PRESENTATION

Arthur Carli: Ladies and gentlemen, good evening and welcome to Axway H1 2022 Results Presentation. My name is Arthur Carli, and I’m in charge of Investor Relations for the company.

As usual, I have two reminders to make today. First, I must alert on the fact that this event is live and is being recorded. A replay will be available on Axway Investor website as soon as possible. I would like also to remind you that today’s presentation contains forward-looking estimates that are naturally subject to risk and uncertainties. Future activities and results may differ from those described today. As a reminder, actual risk factors are described in the universal registration document that is available on our website.

With that, I wish you a very good presentation and I would like to hand over to our CEO, Patrick Donovan.

Patrick Donovan: Thank you, Arthur, and thanks for joining us here today for the 2022 half year results presentation.

I’m going to kick this off today with some commentary, some general overview about our vision and strategy that we were executing on in the first half of 2022. And then we’ll go through the financial results and the details of the press release that we announced earlier today. Roland will join and share with you some customer and market trends we’re seeing. And then I’ll come back and share what it looks like for the second half of the year and a little bit beyond, and then we’ll open it up for the Q&A session.

So let’s jump right in. So for the first half of 2022, we continue to deliver on the Vision & Mission we launched in 2021, where we inspired or we expect to enable enterprises to securely open everything. And we do this by securely integrating and moving data across the complex world of old and new.

And this strategy is executed by our products. And our products, we broke up into two bits of the portfolio. We have an Axway Core, which we’ve been serving our customers for over 20 years with, with products like MFT, B2B or Digital Finance as well as some Specialised Products. Or our AMPLIFY portfolio, which is meeting our customers’ current needs and outcomes and delivering value every day. So with these two products, we’ve launched our Vision & Mission, and that remains unchanged from 2021.

And so with this, focus and specialisation was key. With the Axway Core portfolio, we need to continue to maintain the market leadership with those core products that we’ve had and enjoyed for the last 20 years. And our growth is normally by delighting our customers and growing with them as they continue to tackle new projects and continue to utilise the products they purchase from us.

Whereas on the AMPLIFY side, we are considered a market leader by the analysts but we look to expand and grow around this market leadership and continue to drive into a dynamic market. And here, not only we need to continue to delight the customers we do have, but to also add new logos and – because this is an expanding market.

And over all of this, we need to continue to delight our customers and we measure this by NPS as well as some other data that we track.
So in 2021, I talked about having a General Manager concept for our regions, where we were consolidating all the customer-facing activities under General Manager, so we could get closer with them. That proved effective and we had learned a lot as we were operating in that model in 2021.

So to kick off 2022, we wanted to address some items on the portfolio side. And so we rolled out this General Manager model at the beginning of the year for our core products in our portfolio that drive significant portions of our revenue. We have a General Manager for MFT, B2B, for the AMPLIFY products, Digital Finance. And then we also have some specialised products that we group together.

But for the Axway Core portfolio, the General Manager’s role is extremely customer focused. Since we’ve been serving these customers, many of them, for 20 years, we need to ensure that we align the teams all the way through the product organisation to support the customers, grow with the customers, listen to the customers and build the roadmaps to serve their needs and their future challenges. So we always want to maintain and build on our market leadership and, of course, run a profitable business. This is what these products deserve.

And when you look at the AMPLIFY side, clearly, we need to be customer focused here as well and aligning the team to support our customers’ needs. But we have to look to also be a leader and take some risk and to grow our market leadership because this market is very fluid and dynamic and new requirements are coming every day. And we have to pick which requirements we want to invest in. And in this – then strategically to serve our customers’ needs and their future needs. So focusing on retention, expansion and delighting the customers is also critical with our AMPLIFY side.

So this is the main change we made organisationally at the beginning of 2022 with the General Managers of the products. And we have looked to get closer to the customers and really continue to push into the customer delight we’re after. And you’ll see that this has shown early – really good early signs in the first half of 2022.

So let me cover a few key figures. First, we’re going to continue to introduce and talk more about annual recurrent revenue growth. We grew 8.6% over the same period last year to €190 million, up from the €175 million in the first half of 2021. And this was helped by the almost 400% growth in Axway Managed subscriptions in our booking in the first half of 2021. This is a very key statistic that we’re going to continue to start reporting on period after period and track because this is an indicator of the growth of our move to subscription.

You also will see us stop talking as much about ACV at this period. If you remember, when we launched our strategy and started pushing into the subscription model, we introduced a signature metric. And that was a way to try to blend the move from license to subscription model and the changing mix and dynamics of our business. And with that, came the ACV measurement, the annual contract value measurement, that we tracked for a while. But now as you see in our financials, the license takes a lot less important. And we will start tracking a more standardised metric that you see in my competition, ARR.

