Axway Software – Full-Year Results 2018 Presentation – Transcript February 21, 2019

Arthur CARLI, Head of Investor Relations, Axway

Good evening and welcome to the Axway full-year results analyst conference. I would like to remind you that this presentation contains forward-looking statements.

Patrick DONOVAN, CEO, Axway

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Thank you all for joining us. We will give you an update on what we are doing in Axway to execute against our strategy, and we will cover our results and share with you within 2018 and even within the month of January the actions we are taking for the long-term success of Axway in its business transformation. So first we will cover the 2018 financials and then we will give you an update on the execution of the strategy and what we have done with the AMPLIFY platform in 2018 and the early part of 2019. Roland Royer will then join us and give you a few indications of initial commercial successes we have had around the platform strategy and share with you what that means for the future. Then we will finish up with the targets and ambitions and then open it up for questions.

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We look at 2018 as the year of execution against our strategy, and that will roll into 2019 as well. We have to make a lot of investments in the platform to make the AMPLIFY offering real. We have to do a lot of change and transformation in our sales and marketing teams to be able to go after and attack the market with the new offering.

Besides looking at the financials, internally we are looking at some metrics to let us know how we are doing against these objectives. One of them is the signature metric. The signature metric is the license plus the new ACV multiplied by three, and I will go through that in detail. This is the way we could tell with our blended sales model if our sales team is executing well in the field or not. You could think of 8% this way – if I were only doing a license business and the customer were only buying licenses, I would have had 8% growth for the year; we would have had a strong year in license growth. Because we have a mixed model, with subscriptions inside of it, which are put on the balance sheet and recognised over time, the license revenue dropped for the year. However, 8% growth in a signature metric is aligned with our strategy and we are quite pleased with it.

Additionally, we measured the new subscription ACV or Annual Contract Value. This number grew 56% organically over the year, so our subscription business and the sales of our subscription business grew quite strongly. In the second half of the year we had to make investments in our offering and in our sales and marketing approach. We were able to invest an additional 15% over the first half of the year, and well above the guidance I gave of three to five million additional investment in July. We will go into detail in our presentations on what we did with that investment.

Finally, we were able to contain the non-strategic costs and keep those under control to still be able to deliver a strong margin for the year while we are transforming the business. Overall, we took the necessary steps in 2018 and will continue taking them in 2019 to become the leader in the hybrid integration platform market in 2020 and return back to about EUR 300 million of revenue in 2020.

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I will go back and cover some of the 2018 financials, but then we will come back to the strategy and dive in further on what we did against our strategy and with the platform.

Our revenue in 2018 finished at EUR 284 million, down about 3.6% organically from the 300 million of the prior year. Our gross margin finished at 70% of revenue, even with the prior year. We were able to control our costs in services and subscription to keep that number flat year over year. It is a very important figure for us, to continue to pull back on the subscription costs so that we can continue to improve the margin of the subscription business. That is part of our strategy, and we will incrementally improve that year over year. We were able to do that in 2018.

We were able to keep control of the operating expenses for the year, either flat or slightly decreasing, which allowed us to keep the margin at 11% for the year, but we will go through what we did in more detail in the second semester to really accelerate our investments towards our strategy.

Therefore, for the year we finished with a net profit of 11 million or 52 centimes per share, versus the 4.4 million or 21 centimes per share for the prior year. Regarding the 2017 results, we declared a dividend of 20 centimes per share, and that was because of a lower net income and the investments we knew we had to take in the 2018 year. I am happy to say that with the 2018 results, not only the financials but how we have advanced our strategy, the investments we have made and our outlook, we have been able to raise back the dividend to 40 centimes per share, back to our normal level.

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Going back to our signature metrics, this is one of the metrics we are using to track our effectiveness in our selling efforts, and this is something I exposed to you in July, so just as a reminder for those of you who were not here in July, we are taking the license revenue and comparing it organically to the prior year, and we are taking our new subscription ACV, or Annual Contract Value, multiplying that by three, which weights it at about the same level as a new license, and then we compare that as well organically to the prior year.

Therefore, for 2018, this metric gave us 8% growth year over year, a very strong signal that our sales efforts were effective in 2018, and although the subscriptions will become revenue in future periods, it is a booking and a measure of sales effectiveness and how we are going to market in our go-to-market strategy. Digging in further with this metric, if the growth is coming from the subscription, it is also confirming where we are taking the company. Therefore, our business model is changing more for a subscription base, and if they are buying the AMPLIFY subscription, then the customer is able in the future to buy additional products and offerings from Axway that in the past were standalone products that were not so connected, so it gives us additional revenue opportunities with the customer in the future, so we are excited about the growth in the subscription and some of the initial sales on the platform.

