Axway
Half-Year Results Presentation
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AGENDA

Half-Year Results Presentation

Arthur CARLI

Head of Investor Relations

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Hello everybody, welcome to Axway 2019 Half-Year Results. I am Arthur Carli, in charge of Investor Relations for the Group. I would remind you that this presentation will be held in English and headsets are available to give access to a French translation.

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I would like to remember you too that this presentation may contain forward looking estimates, and is also live webcasted on our website Axway.com

With that, I give the talk to our CEO, Patrick Donovan

Patrick DONOVAN

Chief Executive Officer

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Thank you for joining us. I am happy to give you an update on how we are moving on our transformation project and how we are driving into our goals for 2020. I will start by going through the first-half financials and giving some comments on those. We will then give you an update on the transformation project, especially making focus on the customer success organisation, finishing with our targets and ambitions for 2019 and 2020.

I want you to leave here understanding what we have done so far over the past year or so and what we are working on for the rest of this year. And how we are setting the foundation for a return to consistent top line revenue growth and improving margin as we come out of 2020.

To dive into the financials, first-half revenue finished at EUR 138.6 million, which was up 2.7% in total over the first-half of 2018. We are basically flat organically. The gross profits finished at 67%, not far off the 68% in 2018 and this is with the changing revenue mix underneath Our operating expenses are quite in line with the discussion we had at the end of the year. So, we increased our R&D and sales & marketing and we dive into what we did with those increases at the second half of 2018, and that continued on into the first-half as planned. While doing that, we were able to drop our G&A and keep that under control. It resulted in a EUR 2.5 million profit on operating activities, or 1.8% of revenues, versus EUR 12.3 million or 9.1% in the first-half of 2018. Our net loss finished at EUR 6.1 million or 4.4% of revenues, versus the EUR 3.9 million or 2.9% of revenues in the prior year.

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Going a bit deeper into revenues, which interesting is that the revenue mix is quite reflective of what we have talked about as our 2020 ambition. That is to protect the top line revenue and get it ready to grow organically again but having the changing revenue mix underneath. So, that is more recurrent and less one-time revenue.

And we see this in the graph on the right, shown quite visibly that we finished the first-half of 2019 with 69% of recurring revenue, versus 61% in the first-half of 2018. This was thanks to a nice subscription revenue of EUR 23.1 million, which is up from EUR 18.8 million in the first-half of 2018, organic growth of 17%.

But we had decreasing licenses, finishing at EUR 21.8 million, down from the EUR 23.8 million reported in the first-half of 2018, which was a 10.3% organic drop. However, this was quite in line with our budget and we expected this drop when we built our budgeting cycle. We saw this across the US, UK and German markets, but as planned, our French market remains strong, because we had the contract sellers strong-growing license in the first half of 2019. Maintenance remained stable, again with our projections for our targets for 2020. Maintenance finished at EUR 72 million, up 0.5% organically or 3.1% total growth. Services dropped to EUR 21.5 million, down 6.8%.

With this changing mix of revenue, from non-recurring to recurring streams, you are now seeing subscription starting to overtake license. I believe it happened in the first quarter as well, so we had the first and second quarters with the subscriptions starting to be more important than license. Hopefully, this is going to be the trend going forward.

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To dive a bit further into license. We have always had and continue to have the seasonality in license, so we had organic growth in the first quarter and a drop in the second quarter. That is because of the larger deals that will occur in one quarter and another that will cause the gyration. We are trying to get away from that by moving towards recurring, to have a more stable recurring revenue base that is a bit more predictable as we go into the year and our planning sessions.

The maintenance revenue remains quite resilient. As I said, it finished at EUR 72 million and our attrition rate remained at 7%, which is inline with the historic average.