So first half, very pleased with the result of 8.6%. But because of our booking mix and the revenue accounting rules around it, in the first half of 2022, our revenue dropped 5.8% to €136 million. However, this was not negative at all and I’m completely pleased with the results of our team because we achieved about 106% of our first half quota. We had anticipated a couple of point drop in the first half revenues as we budgeted for the year because last year, if you remember, we had either 5% or 5.6%, I believe, organic
growth in the first half and some strong contracts that we knew we didn’t have the pipeline to repeat in the first half of the year.

So we had planned on a little softer first half of the year. We were a little below that. But that was on very strong bookings by our sales teams. And we had almost 400% growth in the Axway Managed subscriptions. So the importance of the cloud in our bookings in the first half, mean we get no revenue in the first half of 2022, but it will come back to us in future periods. So we’re building the foundation for long-term, stable, recurring revenue type business that will pay us dividends as early as next year.

The margin on operating activities stands at 4.9%, which was a little ahead of budget. So even with the accounting impact on the revenue upfront, the margin on operating activities was right in line with budget, actually slightly ahead of budget, as we managed our costs well in the first half of 2021.

And another quick point on the bookings mix. Although we take the accounting impact on the revenue, our free cash flow – and when I talk about our free cash flow later – will remain the same, whether the customer books, our Customer Managed or Axway Managed subscription.

And finally, I gave a little preview of this when I was talking about the General Managers of the products, we really had a boost in our Net Promoter Score in the first half of the year from 29 to 37. So we made a quick jump by this renewed organisation that could really focus on listening to our customers and building for what they need.

So, with that, I'll jump into the first half financial results. Unfortunately Cécile, who normally would join Roland and I, fell sick. So I'll jump in and cover for her, for this presentation, but I look forward to having her back at the full year results.

So, for first half of 2022, as I mentioned, the revenue dropped 5.8%, or 1.4% organic. We had a strong impact, as most companies in Europe did, with the US dollar to euro conversion ratio. Our cost of sales went up a little bit due to the stronger dollar, as well as additional service revenue and the spending in subscription for the future Axway Managed cloud contracts that we booked. And we ended up with a gross profit of 66%, down slightly from the 69% in the first half of 2021. But I expect that ratio to come back up to close to 70% for the full year.

When you look at our operating expenses, we had planned on dropping the R&D, as I communicated before. And sales and marketing, we're looking for sales efficiency, which will continue to do so as we go through the rest of the year. And G&A remain flat. Although these numbers are a little bit misleading because if you look at all the costs in the business, if you take out the €5 million foreign currency impact in our costs, we actually dropped about 2% on our overall cost, as we planned, and a little bit additional.

So that allowed us to deliver the €6.7 million of operating profit that I talked about, or 4.9%, versus the 10.5% or 7.6% last year, which was on the back of the strong organic growth of last year. We finished the first half at a net profit of €2.4 million or €0.11 per share.

So as we go into the revenue by activity and we dive further in, the license revenue is now reaching a floor value, where the license that we generate are on historic contracts. So we have some government agencies and a few large customers that have longstanding contracts that will constantly generate license revenue. And this level for the year will probably remain. So we did drop 35% for the year, but that's on the move to subscription. So we are hitting the low value that we'll continue carrying forward with those historic contracts.
Aligned with that is the maintenance revenue drop. We actually did better than our internal budget. We anticipated some transfers to subscriptions and the natural attrition. But we were able to increase our prices to help us offset some of the inflationary cost increases that we were anticipating. And so we were pleased to see that maintenance actually came in above budget.

Our subscription revenue grew 3.2%, and I'll go into more detail on that later in the presentation. And we are happy to see that the service revenue grew 1% in the first half, which was on the back of a strong APAC region being able to start working the projects that were stalled during the COVID period. And I had communicated in previous presentations that we look to be at about 12-15% of our total revenues, making up the service component. And we are in that range now so I expect services to stabilise right at this range for the future.

And in total, you see our recurring revenue makes up 82% of our total revenue for the first half of growth from the 81% in 2021. So, as I mentioned previously, the comments for license and maintenance, we're seeing this start to normalise on the license side and the maintenance drop was better than expected. We were able to keep it at 11% versus a few percentage more was budgeted.

So we're pleased overall with where the maintenance has landed. And the move to subscription is going to start slowing down next year as the customers that want to migrate to the subscription model, we have migrated a majority of our larger customers.