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This is a little more detail on the revenue, going through line by line. Subscription revenue grew organically 4.4% to 40 million for 2018. Maintenance finished strong at about 143 million, up about 1% organically. I want to remind you that in our strategy we want to protect this maintenance line. It is going to be under pressure, not only constant price pressure and standard attrition, but as our license market is dropping, it is not filling the top of the funnel as much anymore, so we have got to protect this, and we were able to do so in 2018.

Our services dropped 13% down to 44 million. We had a drop in the first half of the year. We exited some staff augmentation contracts which were expected in the first half of the year, but we were not filling the pipeline with new PSO contracts fast enough to be able to flatten that out for the second half of the year. Our license revenue finished down 11% for the year to 56 million.

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Going a little deeper on the subscription activity, I said it finished at 40 million or up 4.4%; in the year we were able to take some of the investments in the second half and build out the team and train the team, and start pushing the subscription message, which is our business model. That is the constant challenge we are taking on and will continue in that investment in 2019, but we were able to do a lot of it in the second half of the year.

We had strong ACV, which grew 56% year over year; we finished at 13.1 million in new ACVs versus the reported figure of 7.3 million last year. The difference between the reported and restated create the organic growth is taking up a few more months of Syncplicity contracts that were sold before Axway bought them. Overall, the subscription revenue for 2018 was penalised by some one-off attrition that I talked about in July, that continued on for the rest of the year and will continue on for the early part of 2019, then that should pull back and then I should be able to have a normal attrition rate which should be about 8% or 9% when it stabilises, and then with the new contracts signed this year we should be able to have double-digit growth in the subscription line for next year.

Slide 10

Our license dropped 11% to 56 million. We had about 4 million over a couple of contracts that slipped at the end of the year, that were out of our control. Some customer events happened that we just could not forecast, and we had forecasted those in the figure, but they moved out of the quarter; we were able to sign one last week and will pick up the second one in the second quarter, but for me that is not the critical factor. Regarding our license revenue drop, if our signature metric is growing, then the health of our new sales is growing and continuing.

Therefore, as we go through this transformation, we may have positive or negative license throughout the years, but my ACV is growing and my signature metric is growing. We are pushing into our strategy. Maintenance finished at 143 million, up about 0.9%. We were forecasting about flat to protect it. We were able to not have the attrition rate on maintenance not as high as in prior years, so we were able to keep a positive organic growth for 2018.

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Looking at our balance sheet, cash finished at 36 million versus the 28 million of the prior year. Our net debt was at 10.2 million versus the 24 million of 2017. Our DSO, a measure of the health of our receivables, finished at 77, which was even with the prior year, and our current deferred revenues finished up 12% to 75 million, and I point this out because this is where the subscription contracts we are signing that are deferred with flow into the current deferred revenue, so you will see this line on the balance sheet continue to increase as we are executing against our strategy.

Therefore, all of this says that we are able to maintain a stable and structured balance sheet while we are going through this transformation.

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When you look at our cash flow, we finished with free cash flow of 17.5 million versus 24 the prior year. I consider that an okay figure given what we are doing with the business. We were able to generate 8 million of net cash in 2018, and all our banking covenants were well respected. Our leverage ratio was 0.3 for 2018, well under the covenant of three. We were able to amend and extend our credit facility in January 2018, our 125 million revolving credit facility, and we were able to improve some of the terms within the line and also have the leverage ratio go up to 3.5 for the first few years of the renewal, as we were able to walk the bank through our business model, what we are doing, and they understood it and allowed us to push up a bit the leverage ratio in the first part of the year to recognise investments we are making.

Slide 13-14

I want to come back to the strategy and what we did to execute against it for the first half, and also share with you some of the investments we made on the platform and on our go-to-market. I took over as CEO in April, and in July we had done a lot of work to understand where we were on the platform strategy and what we needed to do to make it real. Therefore, we executed quite strongly in the second half of the year, and we will go through those.

We have executed both on the AMPLIFY offering and the technology, and also on the go-to-market strategy. I will cover the technology side of the house, and then Roland Royer will join for the go-to-market strategy.

I and Roland continued the effort of meeting customers, talking to analysts, doing the work to validate our strategy, to hear what the customers were going to do with their integration needs, and to also share with them what we plan to do with the platform. We continued to get validation that this is where the customers are moving, and the analysts were coming back and saying that this is where the market is moving.

This was confirmed in Q2 and continually confirmed; we continued to see the need to really accelerate our investments and our go-to-market and our offering. What did we do to accelerate it? We added an additional 4.4 million in R&D over the first half to the second half, an increase of about 16%, and this investment was augmented by a few other things. We did a portfolio rationalisation, going through all the different activities in our portfolio and either stopped investing in some, ended some, or we just pulled back on the investment of some to create a pocket of about 20% more with the current resources, and then we added 4.4 million of new investment. We could not, as you can appreciate, hire fast enough to get additional resources to do this, so we also had to onboard contractors and partners to help us in this journey, and we did that in the second half of the year.