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I have presented this signature metric previously. It is how I wanted to track the health of our sales and marketing efforts in attacking the market and getting new business in the door. Unfortunately, this shows exactly the challenge I talked about at the year-end presentation. I have to fix, and we have to push into the market what we have built, and get it in front of the customers, explaining our offering in our API approach. We are having to rebuild a lot of the go-to-market approach, because our historic offerings were often a technical sale. Whereas, the hybrid integration platform and the APIs are a business sale. The buyer journey and how they talk about the business is completely different. We have made a lot of effort here and Roland will talk about that later, but this is where we are working on the next stage of our transformation. We saw it coming and we have taken action with the goal of bringing this back to a positive signature metric as we continue to drive towards 2020.

I have talked about the license, but new ACVs finished at EUR 3.5 million, down from EUR 4.7 million, or 25%. These are not large numbers and are made positive or negative by a couple of deals, but getting those large deals and subscriptions is the next phase of what we need to tackle. They will come and we have had a few and even signed one a few weeks after the quarter, but those larger subscription deals will be the momentum we carry forward into the future.

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I will make a few comments on the balance sheet. Cash finished at EUR 32 million, inline with the end-of-year balance. Our receivables remained strong at 61 days' sales outstanding, again in line with the same period of last year. Our net debt finished at EUR 12.3 million, in line with the end-of-year balance and deferred revenues finished at EUR 85 million, up from EUR 75 million at end-of-year.

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I have a few comments on cash flows. Our net cash flows from operating activities finished down at EUR 8.6 million, from EUR 25 million in the first-half of 2016. Our free cash flow was at EUR 4.7 million, down from EUR 21.8 million in the first half of 2018. That is the result of several factors, of which the biggest was obviously the drop in operating profit. We also had a declining situation on days payable outstanding or DPOs, which is the use of cash, along with an increase in other receivables, and we burned-off some differed revenues. This caused the drop in the free cash flow and some of that will come back to us in the second quarter.

Our banking covenants all remained in line and quite strong, so we have the capacity to borrow against our revolving credit facility.

Update on Transformation Project

Patrick DONOVAN
Chief Executive Officer

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I will move forward and dig into the transformation project and remind you of a couple of points. Our goal is to be the leader of the hybrid integration platform market by 2020. This is critically important to us and we have built the platform components. We have gone out and started to share what we are building and what we are doing and where we see the market moving. We have our customers and we are getting good feedback and validation from them that we are moving in the right direction and the one they expect this market to move in. They are also moving and thinking about how they get there. It is nice that we are setting a vision and a target for where we are going, and the customers are thinking about it as well. They do not have the platform now, they are going to build it over time, but we can be there with them as they build-out their platform and think about how they are going to handle integration in the future. It has been confirmed by the customers and we are also seeing the analysts starting to confirm it. We have seen some literature from Forrester, and we have used the quote from Gartner, where they say 65% of large organisations are going to have a platform by 2022. The market is moving this way, but we now have the vision to talk to them and be ahead of them, instead of just talking about technology components in our core offerings such as MFT.

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Going a bit deeper into why it is important, you see on the right, those are AMPLIFY products, and in the middle something we call the AMPLIFY foundation of which the unified catalog is one piece. These allow us to connect to and integrate with other assets outside of our software components, such as CRMs and Cloud services and also allows our components, such as MFT, B2B, to talk to each other. Why it' is important for us and for the customers ? This is important for us because we have a lot of history in the MFT and B2B space, so we are not exiting this space we are giving it a roadmap to the future for the space, which is what our customers are looking for. Our customers have invested heavily, and they still have the integration and data flow needs of MFT or B2B, but they have to do something to modernise these systems. Now, wee could talk to them about what this is, and we hope that as some of the MFT players have put aside these assets, we can talk to their customers and bring them over to Axway.

Second point is by taking on the integration platform we have needed some components that we have been able to invest in and deliver to the market, such as application integration or iPaaS as it is often called, and mobile integration patterns for content collaboration.

Third point is, all of this requires an API-first approach. Our API product is the way we are going to engage with the new market and customers, or it is a way we can talk to the legacy customers and bring them forward into a platform. You are going to hear a lot about us tackling the API market with an API-first approach.