Subscription was impacted by a couple of things. We were able to sign a lot of contracts in the Axway Managed cloud in the first half of the year. But as I said, those will bring us very little revenue in the period signed. And so we'll start to see that revenue come to us in the future periods. And additionally, because our mix was so strongly geared towards the Axway Managed cloud, we did not have the strong upfront revenue that we had in 2021.

So you could see here on the slide, we had done €22.4 million of upfront revenue in the first half of 2021. And based on that pattern, we had built a budget and plans for the first half of this year that had us far above that. And we only signed Customer Managed contracts that gave us €18 million in the first half of 2022. So that was – that helps explain why the organic growth on subscription was only 3%, but we'll see that start to come back to us in the future periods.

So when we look at annual recurrent revenue, we see that there's a nice upward trend. We started the pattern to really push for subscriptions in 2019. And as we saw the customers move more and more to the subscription business model, we see that we're building up this nice recurrent revenue stream that's continued to grow period over period. And so we'll continue to track this and report it in the future periods.

Services activity, as I mentioned, grew 1% in the first part of 2022 and represents, I believe it's about 12.5% of our total revenues or close to 13% of our total revenues in the first half of the year, stabilising between the 12% and 15% I had predicted previously. And we had – most of the COVID impact on our services is now behind us. And we're able to do the business that we signed in the current periods, which is good to be out of that period.

A few words on our balance sheet. We had €20 million of cash at the end of the year. We had net debt of €58 million, up from €36 million at the end of the year as we bought back some of our shares and we had done a technology acquisition that I'll talk about in a few slides.
Our DSOs went up to 124 days. But if you take out the impact of the Customer Managed contracts, we’re down below 60. So we’re pleased at our collections team. And our deferred revenue is up to almost €79 million at the end of the first half of 2022.

So a few words on our cash flows. Our free cash flow was €8.2 million for the first half of the year versus the €16 million for the first half of 2021. And if you add back a tax credit that we get refunded in France that we had in the first half of 2021, that we won’t be able to recover until September, we would have been flat for free cash flow period over period. So it’s just a timing issue in the tax refund that we’re looking to obtain here in France.

Our covenants have been well respected. And you’ll see we have actually one of our covenants or EBITDA over the cost of the debt service charge. This was eliminated as we renewed our €125 million line in the first half of 2022. So this is no longer a covenant that we have to measure and track.

When you look at our free cash flow, we’ve been presenting this a bit to help you understand the trend as we’ve moved to subscription business model. The subscription business model takes what were the upfront license payments and it spreads it over the period you’re performing service with your customers. So, effectively most of these subscription contracts are annually. So, when we started really pushing in 2018-2019 into the subscription business model, as well as investing in our R&D expense to round out our portfolio, we had our free cash flow drop. And through 2021-2022, as a percentage of our revenue, it’s been at zero or a little bit below.

But as we come out in 2023, you’re going to see our free cash flow go back to the normalised levels we experienced back in 2014-2015 and continue to grow and build on the waterfall from there. So we continue to track and we’ll report on this until we get back to that normalised level.

And with that, I’ll ask Roland to join me and go into what we’re seeing on the customer and market trends. Roland?

Roland Royer: Thank you, Patrick, and good evening, everyone. And to start, I must say that I’m very, very proud of the performance on the sales execution side for the first half. The team concluded the first part – the first semester overachieving the quota by 106%, representing a 9.5% year-over-year booking growth. Actually, three of the four regions overachieved 100% of their plan and just EMEA was just shy at 96%.

We see two of our growth regions really growing the booking over 100% increase, year-over-year. In APAC, the success was made with several large deals with new customers, both on API management and on MFT. And in Brazil, we had a very strong start of the first of the year with a deal with Bradesco, a large bank in Brazil, who selected us and selected Axway to replace their implementation of Layer 7 and their API management programme.

So with that, I’d like to take a few minutes to give you some additional perspective on the first semester. And as you know, we continue to drive our daily execution with a strong focus on customer experience and value. I’m happy to report the new Net Promoter Score is high value, record, that’s the word I was looking for, with 37. The improvement has been made thanks to the clear and specific plan for each product line drove by the General Managers that Patrick introduced.

We will continue to reinforce this close relationship with our customers, listening, analysing and acting on their feedback with the ongoing aim to improve their experience with our solution. And thanks to this great proximity with the customers, we are able to understand their needs and make sure we are providing
them with the value they expect. And this is borne out by the renewal success rates, which remain high at 94%.