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This is a picture I shared with you in July about the AMPLIFY platform, and I pointed out the different offerings that we have in the platform currently, so I will not go through that again. What I want to cover here is an important point: the heart of the AMPLIFY hybrid integration platform is the integration products and solutions which are in the middle box here. It is our traditional products, such as MFT, B2B, API; these all had to have some level of investment to open them up and make them operate in a platform, but the real power, and where this all comes together, I call it the glue of the platform, is when you invest in a foundation layer that gives you governance, management, a catalogue, orchestration in different components that make all of these talk and work together in a far more efficient way than they have ever done in the past.

Then there was additional integration flows we were not covering that we also had to cover to have a complete AMPLIFY platform. That is where we had to make an investment in the back half of the year, and we are continuing to make the investment today.

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Before I go through that, I want to go back a step and remind you how we even got here. This is a story of 15 years of evolution. We had traditionally MFT markets, we were strong in the MFT, we moved into the B2B integration in 2008, in 2012 we added the API, another integration flow, which created data openness, and we added Syncplicity in 2017, which gave the human side of the MFT market and pushed us closer to the customer, but all of these were individual products. They were all standalone components. The market is moving, and we are moving, to the hybrid integration platform which treats all of these as just integration services, so they all had to be combined, and we had to make that investment to make them come together, and that is what we are calling AMPLIFY, which is our hybrid integration platform.

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Why did we do this? Why is it important we do this? Our customers are moving there and they need help getting there. The analysts and the market are telling us that is where it is going, but from a business model and from a financial model, if you look back over the last 10 years, we have been relatively flat on average total revenue and a slightly decreasing situation in license, so our market was mature. You can see that when you look at this slide. We were a leader in the MFT and B2B. That is in the area of high control systems, low productivity, think of it as a back-office IT controlled system that would take a long time to roll out, integrate, and if you needed a new integration pattern you would have to request it, wait for months. This is a very mature market – a large market but quite mature. These are growth figures, estimated at 6% or 4%, but in my feeling, none of those are realistic – it is really a flat market. If I am winning in MFT, one of my competitors is getting their system ripped out. There are not many new MFT or B2B solutions.

Therefore, we went into the API market, we went into the more customer-centric content collaboration markets, a little more higher growing markets with a little less control, a little more productivity, and so we started winning some new business. This has been a nice growth engine for us, but the market is moving even further in productivity, and now the technologies are addressing application platform as a service and IPaaS capabilities as well, and you see the IPaaS is growing almost 20%. The beauty of the platform, and what we are doing in the investment we are making, is that it allows us to address all of these markets. These are all different integrations – we are able to hit all of these components, and the goal of this is to put us back on a total growth trajectory. The market is estimated to grow at 10%, but I just want to get us back to a growing top line revenue, and so having the platform will allow us to do that.

We will be able to take someone with an MFT system and upsell and cross-sell them to build out a platform with these other markets, or they may come to us with an API-first approach at building out their platform, and we could go backwards or forwards with the different technologies. Therefore, it is quite exciting in terms of the investments we are making to see the market we could address.

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Coming back to the investments, the different product names are not important except for the first one. The IPaaS capability is an integration capability that a hybrid integration platform must have. We had to have it, so we are rolling that out in Q1 and announcing that here for general availability at the end of the quarter. Think of the additional capabilities around MFT, API and B2B as the glue I was talking about to both open up and make these connect and come together.

Then we are trying something new, so a lot of what we are doing inside the house is really trying to change how we build our offerings, and we are working with the customer with the offerings, so we are putting some innovation out into the public beta market to get the customer feedback before we finalise it and go GA. Micro-service management and choreography are those different components, but all of this is innovation, it is not a 0.1 product release where we are just addressing some issues. This is all innovation that was necessary for us to have a platform. It is all either being released in Q1 or put in public beta, so we could go to market at the end of this quarter with a true platform, so it was very exciting for us to be able to create that much innovation in a short period of time.

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I want to come back again to look at the platform in a different lens. It is a slightly simpler way to look at it. The left boxes at the top are traditional integration capabilities, but now we are also adding the IPaaS integration services. All of these had some level of investment throughout the second half, and they are all coming together in the platform, but the really important piece is all this that we are calling the AMPLIFY foundation. All of these different components from the catalogue of the flow orchestration, etc., were all necessary to be that glue to make everything work together as a platform. All of these have been invested in, they were all real and demonstrable at our sales kick-off, and maybe not in General Availability but advanced enough that they were able to be played with and used by our sales teams so they could understand what we are talking about and what we are trying to do.