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Along the journey of our transformation project, first we had to have the portfolio to sell. We worked on that in 2018 going into 2019, and we were able to launch somethings wich are talk about xxxxxxx in the first quarter of 2019.

When I took over a little over a year ago, it was key to secure employees. Our employee engagement was quite low. We had a high rate of attrition, that was in the 23%

range for several years and we cannot rebuild and drive into the market if we are losing the mind-share that quickly. As a result, we had to do a lot of work around the employee-base, to help them understand what we are doing and why, the importance of our project and how it could be relevant to them and their careers at Axway. We have done a lot of this and there is a lot of continuing communication work going on. Those efforts have been successful, and we have managed to get our attrition down to the 17% range and I am targeting something around 15%, which is a stable point for a software company.

We have also implemented a structure and adapted it to be more flexible with where we are going with the company. Instead of selling a traditional license and a big license with maintenance, we now have to take in the subscription pattern, and you have a lot of customers engaging you through your platform and website, etc. We have to market to them differently, talk to them differently and have the structure to handle the order in different ways. We are doing a lot on this and we are now ready to start engaging them where they want to be met, so that it is moving towards a business model sale rather than a technical model sale. As I said, we are working on the go-to-market and we will be making progress there with heavy efforts, which we will talk about in a minute.

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Going a bit deeper into the platform and R&D spend, I will give you an indication of where we have gone and where we are going. When we were here at year-end, I pointed out that in the first-half of 2018, when I took over, we were not spending at the levels to actually transform and deliver anything on our platform. We took some immediate action, bringing in consultants and partners, all different types of activities so that we had the horsepower and resources to deliver the assets we needed for our platform. There was then a spike in the second-half of 2018, getting to the levels we talked about when we did our year-end presentation of 2017, when we talked about spending an additional EUR 15 million towards the platform. At the end of last year, I indicated that we would continue at that level and we did into the first-half of 2019.

We are now well underway with the platform and as I return the profit, I should be able to stabilise this as a percentage of revenue, or even reduce it a bit and get back to a more normalised range of R&D spend. However, this increased investment allowed us to deliver the components we needed to have a real platform at the end of Q1. We deliver application integration or IpaaS. We delivered an API builder and API orchestration in the platform as well. We have also invested in some of the core assets, like MFT and B2B, to enrich them and allow them to onboard better into the platform. We have also tried and experimented with some of the assets like microservice mesh management and choreography, putting it in public beta within the platform.

With the increased investment of 22% over the first-half of 2019, over 2018, we have been able to do those components. We also did a few other things as well. Inside our spend, we really rationalised how we spend our money and what products we spend it on. We tried to put end-of-life or slowdown the investment in products that were either producing low amounts of revenues or not core to our future. As a result, we rationalised the portfolio in the first-half of 2018 going into this second-half.

We have also significantly improved the attrition rate in R&D areas by about 20% between the first-half of 2018 and the first-half of 2019.

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R&D is the horsepower to get the technology to market. At the end of 2017, we were spending about 55% on the AMPLIFY components and the platform foundation and we were able to increase that to 70% by the first-half of 2019. That, combined with the increased spend, meant that we allocated 50% of our resources towards the platform in the first-half of 2019 and even in the second-half of 2018. That allowed to release the components, to integrate the Streamdata.io acquisition into the platform in June, which we launched. We were also able to go back to our core assets and make some investments in those products. Now as we go through the rest of this year, we have got a lot of customer and internal feedback on the platform experience, so that we can go back and improve the user experience, as well as strengthening the onboarding and on-ramping of our legacy MFT customers, how they eventually build-out their platforms.

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I talked about the foundation layer of the platform last time. The unified catalog is a core part of that and allows you to register all the different integration patterns and really make the platform flow. All the other components help the experience of the platform. On top of that we have core legacy and products you heard about before. This has all been available since April after we did the end of Q1 launch.

Adding Streamdata.io introduced event-based API management into the platform, a capability we were missing. If you remember, when we started this transformation, we talked about doing strategic M&A to help serve the platform. That is an example of what was really a technology buy and API knowledge, not a revenue buy. We needed that component to build-out and round-out the platform experience.