In addition, our performance in converting and migrating our customers from maintenance to subscription remain strong and is consistent with our performance year-over-year, with an average migration multiplier ratio of 1.8x. And such ratio is a positive validation of the additional value that we are providing customers with our new offerings.

But the single key KPI and takeaway from the first half is definitely the high booking growth with our different SaaS and Axway Managed subscription. If you remember on our last communication in February, I mentioned the market demand for Axway Managed solution and explained that we were launching two new offerings with B2B and MFT. And we continue to see this demand increase and interest for the Axway Managed solution.

Though, we can see two different dynamics on the market. On one hand, we saw customers extending their decision cycles by really going deep and evaluating the two deployment model, and selecting between Axway Managed and Customer Managed only at the end of the cycle of a longer process. Difficult for us, working side by side with them, to know exactly which one they were going to choose.

On the other hand, when we saw customers who already have made the decision and a strategic decision in the company to move to cloud and look for the best solution, we saw this acceleration of making a decision to move, and that reflects on the 400% growth. We closed and we booked close to €15 million compared to a little bit more than €3 million in the same period last year, and that’s related to this 400%. This level of managed – Axway Managed booking represents a very healthy growth in the ARR and the secured revenue that we have for the upcoming quarters and years, as our customers’ contract are making commitment to, for three years or five years’ deals.

So while we are seeing this trend toward Axway cloud across the region and across the product line, that said, there is some product level variation and trends to be noted. And I will start first with the MFT, our largest customer base and revenue base. We continue to see a strong demand on MFT coming from our customer base as the volumes and the criticality of the file transaction continue to grow. For example, Citigroup, customers with whom we signed large Axway Managed contract a couple of quarter ago, came back to us with a new use case generating large expansion opportunities.

And while the expansion of customers’ base is the primary driver and source of booking on the MFT, we also see new customers across all the regions for MFT. I’m happy to say that an American consumer credit reporting agency just replaced IBM and GlobalScape by the Axway MFT suite.

On the B2B side, we had a fantastic first part of the year. And the B2B customers definitely have the biggest appetite for managed services, and that’s where we see the biggest part of the growth on our booking. And there is two reasons that we have identified for that. The first one is the decline of the technical expertise, combined with the staffing issues for many of our customers. This isn't new, but it has been actually exacerbated by the Great Resignation over the last year or so.

The second factor was time to value. It is actually much faster for them to have the vendor setting up and running the environment rather than to trying to manage everything in-house. So, as an example, the largest deal of the quarter on B2B, and actually across all the product line, has been made with a software logistics firm in North America. And when we replaced their home-grown EDI solution, bidding against
Seeburger and IBM and we won them, thanks to the quality and the completeness of the Axway solution and services in Managed Services. That’s represents a deal of more than €5 million over the next five years.

And we continue – on AMPLIFY, we continue to have good success with our APIM solution. We are seeing new customers selecting us for their new project, as well as replacing incumbent solution with our more robust and secure solution. This was the case, for example, with Police of Belgium, who, a couple of years ago started their journey on API with WSO2 and today expanding, switch to Axway solution.

But the main trend on AMPLIFY and API product line is coming from customers who are now looking to leverage the business value of their APIs by publishing them in a marketplace for internal and external consumption and monetisation. And if you remember also at the end of the year, we mentioned ENGIE, who selected Axway to replace – Axway AMPLIFY, to replace home-grown solution for their marketplace, publishing hundreds of APIs managed by Axway gateway or by other gateways. And we had a very successful first half with ENGIE, working with the services team and their team, and we went live with this solution early in June.

Last but not least, on this slide, the digital finance product line. And we launched, during the first half, a new offering called Axway Financial Accounting Hub. We’re working on this more closely with our key partners. And we already have, with Accenture, a good success with BforBank and we are deploying this new offering.

So, that’s the trend. But when I look ahead, I would say that I’m confident with the second semester. Even if there is a high level of uncertainty in the world and in our market, our pipeline – our global pipeline – is higher than last year by 27%. And also, it is difficult to predict exactly the success of the Axway Managed part. As we’ve already seen, this part of the pipeline is growing faster than the rest and we have this – the SaaS part of the pipeline grew by close to 40% compared to last year.

Our strategy is clear with our customer success in staying close to them. We continue to stay very close to our customers, working together to build the best possible solution for them and continuing to grow with them. And as a result of such, a customer success, we have a strong customer references to generate business opportunity within our customer base, but also with new customers.

And with that, I will hand it over back to Patrick.