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Looking at it a little deeper to give you an example, we have the AMPLIFY catalogue, the first box of the foundation. What is the importance of the catalogue? I presented our portfolio in July, and the products on the right are the different products in our portfolio, and most of them are at the heart of our integration platform and most of the services that must be necessary to make the platform. All of these integration or data flows can be registered as services in the catalogue, so you could list them, and they are available to see in the catalogue. This is what the customer would be running if they buy the Amplify offering. They would get the foundation services, they would be using the catalogue to see these different offerings that they have bought, and the registered services in the catalogue. Then they could start registering their internal systems, their CRMs, their cloud services, maybe a home-grown system; it depends on the level of APIs and openness of those offerings. However, if you could register them in the catalogue, then you could have an integration team inside the customer that could actually start doing the integrations.

Therefore, integration is no longer this month-long, very complex project that takes a specialist. You will have a point-to-point solution and it is done. Now you could really start leveraging the power of the different integration capabilities you have and the different end points you have in the business to really accelerate the pace of using your data as an asset in your company. Going a step further, where our catalogue and our product will go over the next year or so, that catalogue will have my competitors' products in it. It will allow me to sit on top of or around their products and add value to them, so I no longer have to rip out their MFT and put mine in. You can just keep it in, put it in in the back office, leave it in place, and we can add value around it, and you can come to us for more advanced technologies as you go along your journey. That is where the real power will come from as we move forward in building out our offering. With that, I will ask Roland Royer to talk about what we did in the go-to-market.

Roland ROYER, Chief Customer Officer, Axway

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Patrick gave a good explanation of our investments in terms of our technology and the execution that we led during the year and the second semester. What I will cover on my side is really the other side, because having great technology alone is not enough. Making the investment in the technology also requires making an investment in how we support the technology and how we align the deployment of our strategy.

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The two key areas that I will cover in terms of the investment and change of our organisation that we implemented during the year are really in two different areas, customer success and our relationship with our customers, the way we engage with our customers along their journey, and the go-to-market, meaning our sales teams and our marketing execution.

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We invested about five million more in H2 just on expanding our customer success organisation, and before going into exactly how we invested, I want to discuss three key successes of the year, three key successes that demonstrate the value of the AMPLIFY platform and our strategy. The first was a large bank in Brazil with whom we started to engage in their digital transformation and their digital banking initiatives, and they have seen very high growth in terms of usage of their APIs. They came to us with one request, that they needed a different model of engagement with us and a different solution. What we did, thanks to AMPLIFY, we moved them from using their “on-prem” product to the AMPLIFY subscription solution, basing their contract on the usage and construction of their platform. What it generated for us was a seven-digit subscription deal in H2.

The second example is an MFT with a life insurance company in the US. They came to us while creating a new business, wanting to launch a full brand and a full business in less than four months, requesting a full MFT solution to start from scratch to production in four months. Once again, we started with the AMPLIFY solution, and using the AMPLIFY MFT solution cloud managed services, we were able to develop, implement and get into production in four months.

The key values of the platform and the usage of the platform was to expose additional services, and what happened for us on this one is that we managed to cross-sell and upsell twice in six months, actually doubling the value of the initial deal that we made with these customers.

The third example I want to use is the one of a major automotive equipment provider in Europe. They came to us with two things. The first was that they needed to modernise their IT, to modernise their EDI services to open up from traditional B2B to an API integration pattern. The other was that they were struggling to maintain the skills to support this type of platform internally within their group. Once again, what we did, thanks to the AMPLIFY platform and the AMPLIFY B2Bi services, was to transition them from on-prem services that they built and managed on their EDI solution to AMPLIFY B2B managed services, liberating them from managing their platform to focus on their key initiatives inside. This, on our side, multiplied the annual value of the customers by four.

These three examples really show the value and the capabilities of AMPLIFY to address new customer needs, facilitate the expansion starting from MFT and adding content collaboration or an API business case on top, generating, bigger, larger and more long-term business relationships with these customers. How did we support that, and what did we do in terms of investment during this second half of the year to support our strategy and to enable our teams around our strategy?

Slide 24

When we took over, the first thing we had to realise was that the buyer behaviour of our customers had changed, meaning that our customers really engage with their vendors later in their cycle. They are doing much more sales-guided research, they are doing much more peer-to-peer relationships, actually making more than 50% of their decisions before engaging the vendors. Recognising that, we really invested in our digital presence, and we increased the digital marketing team and launched during the half-year a new website with a clear message regarding our strategy and AMPLIFY, really creating clarity and more information for the customers, our customers and our prospects, to understand our strategy.

More content on the web also requires more people delivering content, and we recruited what we call a team of evangelists to create more content on the web, talking about Axway solutions but not only about Axway solutions. These evangelists are giving Axway's point of view about what is happening in the integration landscape, what technology trends and best practice trends there are. We are still moving in integrated data, but there are new ways of doing that. This evangelist team participated in a technical events to create a better position on thought leadership and Axway positioning within the market.

