in the past, and there's – there was a number of these customers in France, in Q4. So that explains really the over-performance in France compared to the average, I would say, for Q4.

Patrick Donovan: In 2021, we do not have that level of contracts up for renewal in France, but we do have a stable performance expected in France, as the level in absolute value from 2020.

Arthur Carli: Thank you. A few more from Derric. Can you please explain which product fuelled the most, the growth in 2020, and the ones which were lagging behind? And do you expect those strengths to pursue in 2021?

Roland Royer: So, I talked about it during the presentation: Amplify, obviously, the API management platform was the leading in terms of signature growth, and some of our specialised solutions were really on the other side slowing us down. So, roughly, we are still – and we have the MFT part, where they are also experiencing a nice growth – that, and the first, Amplify, same on MFT, and then the rest of the portfolio below.

Arthur Carli: Thank you, Roland. So, one more question from Derric: how your deals pipeline looks like for 2021? How does it cover your 2021 targets? What was the trend in H2 2020? Did it continue to improve?

Roland Royer: The pipeline, over the last full year, except we had a drop of the – of our pipeline in difficulties really at the beginning when we had – when the full company and the full customers, the full industry, had actually to adapt. And if we are looking the pipeline trend, you will see end of Q2 a standardisation or a drop. And then we adapt and launch a few of the initiatives that I mentioned earlier, and the Open Everything campaign and others; and our digital marketing that generated a steady growth of the pipeline over the rest of the year.

Obviously, with the great performance of Q4 and with 44% of our yearly booking basically appending in Q4, our pipeline decreased at Q4 because we are ...

Patrick Donovan: Seasonality,

Roland Royer: Seasonality, normal because we are actually signing there the opportunities that we are creating, but we start the year still with a good visibility. And we are ready, we have worked with the go-to-market approach that we put in place, continue to say a nice growth of our Amplify pipeline worldwide and continue to work with our core customers on MFT, B2B to generate the pipeline that we will see this year.

Patrick Donovan: As it starts with every year, on 1st January you do not see the pipeline to get to the year; you have faith. And then as you move towards – through Q1, you start seeing the pipeline firm up. And we are starting to see the pipeline firm up in the natural cycle in the way that we now start seeing the path to the full-year goals that we've set.

Arthur Carli: Thanks. The last one from Derric: your 2021 EBIT margin guidance assumed a slight increase of the cost base this year. Can you explain the moving parts there with the line that might increase versus the one that might decrease in absolute terms?

Patrick Donovan: Yeah. So, I will go through. The gross margin should improve just slightly by maybe about 1% as we continue to look to optimise our Axway-managed subscriptions. Sales and marketing we are investing in. That is why Roland had a heavy part of the presentation and a heavy part of the strategy discussion. Our go-to-market, now we have the technology and go attack the market in certain ways, and the sales team were focusing on and adding some teams and adding some marketing coverage to go attack the market. Hopefully, we can do that and get out. And we are planning on events and travel if they come back to us in the second half of the year.

R&D we need to continue to keep stable and continue to invest wisely. We have done the heavy investment in the past. Our R&D as a percentage of revenue is at 20% for the last several years, and it is time we started returning that investment to the shareholders by keeping tight control over expenses on R&D, trying to target back a decrease until it normalises out in the range of, say, around 15%.

GNA should remain flat or a slight increase as we are taking on some initiatives this year to upgrade our systems, because as everything is changing within Axway, including our business model and financials, our information systems are currently not keeping up with the information needs of Roland and I and the other executives to drive the business quickly. So, we are investing some in our internal systems, to help give us the visibility and guidance we need.

Arthur Carli: Thank you, Patrick. A new question from Jeremie Couix, HC Capital: can you give us an idea of the split between Axway-managed and customer-managed subscription in 2020, as well as the trend you are expecting for the near term?

And the second question – but maybe you already answered it so I am sorry if I missed it – can you update us on your M&A strategy? Do you expect to close a deal over the next 12 months?

Patrick Donovan: Actually, I could cover the 2020 first. We are roughly about 50/50 split between customer and Axway-managed for 2020. And the customer-managed will probably grow quicker than the Axway-managed. There's – within our space, within the integration space – things like MFT, B2B offerings, AI Suite – as – if the customers want to move to a subscription contact and take advantage of some of the assets around that, often they are going first to the customer-managed and then will see if they'll move to the Axway-managed. But some may just stay in a pure customer-managed subscription. And the second question?

Roland Royer: The second question was on M&A.

Patrick Donovan: I missed it then. Can you...?

Roland Royer: The question was on M&A and you addressed it before? The M&A and the strategy on the M&A will be adjusted to the other – to the front momentum that we have that Patrick already explained. We are – we are not, at the – at this time, able to disclose more precisely what and where we start.

Patrick Donovan: And quite frankly, we cannot be really obvious in our M&A approach because, as I said, the market's going to be competitive. So, if someone sees us in move in a direction, we will have four or five others join the party immediately. So, we are going to have to keep relatively quiet about our approach in M&A.