**Patrick Donovan:** Thanks, Roland, and thanks for your team for doing a great first half of the year. So let’s look forward – look at the second half of the year and what we could expect beyond. So there’s three main priorities I’m pushing into for second half of the year.

We have the pipeline to do the back half of the year. We had pipeline growth period-over-period of about 27%. So the pipeline is here to do our targets for the full year. So we have to – Q4 is our strongest period so we have to do the job and secure that pipeline into bookings. As usual, that’s always expected with the big Q4 we expect.

But then we need to carefully monitor and watch the bookings mix. The bookings mix to the Axway Managed and the cloud in the first half was really driven with several large deals that we were able to secure. We expect the mix to be a little bit more favourable to how we budgeted the year and to allow us to secure the guidance. But I’ll carefully be watching and monitoring that to make sure we hit our guidance for the full year.
We'll have a continued focus on delivering operational efficiency. When I launched in 2018, I believe it was, the strategy to advance our products, move to subscription, do many of the things that we've been talking about year after year, we had a plan to be able to pull back the R&D to help let some more profit continue to flow through. And now we’re also looking at the sales and marketing spend to get and gain greater efficiency and cutting out any noise of being able to engage our customers in the most direct and efficient way possible.

This should allow us to see some of the trend of flattening and declining a bit the sales and marketing spend to you as well, to allow us to drop more to the bottom line, all part of our long-term strategy to get back to a very healthy, profitable business in the long-term.

Finally, at the end of 2021 when we were with you in February, I talked about 5-7% of our portfolio that was non-strategic and a bit weighing down the advancement of our core portfolios. And so we’ve put those assets into mode with a very specific team to either sell or deprecate those assets. And we are well engaged and look forward to giving you the full update at the end of the year. And hopefully, we’re able to address all these challenges by the end of 2022.

With the portfolio rationalisation, I’ve also talked a lot over the periods about M&A and when we’ll get back into the M&A market. At the beginning of last year, we started reengaging an M&A approach. And I had said there’s two types of targets that we’d be looking on; one that would bring us a technology that we need in our platform, our different offerings, or we’d be looking at a consolidation of a larger competitor.

Well, the M&A market was quite rich on the consolidation side. But we were able to find a technology company delivering cloud integration platform called DXchange in India. They are going to bring us this connected customer experience to allow us to integrate and orchestrate systems, applications, data and users. The exciting thing about this platform that was built, this integration platform, is this is going to apply to all four of the core products that we have general managers for.

So we will do this in order to allow each team to absorb the technology but we’re really excited to what this can bring to all of the products in our portfolio. And we look forward to launching this into the market in Q4 to allow us to build pipeline and momentum as we go into 2023.

This acquisition had no revenue. They basically had an alpha customer that they were rounding out the code. We had bought it before they raised money to go build out the Sales and Marketing team. And this will allow us about six months to finish out the development to bring it to the enterprise level that our customers will expect, and connect it to our different product lines so that we could really delight our customers and add this capability of integrating their core technologies from us with different assets, either in the cloud or on-prem, as this is a hybrid mode integration platform.

So, we look forward to talking about this more as we launch it in October at our Customer Summit, and then really push into it in the market in 2023.

So, unfortunately, it’s a bit back to this slide of limited visibility. We had shared this set slide over the COVID period. Now it looks like there’s some economic warnings for the back half of the year and some slowdowns in hirings across the tech industry. Right now, we were able to achieve, and we’re very pleased with our results in the first half of the year and our bookings results above the quotas and our ability to manage our cost. So everything is green as far as we’re concerned. We’re just seeing some indications that our visibility is a little more limited as we look out, especially as we roll into 2023.
So, although we have limited visibility, the visibility we do have immediately in front of us is our pipeline and the mix in our pipeline. And we just finished our quarterly business review with all our sales leadership and our general managers over the regions and over the products. And we are able to clearly say we have the pipeline to be able to hit our quota for the year and hit our sales targets. And the mix looks good enough to be able to continue to remain within our guidance of between 1% and 3% organic revenue growth over the year. But we'll continue to watch that and if it starts drifting to being far more on the Axway Managed side, we'll update our guidance. But as of right now, it looks like we'll still be able to maintain our revenue guidance.

And our profit and our operating activity of between 12% and 14% for the full year is maintained. And that is inclusive of the related cost for DXchange for the back half of 2022.