The third part where we invested during the quarter was in supporting our sales team transformation by adding sales support specialists, to help them to sell new technologies in some regions, like API or Syncplicity, and we have seen, during the year and at the end of the year, successes with the adoption of the technology in new regions, and we have new large enterprise deals around the EFSS in Europe, for example.

Finally, we created a team during the year, bringing it to full speed in Q4, focusing on mid-markets, one of our customer segments that we were not focusing on; we were completely overlooking this segment. Early leading indicators of this investment and this strategy provide a good indication that we are having more conversations with our customers, we are engaging with new personas that are involved in the sales cycle and making the decisions. Connecting with enterprise architects is important to help them influence the deals. We have a website that is generating 130% more traffic. The evangelists and the content we are pushing generated very high growth in terms of the traffic on the Axway blogs, which talks more about the Axway positions. The mid-market team in Q4 generated 30 brand new logos for our customers, all of them on subscription, all of them tied to the growth in subscriptions Patrick mentioned earlier.

This is a leading indicator that what we are driving here is generating more conversations with customers and prospects that will drive more opportunities and more business during the year.

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The second key area of investment that we worked on during the year is about customer success. Our customer success is our success, meaning that we changed the organisation, we changed some of our processes and implemented some KPI with a fanatical focus on customer outcomes and customer success. The first thing that we wanted to drive during the second half was generating more customer proximity to drive collaboration. The second part was investing in our people in terms of training and in terms of teams, to have customer success managers that can work along the life cycle and along the customer digital journey side by side, from start to forever.

Finally, we changed the model we have with our customers in terms of innovation. During the second half, when we were working on the new capabilities of AMPLIFY, we engaged customers to validate the direction we were taking in terms of developments. The other thing that we did during this time was to create Axway labs where we connect customers, partners and our experts to validate some ideas and new business cases that we can build on top of the platform. The outcome of this is that sometimes the solution a customer builds on their own on their platform can blend with new services that we make available as AMPLIFY services that we will launch in Q1.

We doubled the number of user group events we have worldwide, generating collaboration between Axway experts and 700 Axway users and practitioners, really engaging on their experiences, what they see and what they feel. We launched an Axway online community, creating more collaboration between Axway and our customers. However, more than being a connection between Axway and our customers, it was to create a way for customers to have peer-to-peer interactions. We want our customers to engage among themselves, share their experience and create an ecosystem around Axway. Today we have more than 1 500 active customers on the platform.

I mentioned the investment in terms of resources and training within the company. We doubled the number of customer success managers that we have within the company. Therefore, this focus on customer success is really targeting three key areas. The first one is to accelerate the adoption of our solution. When we start with a customer, we want to rapidly get to an outcome.

The second is to increase the retention of our customers by staying engaged with them, by working with them from start to forever, as I said, so they stay with us. The third one is creating more opportunities for cross-sell and upsell faster on the platform, as the platform gives access to all the services, making sure that they can consume these services quickly.

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Where are we in Axway today? We are in a very exciting time, as Patrick said. We worked a lot during H2 to make the platform real, to make the platform tangible, and for our people to really understand the concept of a hybrid integration platform and how it validates all the investments that they made in the past toward the future. We have just completed two key events, the sales kick-off at the end of January and the product kick-off in February, to align the whole company around the message and the value of this hybrid integration platform, so that everybody is aligned behind the strategy and is able to experience the platform, to look at it, touch it and see the use cases that we built internally and with customers. Both of these elements included customers.

The next step we will take, in a couple of weeks, is the same thing, to make the platform real to our customers with two events, the Axway Imagine summits, one in Europe and one in the US, where we will be with 500 customers and partners. These people will be able to experience demos and touch the platform, connecting their needs and seeing how they will be able to extend, with one platform, one experience, across multiple integration patterns.

All of that will drive us and lead us to the end of the quarter, the General Availability of the platform, being able to keep this momentum we build during H2 and this first semester in order to have a very successful full first year for AMPLIFY in 2019.

Patrick DONOVAN, CEO, Axway

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Hitting on the targets and ambitions we have over the medium term, for 2019 we look to return to organic growth, and this will be necessary, along with organic growth in 2020, to get us back to 300 million of total revenue. However, all the investments we are doing, everything we are talking about around the platform, all the go-to-market investments, they are all to get us back to a growing top line revenue company, and we plan to do so in 2019.

Additionally, 2019 is still a year of some investments we have to do, so I still have to do some work on the platform and the launch I talked about that we will do in March. There is work going on now feverishly with the R&D teams to finalise it, test it in GA mode, etc., but I will not give up my pressure on them. This will continue and move on into the rest of 2019, continuing to enrich and expand what we are offering with the platform and all the offerings within it.