There is one other key point I want to make here, because it is always a little confusing. The platform itself is not a product, you build the platform as a customer. You may have MFT or B2B software inhouse and you are going to have a roadmap to actually have an integration platform. You use it internally, it serves the business and serves its integration needs quicker, which is important because as we talk to customers about the platform and division that will materialise in an API, MFT or B2B sale. The nice thing about that is we can go back to them if they have the vision and our MFT product tucked-in with our API or talk to them about B2B, or different components that can help build-out the platform. It should create a cross-selling opportunity for us, or the ability for us to work better with our competitors' products but secure our position in the overall platform with our foundation layer. This is a key part of our strategy and we are now able to talk about and demonstrate it and the customer feedback has been really goods.

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The final piece I want to comment on before handing over to Roland, is that we need the people onboard to deliver against our strategy. People are a key asset; they are 80% of my expenses and it is all that we do; IP is made by people. It is key that we have the right people onboard and control our attrition and do the rights things with our staff for us to have success.

I am happy to say that we have some good progress in the first-half, on top of that made in 2018. We have been able to round-out our executive team, bringing on Dominique Fougerat to run our human resources. I am personally very happy not to be doing the CFO job anymore with the arrival of Cecile Allmacher. We have also onboarded a lot of resources in the go-to-market approach, so we have brought on three new business leaders covering our different sales regions. We have also put in place a go-to-market approach with some key new hires, as well as building a team to support them and what we call catalysts, which you will hear about from Roland.

As our employees are the key resource, I really want to make Axway the place to be. To do that our employees have to be engaged, so we have done some specific things in the first-half, added to what we did last year. We have built-out Axway University 2.0 the concept and we are launching it as we roll into the second-half. That will enable us to train and enable, not only the Axway employees but also our customers and partners, as we go through this journey and enable and train them in a more modern way. You are seeing a lot of things in the market like YouTube or digital trainings, rather than old classroom-style training and we have to get the platform, resources and content to do that. We have launched that project and will roll into it for the next year, working on that new University approach.

We also want to hear from our internal customers and employees, getting their feedback and taking constant action to make Axway a better place to work, so that they are engaged and aligned with our strategy. That is constantly in progress and we will be doing another survey here in September.

In the first part of the year, we also implemented a free share grant plan for all employees. The key for this is to align everybody with the company's strategy and success, but also with the interests of the shareholder. That was rolled-out in the first quarter of the year.

All of this helped to bring our attrition down 33% over the first half of 2018. It is working and we are going to continue to push into this, to drive towards bringing our attrition down to 15% and keeping our employees engaged in our project.

I want to bring up Roland Royer to cover the next area we are working on in transformation, our customer success organisation.

Customer Success Organisation

Roland ROYER

Chief Customer Officer

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I will take a few moments to share with you the progress we have made in ensuring the success of our customers. To support the execution of our strategy, we had to make key changes in three areas: the organisation: our customer engagement model; and our go-to-market. As Patrick mentioned, during the last six months we have onboarded three experienced sales general managers covering the three key regions of our activities. They all have a proven track record in the software industry. They have demonstrated successes in transitioning business from perpetual license to subscription. They have bridged the gap between technical sales to business sales and have created an important and extensive network of partners. These key changes and critical changes for our business to support our execution, have already made an impact. We can see a deeper and higher engagement level with our customers and with our partners.

The second key area of transformation and changes was around the customer engagement model. We started to implement our customer success organisation last year. We rolled-out our customer success managers and we now have more than 50 connecting and engaging with our customers on a daily basis. We are learning a lot with our customers and we have been able to engage differently and with some of them to engage in co-innovation sessions in our innovation labs, to actually broaden usage of our platform with them.

The second part of the customer engagement model we changed and implemented last year was on the inside sales. We put in place a model dedicated to mid-market and specific offerings. This model has had some successes and for example, this team brought in more than 50 new logos, new customers to Axway, in the first-half. Based on this success, we will continue to expand that team to cover more technologies and more geographies.