And at the mid-term, clearly, you could see we're targeting and launching towards hitting that profit and operating activities of over 15% as soon as possible, hopefully early – as early as next year or maybe even, if we're strong enough, this year, and the earnings per share of over €1 per share. And then when we are able to drive down – drive the profit and drive cash out of the business, which starts coming to us in 2023, even stronger, we'll be able to look at the larger acquisitions in the mid-term and to push towards that €500 million revenue.

So, with that, operator, I'll open it up to questions and I already see some chat questions coming in as well. But operator, do you have any questions? If not, I could jump into the chat questions.

Questions and Answers

Operator: We don't have question from the phone at the moment. I hand over then to you for the chat questions.

Patrick Donovan: I have a few questions here from Derric Marcon. Yes, on the gross margin decrease and should we expect a similar decrease in the second half of 2022 on gross margin?

From what I saw in the mix of investment, it's a bit the timing of the revenue and the investment in the Axway Managed cloud. We expect that for the full year, we get back closer to 17% for the year. I think this was just a timing issue because you have to invest a little bit before you bring on these Axway Managed cloud customers.

What level of new ACV signings in Q2 2022?

For the first half, I don't remember the specific Q2 number. First half, we had €17.2 million, which was a 21% increase over the first half of last year – €17.2 million or 17-point – yes, €17.2 million for the first half of 2022.

What was the growth at constant currency of ARR?

The 8.6% is the constant currency growth for the first half. I don't recall the first quarter number off the top of my head. I'm sorry, that's where I could leverage the sale at the time. But I don't – I remember the first half period-over-period.
Will you be able to reduce your operating expenses at constant currency in the second half of 2022 at the same pace as the first half, dropping 2%?

I believe so. So we have some opportunities to get some efficiencies in our system and we’re looking to take those. And hopefully, we could maintain that pace for the full year. But it’s well within my sight so I would say yes to that question.

And we’ve got another question here from Frank Jablonski. Your margin guidance implies that 18% margin for the second half, which would be up significantly from the last year.

We had a unique dynamic last year, where we had very strong organic growth that wasn’t budgeted in the first half, 5.6%, if I remember right, which dropped down to the bottom line and allowed us to grow a very strong margin in the first half of last year as well, which was up over the first half of 2022.

That disordered a bit the second half and where we ended up. But yes, we normally generate – your note says 18% margin in the second half of the year and we normally generate most of our margin in the second half of the year, so that’s not surprising at all to us and, quite frankly, was the trend in years before 2021. So that’s in line with a bit the backend loaded nature of our signatures with our customers and their budgeting cycles.

I have a chat question from Brian Nelson. It looks like new business generation was quite robust, even though report subscription revenue doesn’t reflect that. I hear you correctly that bookings were up €9 million year-over-year and that Axway Managed was up €3 million to €15 million in bookings year-over-year.

I’ll give that one to you, so bookings year-over-year.

Roland Royer: The bookings year-over-year. We grew the bookings – we talked about the bookings for Axway Managed. But the bookings we grew by – we booked €64 million in this first half compared to €58 million, €59 million I think in last year.

Patrick Donovan: So bookings were up and Axway Managed bookings were up, as a mix quite strong.

Roland Royer: The booking grew by 9.5%, as I said at the beginning. Okay? But the mix and the growth part of the share of the Axway Managed was very high because we – the booking of the Axway Managed represent €15 million compared to a bit more than €3 million last year and that’s the impact on there. It’s a good success in terms of sales, in terms of ARR for the next quarters, but this short-term impact on the revenue.

Patrick Donovan: And then further on the questions from Brian Nelson. He asked about – he had noted that the Customer Managed was down to €18 million from the €22 million. But we are still able to report growth without any benefit from the Customer Managed upfront or the Axway Managed cloud ARR one in the first half?

That’s the correct way to think of it. We’re able to start benefiting from the backlog of contracts, that, as we bring them live, especially in the Axway Managed, they take months – I think about two, three months now on average to get live, these customers, and start able to generate revenue. This will start generating revenue that’s stable and constantly, they’re starting probably in the third quarter. So that’s the correct way to think about it.
So there’s – yes, there’s a lot of moving parts. And that’s why we introduced the signature metric before to try to capture it. But now we’re going to start. As you see, our license revenue is down to, I think, the level it’s going to start staying at with our historic contracts. And we’re going to do more and more business that’s stable on subscription. I think the move from maintenance is going to slow down next year. And we will really be able to start guiding and talking about annual recurrent revenue period-after-period and push into that, which should be able to give better guidance for the future.

Raphaël Lucet. Good evening, a few questions. Can you give the ACV for T2 as it’s important to model the dynamics signing that you say?

We had 17.2% for the first half. I forget what was the split between Q1 and Q2.