Therefore, with that investment, with some additional investment we have to do in the sales and marketing approach we are currently making now, we should be at a margin of between 8% and 10%, but for any of you who have heard us talk about the strategy and the story for the past year or so, we talked about this famous fish model, that we would go into the belly of the fish and come back out of it. We hope that in 2019 we will get back to growing our operating profit and to set a trend of continuing growth after that, all of this to become a leader in the hybrid integration platform market by 2020.

Therefore, with all of this strategy, if we can become the leader in 2020, that really gives me an exciting company that we could use as a platform for the next 10 to 15 years of Axway, and it sets us on a stage where we could do some very exciting things for the future and make it quite an exciting place to be.

Questions and Answers

From the floor

Gregory RAMIREZ, Bryan Garnier

Just to come back on your guidance, I think I have heard that a double-digit scenario could be realistic for subscriptions this year, if I heard correctly. Can we expect high double-digit growth? I would like to understand if the clean-up of the portfolio and the attrition of the legacy subscription portfolio is over.

The other question is regarding the transition of the business model. Services was still down, obviously linked to the big license deals which are coming, or not, and maybe the transformation of the business model with more recourse to partners. How can we apprehend this situation in 2019 and maybe 2020 regarding the magnitude of the decline this year, but probably not depending on the license deals which could be signed?

Patrick DONOVAN, CEO, Axway

I will cover the subscription question. I may ask Roland Royer to jump in for the services. A good way to look at 2019 may be to dive a little deeper into 2018 subscription revenue. I started with a base of 37.5, 38 million of subscription for 2018, and so naturally you would have some level of attrition. We would expect 8% or 10%. It just happens with corporate transactions. We experienced more like 15%, 16%, which was quite high, so of that 37 or 38 million, you take off about six million for attrition, and then I pick up seven or eight million to get to the 40 million we finished at. That is made up of two things – it is made up of the ACV I signed in 2017, so we only picked up three or four of the eight million in 2017, so I pick up the rest of it in 2018, and I pick up some revenue from the deals I signed, let us say three or four million of the 13 million I am talking about here.

When you go into the next year, 2019, you have the revenue to pick up from the signatures in 2018, that 13 million that was not recognised, so you get to pick up another 8 or nine or so, and then we have a certain level of attrition, which we hope comes back down. Then you get to add in what you find in 2019, and the earlier you could find it and get those customers live, the faster we get growth, so we should be in the double-digit range. Where it is at in the double digits depends on how fast we could fast we could sign the new ACV and how much we could protect the attrition. Because it is a low figure in our financials, it is still 40 million of 300, almost, and that is our strategy, and we are pushing into it. We should expect strong growth in that line for quite a while.

Looking at some of the other companies going through this, they are experiencing that type of pressure on the license, maintenance quite stable, but strong growth in subscription.

Roland ROYER, Chief Customer Officer, Axway

I can comment on the services part. Patrick mentioned a few dynamics in services where we can explain the trend and the difficulty of predicting the trend to come. The first was, the explanation of the decrease was really part of large staff augmentation deals that we had in the past that we are not focusing on today and are not trying to get. We externalized that and are working with partners worldwide. That was the first impact.

The second impact that we are facing today on services is that, as we are moving to subscription, and as we are moving sometimes to Axway cloud managed solutions, we still recognize and deliver part of the service, but we deliver it as part of the subscription. Therefore, where we report this type of revenue is starting to change and blurs the comparison a bit. Obviously, in terms of the license impact, depending on what type of license project we will have, we will have more services or fewer.

What will it be in 2020? The last point that I want to add is that, we are driving a hybrid integration platform, and a hybrid integration platform is all about enabling teams, even enabling business teams, to do some integration, and this part of the services are actually given directly to the customer and the business users. When we talk about the IPaaS type of integration, there are obviously fewer services than the services we were developing and managing for our customers.

Therefore, we will see how fast our services will be impacted by how fast we are going to see our customers move from the traditional on-prem perpetual license to the subscription. That will have an impact.

Patrick DONOVAN, CEO, Axway

There is another component. There is another service offering that we are not very mature on yet, and as we are moving into the integration platform space, there is a new demand for consulting services, so the customers are starting to do the integrations themselves, but they are having trouble conceptualising how to get there. We have met with some customers, they have bought the API, they have installed it, they are using it, they are starting to build up this hybrid integration platform with our help, and they are looking for guidance, consulting around how they structure that and roll it out.

This has been popping up in our customer discussions over the past few months, so we have to address that and start putting a practice around that. We will see how quickly that could take off and augment our services portfolio and we will see if we could create some growth there.

Arthur CARLI, Head of Investor Relations, Axway

There is a web question from **Jeremy COUIX at HC Capital**. He is asking for some details on the split for subscription revenue, both in terms of absolute sales and growth by product – Syncplicity, Appcelerator and Actis.