Finally, go-to-market, which right now, might be the most important area of change and focus within the company. In this area we are focusing on API management, because it is the core of our platform and of our strategy. We put in place a go-to-market general manager for API, aligning the operations and the execution of the plan across the regions and the different teams, from product, marketing and sales. We continue to invest in this area and we recently onboarded a go-to-market EVP.

Lastly, there is evangelization. While everybody in the company has a role to play in evangelization, we recognised that we had to reinforce and structure our voice on the market. I often say that great technology alone is not enough. It takes more than the best software to be successful. We have to reinforce our voice and presence. We have to be better known in the market and better known as a leader in the integration space and the API management domain.

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To that end, we have created a team we call the Axway Catalysts. They are top-level experts and very well-known on the market for their expertise, experience, their business practices and their thought leadership. They are working with our customers, prospects and partners to help them and guide them in their strategy and digital transformation, as well as technology matters. On top of being thought leaders and participating in numerous events across the world on the API management landscape, they are now delivering Axway Accelerate workshops. Axway Accelerate workshops are a new, high-level and high-value services offering we have developed to help our customers in their digital transformation, API strategy and lifecycle management of APIs that are core to their business transformation. In helping the customers beyond technology and business leaders during their transformation, the Catalysts are helping them to realise the value and helping them through their digital transformation. While for Axway, it is resulting in a larger, higher level of engagement that paves the way for the hybrid integration platform. It is not just targeting the API, but really showing the way through the digital transformation and how the business leaders in the company will actually leverage the full integration platform, including our historical capabilities, such as B2B and MFT. It is how to connect these dots together to help them during this transformation.

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All these efforts in go-to-market and sales are supported by the products we launched at the beginning of the quarter, which start to have an impact. I will mention three key, seven-digit deals we closed in the second quarter:

- From France, a competitive deal where we replace an API gateway from our competitors for a large satellite programme in Europe
- A bank which started to engage with us on the API a couple of year ago, to comply with PSD2. Now they are PSD2 compliant, they have decided to roll-out the full solution to manage all their commercial channels, based on our platform.
- From the US, we have a healthcare system where they decided to roll-out the API management and MFT to use our solutions to manage all their internal and external data movement.

These are key successes in the quarter that prove the value of the solution and its competitiveness. However, we needed to be better known and more present on the market, which is why we have this focus on go-to-market and we can see the impact. We see the impact of these deals. Patrick showed you the signature metrics, which are not where we wanted, but what is important is that we are seeing the impact on the pipeline we are creating.

We are focusing on the API pipeline, because API is the doorway of the hybrid integration platform. It is important that we start and reposition ourselves there. We have invested 13% more in sales and marketing, resulting in a 40% growth in our pipeline. I am expecting this trend to continue over the next quarter or half-year. With the six to 12 month sales cycles, we will see growth in our market shares. More importantly, it is the market share of the API, which as I said, is the gateway to the hybrid integration platform. This will also generate more pipe and put us on the path to the success of the hybrid integration platform, by also expanding our solution and the core assets, such as MFT, B2B, and the rest of the platform.

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The other area of transformation we are monitoring and managing closely is the market shift to subscription. We oriented our teams towards this model with our customer success model. As Patrick mentioned earlier, we are now realising some new capabilities, such as microservice mesh management, as public data on the platform. In this case, the CSMs, the customer success managers we put in place play a key role in ensuring successful adoption of the solution, as well as ensuring fast feedback to continuously evolve our solution.

We see and we have seen in our figures, an acceleration towards these subscriptions. We have seen it on the revenue. We have not seen it on the ACVs, and we will elaborate on that. The number of subscription transactions have increased worldwide, which was not the case until the end of last year. We have seen some regions starting earlier than others, but now it is accelerating in the number of transactions worldwide and across all the verticals, including financial and banking sectors. That means that this transition is going mainstream.