Patrick Donovan: I was just looking at the first half. So I apologise. Yes, we reported, I believe, the ACV in the first quarter. So 17.2% for the first half, you’ll be able to see the Q2 specific ACV.

How can you achieve the guidance that would imply a huge increase in subscription revenue and upfront Customer Managed subscription revenue in H2?

Yes, that would, so you’re correct, we are expecting a large Customer Managed upfront recognition in the second half. But that’s quite in line with the historic days of license. Our contracts often are back-end loaded. We do over 40% of our bookings in the fourth quarter. So that’s not surprising to me.

Where do you expect it?

We expect it in our large regions. We’re opportunistic and doing quite well in our APAC and LATAM region this year. And the pipeline for both of them remains strong to stay above their targets for the full year. But North America and Continental Europe have to deliver for the full year for us to hit our guidance and we have the pipeline to do so. So that’s where I expect the business to come from and from the cloud managed subscription – or Customer Managed subscriptions.

Are the contracts indexed with inflation?

Every contract has its own negotiated clause. But we normally have the ability at renewals to increase either for common inflationary metrics like CPI in the States; or if it doesn’t have the inflationary index, it will have a cap or be uncapped in some cases. But often, there will be a cap in the contract on the amount we could raise year over year.

And with the inflationary period we’re in, we have not discounted at all on our ability to raise the prices under subscription and maintenance renewals. We just simply can’t discount them at this time. So we’ve held firm on the discounting of those contractual indexes.

Will you continue to buy back in H2? Yes. And M&A, if we find the right target? Yes, we’ll also be active in M&A. So yes to both of those questions on buying back – buy back more shares, I believe, is the question there and we continue to plan to do so. We believe our shares are undervalued at the moment so we’re going to take the opportunity to buy back some shares to be able to fulfil our future employee stock plan needs and to deliver those shares from what we purchased back in the open market.

So Mr Lensel from Kepler Cheuvreux asks what amount of ratio of Customer Managed contracts did you budget for H2 in order to reach your guidance?

I don’t recall off the top of my head.
**Roland Royer:** The exact percentage?

**Patrick Donovan:** The exact percentage. We do have the absolute value, which drives that quota and the LTCV we hand out and we built the second half of the year with that quota to deliver the results with the mix.

**Roland Royer:** Yes, we don't have the exact percentage of that.

**Patrick Donovan:** No.

**Roland Royer:** The percentage was very skewed in the first half with several big deals, as I mentioned. And we do have, in our visibility, several large deals with Customer Managed. So that's why we are confident with this, the second semester as well.

**Patrick Donovan:** And we had a follow-on question. What level of price increase have you managed to achieve with your customers in the first half of the year on the renewing contracts?

**Roland Royer:** So we are starting and we did that across the revenue stream. We did that, and that was part of the services increase as well. And we managed to increase just below the 5% of the maintenance. We are staying between the 3% to 5% of the maintenance and subscription renewal increase.

**Patrick Donovan:** Okay. I think I've answered most of these. Let's see. From Germany: Hi, do you still observe delays in decision-making and contract signing at customers?

So I addressed this in our full year results. We had a very odd period in the fourth quarter, where we had all the decision makers and a lot of the people in the legal and the contractual teams delay. We are experiencing – and I did advise at that time that we don't think we'll be able to recover that delay. It will just increase our sales cycles. And that's what we've experienced. So we had a push in Q4, which was an one-time push. But effectively, we've moved our sales cycles from about, what, six months to about nine months – eight, nine months now. So we've had a longer sales cycle because of the process just getting longer. And listening to some of my competitors' analyst calls over the past few weeks, it sounds like they're starting to experience in 2022, what we saw in Q4 of 2021.

I don't know why we saw it a bit early. But that was maybe the nature of the customers we serve and the decisions they're taking with their products. But we've had an increase in our ability to close the contract from start to finish over the Q4, that just now continues. So we're normalising quarter-after-quarter.

**Roland Royer:** And for some of the deals, as I mentioned, when the customers are really evaluating the two deployment model, they are actually sometimes doubling their cycles of decision, really investigating and making a decision late in the process to decide if they stay, for them to manage the solution, or if they move to a cloud or SaaS solution with us. So that's actually one of the factor today that we've seen as extending the delays of making decision.

**Patrick Donovan:** Another question from Brian Nelson. Any internal preference for Customer Managed versus Axway Managed from a profitability strategic perspective over the long-term, not from a short-term perspective?