Patrick DONOVAN, CEO, Axway

We do not really detail out the subscription and the growth across the different products, but I will say that Syncplicity and Appcelerator are a little under half of my total revenue. The rest is made up of what we call enterprise cloud managed services, and there is just a little revenue impact from the AMPLIFY subscriptions. We did sign about six AMPLIFY subscriptions in the year, but the revenue will really start showing up next year with those. Regarding the splits, they are a little less than 50-50. Actis, if that is truly the question, falls into the enterprise cloud managed services, as that is part of our B2B portfolio.

Guillaume DAUMIER, HSBC

Just going back to the AMPLIFY platform, you were saying that your solution could work with competitor solutions. Can we assume it is something like an open platform? Would that be correct?

Patrick DONOVAN, CEO, Axway

Yes, we are an independent vendor, A lot of our API competitors are no longer independent. We are independent vendors, so we are able to play with all the different vendors' technologies if we want to, and we are not just going to be pushing only our own view with Google, let us say. They are going to push a lot of the Google offers in trying to address a lot of the needs. We could play with whatever the customer has, so we think that gives us competitive differentiation in the marketplace.

For example, Sterling Commerce, which is owned by IBM, were our head-to-head competitor throughout the life of MFT, and this continues. You could have the MFT from Sterling sitting in your room, and you could be running it for up to 10 or 15 years. We will not go in there and only try to compete for that business, for you to rip it out. We could say, leave it, open it up to the APIs, and then we could connect to our catalogue, take the data you are running there and really expose it so you could use it in the rest of your systems.

Hopefully, when we are sitting in there, they could see how good our MFT is and then they could change theirs out, but you never know.

Guillaume Daumier, HSBC

Does it mean, for example, that when a customer has subscribed to one of your products, that it involves a smaller cost for you to cross-sell and propose other products?

Patrick DONOVAN, CEO, Axway

Absolutely, and when you look at our portfolio, all of our integration and data movement products in our portfolio made sense together, but they were hard to sell to the customer because they were standalone products, so it was a completely new sales cycle even though they were your customer. Therefore, you may have the first pass to get inside the door, but then you are with a new team, dealing with a new sale.

Regarding the platform, we are hoping, in terms of the way the market is going and if you listen to the analysts, they are building integration teams inside companies, and the companies we have talked to are starting to think about that and talk about that as well. They are a service bureau to the rest of the company, so we are selling to that service bureau whatever integration they need, whatever help they need, so it becomes much more efficient too.

Derric MARCON, Société Generale

I have two questions. Patrick, can you update us about the investments you planned at the beginning of 2018, the EUR 15 million? How much did you spend in 2018, and how much is forecasted in the guidance for 2019? That is my first question.

The second question is about your objective to grow the business this year, to grow your top line in a positive way. What would be the worst-case scenario in your mind for license revenue? You were badly surprised by the results for 2018. I understand that it is not your core focus, or your main focus, but for modelling purposes it is important to know what you have in mind at the beginning of the year.

Patrick DONOVAN, CEO, Axway

An important point that for some reason continues to be missed with the 15 million is that, when I presented the 15 million investment, it was not completely new. It was also a reallocation of what people were working on, pushing them, so we had a pocket of 15 million to throw at really making the platform real. You saw what we did, about 9 million in additional investment between R&D and sales and marketing in the second half. Not all of that was only the platform, because when you hire a person to work on a product, the MFT, we have to work on MFT to get to the platform, so it is serving both purposes.

Regarding the additional investment that is going to blow into 2019, effectively I will have 12 to 15 million incremental around the platform rolling through 2019, but then I am looking to save in other ways to help fund it so the impact is not so high on my financials next year.

Regarding the second question on license revenue, I will not give the forecast on license revenue for next year, but the interesting thing about what I have talked about before is that, if I had a really strong drop in license but my subscription metric was high, then I am killing it in subscriptions, and if I am killing it in subscriptions, yes, next year will not be pretty, but I will have a much better margin in 2020. Therefore, I am okay with taking a little of that short-term pain if I am really going to blow the number out of that subscription component.

Derric MARCON, Société Generale

Why don’t you completely change the model in that case? One of your German competitors has decided to do that in 2020. Why do you keep both models if you are convinced that the subscription model will be the one most adopted by customers?

Patrick DONOVAN, CEO, Axway

It is not mostly adopted by our customer base. The license, I believe, will always be present at some level. Where the bottom of that license revenue, we just do not know, but the customers we are working with will always, I believe, have some level of license in their sales. Regarding some of my competitors in the market, a full switch to subscription-only, offering their products in subscription mode or cloud-only mode, I am not sure that customers are ready to go there. We are often dealing with internal flows, high security, and sometimes the customers just are not comfortable, so what we have done with our strategy is to adopt what we call hybrid integration platform. It is truly hybrid – it could be on-prem, in the cloud, we really do not care – we are building our technology to handle both.