However, one of the core principles of this transition to subscription is land, adopt and expand. The deals are smaller at the beginning. We have got more of them, but the key thing is that we are also working with large subscription engagement with some of the customers. We need to recognise that this is also new for them and they are going through a learning cycle, changing their procurement, security, contracts and legal systems, to transform themselves. We signed a key seven-digit deal, for over USD 2 million in July, that is actually and extension of a deal we did in December of much smaller value. The cycles of our deals are starting to be different and the subscription model will continue to see an acceleration of this model and an acceleration of the extension.

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Our customers' success is our success. We are mission critical for a vast majority of our customers. I will mention the story of one customer from the last quarter. They are an historical, long-term customer in the US, and they decided to move to our solution's new architecture and go live. A few months after their migration, they faced an outage of more than 10 hours in their data centre due to a fire. They told us that thanks to the new solution they managed to work on more than USD 300 million of transactions that would have gone to their competitors during this time. It is an impressive story and then a direct return on investment for their business about that solution.

With AMPLIFY, we are taking our customers one step further, leveraging and maintaining what they have invested on our core asset, MFT, B2B, to the next steps. We are providing new value and more agility.

To conclude, I would like to reiterate our commitment and company focus on the fact that we are working with our customers as a true partner 'From Start to Forever'.

Targets and Ambitions

Patrick DONOVAN
Chief Executive Officer

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Before we close and take some Q&A, if you have any, I will just take you through our targets and ambitions. Our targets and ambitions are really easy, and I repeat what I said at the end of our 2018 presentation, we look to return to organic growth in 2019. It will not be strong organic growth, but it will be organic growth and our plan is for this to continue in 2020 and beyond. This will enable us to reach our targets for the 2020 ambitions.

We retain the guidance of 8% to 10% for our 2019 operating profit on business activities. This should be the low point in the transformation, and we will start to come out of it in 2020, all of this with the target of being the leader in the hybrid integration platform market in 2020.

With that we will open it up to questions.

Q & A

On the web

What are your major levers to rationalise your R&D spending?

Patrick DONOVAN

By the way we built it up quickly, ramped-up with partners, consultants and other areas where we could pull-back the spending quite quickly. We are retaining and building-up the employee base that needs to remain and sustain the company to carry-on. However, the use of contractors allows you that exploitable capacity in your R&D model, so we can pull-back on that when we have the assets we need on the platform.

On the web

Are you missing any core components on your platform? Do you think you will need M&As in the future to achieve your target?

Patrick DONOVAN

There are two different questions there. We believe we now have the assets we need to have a leading hybrid integration platform; the event-based API management was the key component we were missing. We now have quite a complete solution, so if a customer or market sees some movement that we need to address, we may do another technical M&A regarding the platform. However, we think we are good and can also build what we need for the next couple of years.

As far as M&A is concerned, as we started this journey it was important for the 2020 ambitions that we did what we needed with our offering and inhouse and become stable and strong, going into M&A from a position of strength. I believe I said this at the end of the last presentation, that we will look at getting back into M&A more globally in 2020 and beyond.

On the web

Can you give us more colour about the acceleration of subscriptions between Q2 and Q1 and give us some details of the churn on subscription contracts in that period?

Patrick DONOVAN

The first-half churn was about 12% for subscriptions in general; I do not have the breakdown between Q2 and Q1. A lot of the contracts we signed in 2018 start rolling-in. If it is a managed Cloud service, it takes a while to establish the environment and to get it running to where we can start taking revenue. We also had a bit of a change in the way we recognise revenue for a certain offering we just launched into the market. With the hybrid nature of our platform, you have some components on the Cloud and some on-premises, depending on where the customer wants the offering to be. When we did the deep analysis of IFRS 15 and talked to some of our competitors, like Neo-Soft and others, we found that you have to take on-premises TCF upfront. That gave us a little pop in Q2, but we have just started selling these on-premise subscriptions this year to meet customer demand.

On the web

How confident are you that you can maintain double-digit subscription organic growth rates in 2020, given the drop in ACV in H1?