I've always said that we try to meet the customer and what they need and not to build[?] our incentive compensation, or our sales approach or compensation levels to force one way or the other on the
customer because we look that when we start a relationship with a customer – look what I talked about with the Axway Core portfolio, a lot of the key and large customers we have in that portfolio were with us from the very beginning 20 years ago. So, we look at it as a long-term relationship and want to meet what their needs are. So we don’t strongly push.

Now there are some things we could monitor and clean up that we could manage the mix maybe a little better so we’re not as skewed, which causes the bounce back and forth. But for the long-term growth, we’re going to meet the customer with what they need and that will come back to us in revenue. Of it doesn’t hit in this year, we’ll see it come back to us over the long-term.

So we take the long-term view but we want to make sure also we don’t do things to trip up the short-term, if we could help it.

So let’s see. How much should we spend for the acquisition?

You’ll see in the goodwill on the debt, we spent about €10 million for the acquisition of the technology. It was developed over about four years and is quite robust and quite well rounded. It was built by a team that had enterprise level integration. And so they didn’t do a quick job that’s real marketable and flashy. They did a heavy job that our customers are going to expect from us. And so we need to round that out a bit and invest in a few pieces so we could integrate it into our technology.

But we’re really excited because I looked – I personally was engaged in about 20 calls around this tech. And by far, this was the most developed for what we need to deliver to our customers for now and in the future. And there is a bit of an earn-out as well if we hit combined sales goals over the next five years. So we tied it up to, that we both win together in the market and for our customers. So that’s how the deal was structured.

Why are margins not inflecting higher given that the on-premise to cloud transition is largely over as you state it will be in 2023?

On-premise to cloud, now that’s not what I’m saying. What I’m saying is the migration of maintenance to a subscription-based contract. If you remember, we have both Customer Managed contracts, which the customer is in control of effectively, like a license, and they’re running it in a subscription mode. So effectively, they’re renting the license, if you want to think of it that way. The Axway Managed is where we run it in the cloud and deliver the service back to the customer. We still do a lot of business in the Customer Managed subscriptions. And so these migrations for maintenance will either go to the Axway Managed cloud or a lot of them will go to the Customer Managed subscriptions. When we migrate them out of maintenance, that’s what I was talking about will start really slowing down in 2023 as a lot of the large customers have already made this decision to move to a subscription [inaudible] brings or to go to the Axway Managed cloud.

So because of that, we’ll see the transition of the subscription – of maintenance to subscription slowdown. But as far as margin, we’ll have to manage the cloud managed costs appropriately and then manage our overall costs appropriately to drive the margin up for next year.

Germany, as subscriptions, gross margin is almost flat year-over-year at 76%. Have we reached the ceiling due to the current mix between Axway Managed and Customer Managed?
The margin that we see and the gross margin on subscriptions. We’re going to have to continue to evolve our products to run more efficiently for both our customers and we internally are a customer when we’re delivering it as a service to the end user customers. So we believe there’s still a point or two room in there to push into to drive more gross margin. But that’s hard work and it’s product level works that will come over time.

So Operator – or Arthur, I don’t see any more questions in the queue at the moment.

Arthur Carli: I think that we have one more from Derric.

Patrick Donovan: Yeah. Will the gross margin of Axway Managed business be structurally lower than other models?

Yes. Well, it depends how you want to define gross margin. So that’s always a tricky thing. So if we move a customer from, say, Customer Managed and they’re delivering X margin and they moved to Axway Managed, as a percentage of revenue, that percentage will drop naturally because the incremental piece is really us doing a service and hosting it in a cloud environment. And that level of margin is a little more like a service margin than is the traditional software margin.

So the incremental piece again to Axway Managed will cause the costs to go up and the margin as a percentage of the revenue to drop. But the margin in absolute value will increase because we’ll be making margin on the Customer Managed piece and then the top on with the Axway Managed hosting and services around it. So, the absolute value — margin value will increase and that will drop to the bottom line. But as a percentage of revenue, it will weigh it down.

Arthur Carli: No more questions, Patrick.

Patrick Donovan: Okay. And it looks like we’re almost done with the hour as well. So thank you, everybody, for joining us. We’re really excited about the first half and what our teams delivered. And that we’ve met all our objectives that we set out to do with bookings and with our product and with our customers and our NPS score.

So we’re really happy for what we were able to accomplish in the first half. And we look forward to coming back to you at the end of the year and updating you on the full year results. Thank you all for joining us. Have a good evening or afternoon, depending on where you’re at.

Roland Royer: Thank you.

Patrick Donovan: Thank you.

[END OF TRANSCRIPT]