There are certain elements that will be very subscription-specific, but with other elements like MFT, they may want to continue running it in their server room for their own reasons and buy a license for budgeting or other reasons. We will not force our customers to do that, and actually, we have tried to design our com-plans to have our sales team meet the customer with how they want to buy from us, and if they want to buy a subscription or they want to buy a license, I do not want my sales guy focusing too hard on pushing one way or the other. A lot of my competitors will pay double on subscription or cut the license by 20%, or something to focus the sales team. We want the sales team to really get close to the customer and build up the customer loyalty, that they are a partner with the customer just trying to meet their needs, how the customer wants to buy.

Therefore, we are taking a different strategy. Will the all-subscription work better than ours? I am not sure it will, if you are addressing the issues we address with our customers.

Arthur CARLI, Head of Investor Relations, Axway

There is another question from **Jeremy COUIX at HC Capital**. Do you expect gross margin in subscription to increase further? What level do you expect by 2020 and 2021? The second question is: Do you expect gross margin in services to recover, and if so, at what level?

Patrick DONOVAN, CEO, Axway

Regarding the subscription, part of our strategy has to be to improve our subscription margin. We are at, I believe, 43% for 2018. I have set a target that we have to be between 65% and 70%. It is a blended target. Our subscription offering is quite complex. You have multiple different lines of activity in it. You have a product like Syncplicity which has a natural margin of about 80%, so that is a multi-tenant platform, and those run about 80% margin, but when I do enterprise cloud managed services, as Roland said, it could be a heavy B2B system like Actis, including some level of managed services, so people always, touching, manipulating, working with the system in the cloud. We have essentially taken out their IT teams that would be touching and working on this. The margin in that business may be 40% or 50%. Therefore, in my blended average I am targeting 65% to 70%, and I think I get there as I come out of my transition, so 2021 or 2022 it starts hopefully becoming a 65% margin.

Regarding the drop in services, we are not able to adjust their spend quickly enough to keep the margin, but we did adjust their spend, and we hope the services margin goes back to the level enjoyed in 2017.

Derric MARCON, Société Generale

Why are you so confident that you could take your share of the IPaaS market segment? You seem to be a little late in this market – it is already a one billion market with a lot of specialists there. Your competitors have made acquisitions in that space, and you have not. I understand the potential of cross-selling with the platform, but you will be face-to-face with specialists or big guys who have been playing that field for a while, so I am just trying to understand why you are so confident that you will be successful in that space.

Patrick DONOVAN, CEO, Axway

I am not confident I am going to be successful in this space. I will tell you the strategy – to have a true hybrid integration platform, you have to address the IPaaS capabilities. That is a market that already has some tough competition in it, and we do not want to jump into the market and compete head to head. That is not our value proposition, and so we did not buy into that space; it is overpriced significantly. I am not sure that, with our history and our customer base and what we do, it would have been a winning purchase to actually overpay for a company and then try and monetise it. I am not sure we could have.

Therefore, what we have done is, we have taken into account the IPaaS capabilities and are launching those. We have worked with a partner for some of it. We have really tackled the way we build products a little differently. Therefore, for certain parts of our IPaaS we have partnered with somebody. The parts of IPaaS that are core to Axway's platform and the customers we serve, we own, and we have built.

The last mile, I call it, to go from your hub out to a salesforce – I will not build 1 000 of those or invest in it. I could work with someone else to provide that. Therefore, we partnered with someone and we also did a lot of investment around our stuff to make it real, so now all those IPaaS capabilities are available in my catalogue. When I was talking about the catalogue and the power of the catalogue, that is where we need our customers, that is what they are looking to us for – **security, tough-to-handle transactions, high volume – and so we handle that well.** That is our legacy. **We move and integrate data securely. That is our legacy.**

Therefore, we know who we are and what we do properly. Then we give those services from an IPaaS-registered catalogue to connect to Salesforce or Mercato or Oracle's financial system in the cloud. I really do not care which ones it is connecting to – the IPaaS capability provides those connections into my catalogue, so now I can take the power of what we do do well and connect it the last mile to the end point.

That is the IPaaS strategy we have taken. You could use our technology, quite frankly. You could use connection of Salesforce to Mercato. We could play in that world. We are not going to try to compete in that world. That is just not who we are as a company. However, you could do it, so if you did buy our platform and were working with it, if you just had one or two of those types of connections, you could use our platform and connect cloud vendors and never come through our MFT or B2B. However, somebody else will do it better, but it is an extension of what we do.

If there is no other question, then we will stop this conference.

Thank you all for attending.