Arthur Carli: Great, thank you. A question from Jean-Antoine Grau, IDMidCaps: could you explain a bit more why the working capital requirements is up of €23.7 million?

Patrick Donovan: Yes, so it is simply a matter of the transition to subscription model. A subscription contract, one of the benefits that customers want to take advantage of is often it changes the way they account for in their books. But specifically, for the working cap, the payments of subscription contracts go to annually in most cases. And so, the prior revenue recognition rules and the prior contractual models that we operated in, say five years ago and earlier, you had to, as a software vendor, get as much cash upfront so you could try to make the good argument to fit within the rules and take the licence revenue upfront. With the subscription contract offerings and the way that they work, the terms traditionally move to more of an annual payment or spread out over the term, so you are aligning your customers' benefit with the company's benefit, or with their benefit from the software you're providing. So, as a large portion of our contracts have now moved to more of a recurrent annual payment, we are going to see this dip last year and this year in our working capital requirements – in our free cash flows, I mean. And then as we come

out of this dip, we are going to start seeing the return to the working capital requirements and free cash flows over the coming years.

Arthur Carli: Thank you, Patrick. Two last questions, again from Derric Marcon, Société Générale: what percentage of 2020 upfront subscription revenue comes from the conversion of paying maintenance customers to subscriptions that gave the same product live with no upsell or cross-sell or expansion?

Roland Royer: Well, first, when we do migration that Patrick put the figures – but when we do migration, we upgrade and upsell the customers. There is no transition as such on that. Every migration is because we are adding consumption of a new part of the technology. So, there is basically always an additional revenue and an additional usage of the solution.

Patrick Donovan: Yeah, and we are not going to take a contract to migrate from maintenance unless the value annually is very good – 50% more than we had in past. It is just not –

Roland Royer: There is no value.

Patrick Donovan: – not too valuable for us to do where we have a good relationship under licence and maintenance, so our model of the past. So, we are normally looking at the migrations to subscription model when the customer, as Roland saying, has a strong need for additional product or additional crossover or volume even.

Roland Royer: Yeah, it is volume – it's either volume because the customer wants to align on a conception-based model, so he would have had to add some licences in the past, and this when he migrates to a subscription model based on volume and usage; or it's because he's actually expanding the – to the new services of the platform or new services of the product suite.

Patrick Donovan: So, in the past, it is a little difficult, because in the past that customer would have come back to us and there would have been licence and additional maintenance. Now, it converts to a subscription and moves the maintenance over. So, you asked, you know, what was the volume on the – these migrations. We had less than 10% of our maintenance base convert – just under 10% of our maintenance base convert to subscription contracts this year, or over the couple of years actually. So, there is still 90% of our customers that had maintenance contracts from licences they bought in the past that may convert at some point in the future. So, there is still a lot of runway there, but we've taken the internal rules that we want to be doing a conversion over only if there's significant value-add to both Axway and the customer.

Arthur Carli: Thank you very much. Very last question for today: can you give us an idea of the amount of subscription renewal that you expect in 2021?

Patrick Donovan: In 2021, the amount of subscription renewals, that's – that is a difficult one. From – I will say from the customer-managed subscriptions, which I think is what they are maybe asking. So, you know, what amount of upfront revenue we have coming in 2021, it is less than €5 million because we just started this business model in – if you remember in 2018, I think in the first-half presentation, we talked about – Roland and I – testing the concept with two customers. That was really our first two customers on the customer managed.

And then we had to go back with our product teams, even our accounting teams: how do we handle this – this new animal of a contract, how do we account for it, how does the customer want to buy it, what is the

customer experience and what do they want from us? And we perfected that, launched it later in 2019. That took a while for the sales team to understand even how to communicate and sell it. But towards the Q4 of 2019, they finally got into a rhythm of how to communicate the value to a customer, how to sell it. And then 2020, it was kind of the perfect time because now our sales team was armed with this new tool in their toolbelt, and they were forced to talk to their current customers, because it was hard to get new customers. And so, they spent a lot of time educating the current customer base as well, about the new subscription offering. And, as I said, just under 10% of the customers and maintenance took them up on it, so. But it is also a way we're engaging with a lot of the new customers.

So, coming for renewals in 2021, as we have an average life of about three years in these subscription contracts, we are not going to see the majority of these come up until 2023 and beyond.

Arthur Carli: Thank you, Patrick. That is all for today.

Patrick Donovan: Okay. Well, thank you for – thank you all for joining us virtually. We really look forward to the next opportunity that Roland and I can be with all of you in person. And we look forward to the next opportunity to speak with all of you, so with that we will end the call today. Thank you.

Arthur Carli: Thank you.

Operator: Thank you for joining today's call. You may now disconnect. Hosts, please stay on the line and await further instruction.

[END OF TRANSCRIPT]