Patrick DONOVAN

That is a good question. It makes it harder, but our target is there and if we could recover some of ACV and HT then we should be able to maintain double-digit growth.

On the web

How many people did you change in sales and marketing as a percentage over the last 12 months? Are you now satisfied with the team and processes such as go-to-market, or do you still need to make some major changes?

Roland ROYER

For sales specifically, there is always a spike at the beginning of the year with people leaving or need to leave, so we were at around 20% rotation, I would say. Am I happy with the direction we are going? I am very happy with the leaders we have onboard and the type of people we have been able to attract in the market. As I mentioned, the Catalyst team are showing, they are very well-known on the market and see the Axway project to join us. As I said, we will continue to strengthen and accelerate on our go-to-market, so we will continue to recruit and grow the team. It is critical to continue to accelerate the pipe and create our success for 2020.

On the web

How qualified is the pipeline you have represented? How does the total Axway pipeline behave? What level of signatures do you need in 2019 in order to achieve organic growth in 2020? What is your target for new ACV in 2019?

Roland ROYER

We are early, but that is qualified pipeline and I should value at the value of the pipeline. If I was showing the number of opportunities, the trend would be even more, with an acceleration of the slot. The value is there, is already qualified pipeline, so the pipeline itself and the marketing pipeline early with fake figures.

Patrick DONOVAN

We are not going to into that level of detail over forecasting, but we will say that we have targeted to have positive signature growth and we are still driving for that. With the first-half results of a drop in signature metric of 15%, it does make it harder, but we are pushing for a second-half recovery and at least to get back positive. As I said at the end of last years' presentation, a key part of that is that we need to have subscription growth. If I remember, I had a figure of EUR 13 million new ACV last year and we are targeting growth above that, but it is a tall order when you only do EUR 3.5 million in the first-half. We do have deals and as Roland said, the new larger deals have been a little surprising for us. We have really seen a lot, especially with the financial institutions which, as Roland mentioned, are coming into the subscriptions. If anything [inaudible] and Cloud, they are doing deep security reviews and they do not know what they are after. They do not know what the conclusion is and so we are spending with one deal that we are tracking, which is quite large for us, we are on a year-long cycle of security review. They are still not sure when it will complete, and they have still not found anything wrong. This is a new arena for the customers as well. They are going into this and trying to set-up the different ways they go to market when they are going to a Cloud model. We will get there, it may just take some time, but hopefully it will not take too long.

On the web

What targets do you see for operating margins in 2020?

Patrick DONOVAN

Improving over the 8% to 10%.

On the web

Do you expect the churn in subscription contracts to reduce in H2 2019?

Patrick DONOVAN

In H2, they will hopefully drop a percentage point or two. We are at about 12% and the goal is to reduce, and I will like to see that go below 10% as we go into 2020.

On the web

Is not API First an approach that your competitors have also adopted? In that context, do you consider API First a real differentiator for Axway?

Roland ROYER

I think API First might be, however I think we have the more complete solution for customers to build their integration platform. It can be API First just on the side, but we are API First with all the assets we have had for years and that the customers invested in. Our strategy is for us to provide them with a path to leverage these assets, with API First for MFT, API First for B2B, API First for API. This is very different from our competitors today.

On the web

Is it fair to assume close to EUR 50 million of subscription revenue in 2019? Is it fair to assume over 50% gross margin in subscriptions in 2019?

Patrick DONOVAN

I would say yes on the first question, but if my memory serves right, we are about 45% for the first-half of gross margin for subscriptions and I do not think we will be over 50% on the average for the year. As I have said before, the target is to grow gross margins in subscriptions, but it maybe difficult to annualise the effect of that over 50%.

On the web

What is your view of stopping an upfront license model and focusing only on a subscription model?

For me, that is not an approach we could play. I compete head-to-head with the big players in the market, Google, Salesforce, IBM. That is our competition, so we have got to be differentiated and if we just went in one direction with subscription only, I believe we would lose a lot of opportunities. If the customer wants perpetual engagement with us, I will take it.

Unfortunately we could not check the spelling of the following words: