

# Results for first half 2011

## Axway

**Christophe Fabre**  
Chief Executive Officer, Axway

Hello everyone. I would like to thank you for attending this first presentation of Axway's results as an independent, listed company. My name is Christophe Fabre and I have served as Axway's Chief Executive Officer for the last six years. I was born in France and have been based in the United States for nearly five years. I would also like to introduce Patrick Donovan, an American who has been based in Paris for two years now. He joined Axway three or four years ago and has served as Chief Financial Officer for our US subsidiaries. I would also like to introduce Axway's Secretary General, Patrick Gouffran. He has held various management positions for a number of years, at both Sopra and Axway. He is also in charge of financial communications. Pierre Pasquier, Chairman of our Board of Directors, is also in attendance.

### **I. Key events of first half 2011**

#### *Slide 2: First half 2011: Key events*

The spin-off was carried out in line with our previous announcements. On 14 June, Axway's shares were admitted to trading on the regulated market of NYSE Euronext in Paris. Sopra Group has retained a 26.27% stake in Axway. I would also like to mention that we have obtained a €100 million medium-term line of credit and €20 million in short-term credit facilities: Axway therefore has access to all necessary financing to pursue growth.

The capital increase planned for July 2011 was also successfully completed and raised €61.9 million to reimburse the debt with Sopra.

#### *Slide 3: First half 2011: Summary of results of operations*

With respect to operational aspects, we recorded very satisfactory organic growth, which reached 6,5%. Our operating margin improved considerably (up 170 basis points).

On completion of the capital increase, Axway's debt was reduced to zero.

#### *Slide 4: Contents*

## II. Achievements at 30 June 2011

### 1. Preliminary comments on the basis of comparison

*Slide 5: Financial statements at 30 June 2011*

At this point, I will be presenting standard financial statements. The financial information has been restated in order to present Axway as an independent entity (Axway was still a subsidiary of Sopra Group in 2010). Furthermore, in preparing the pro forma statements, adjustments were made at the exchange rates prevailing in 2011. Currency translation adjustments for the US dollar had an unfavourable impact on earnings, but were nearly without impact on the margin. For the pound sterling, the impact on both earnings and margin was negligible.

If we add together Axway and Sopra's published revenue for the first half, we note a difference of €200,000. This amount corresponds to the sub-contracting of projects or certain aspects of projects by Axway to Sopra India. In the Group's consolidated results, this transaction was eliminated.

### 2. Revenue

*Slide 6: Revenue growth (1/2)*

Revenue grew by 6.5% in the first half of 2011. Growth was driven mainly by Axway's business in the United States (16%). Revenue generated in Europe increased by only 1.2%, but this result is still very satisfactory given the current economic context. At this juncture, I would like to remind you that in the first half of 2010, Axway had benefited from contract signings postponed from 2009, which means that 2010 offers an exceptional basis for comparison. As a result, Axway effectively saw its business improve. Asia recorded revenue growth of 42%, but in a total amount that remains negligible.

In Europe, growth was driven by France. Axway has a significant client base in France and Germany; with respect to the company's business, these countries always withstand economic downturns better than others in Europe.

*Slide 7: Revenue growth (2/2)*

Let us now look at the components of revenue:

- licences recorded an increase of 2.7%. This performance is very positive, since this segment posted very strong growth in the first half of 2010;
- services grew 10% in the first half of 2011, driven in particular by those associated with the implementation of projects launched the previous year;
- maintenance rose by 7.2%, which is also satisfactory.

With respect to licences, the main countries with a significant installed base are growing more quickly than countries with a more limited market.

### 3. Income statement

#### *Slide 8: Simplified income statement (1/2)*

Revenue totalled €100 million in the first half of 2011, an increase of 6.5%. Operating profit was €10.3 million and thus grew year-on-year. Profit from recurring operations came to €9.4 million. Other income and expenses increased from €1.9 million to €3.4 million (costs related to the spin-off are taken into account on this line).

Net borrowing costs were nearly stable and the change relates to exchange rate disparities between transactions invoiced and paid within the Group, mainly royalties.

The difference between the theoretical and actual tax expense was not material.

The net profit margin came to 2.9%, thus showing slight growth. When considering this figure, the costs of the spin-off, which were understandably exceptional, must be taken into account.

Earnings per share came to €0.18.

#### *Slide 9: Simplified income statement (2/2)*

The gross margin was analysed using a software developer model, as were the different types of operating costs in relation to revenue. Costs of sales (mainly costs of embedded products) as a percentage of revenue fell from 35% to 33.1%. This decline was achieved thanks to the optimisation of the costs of embedded software.

Selling and marketing expenses rose slightly, accounting for 30.4% of revenue, as compared to 28.8%. In order to maintain growth, certain systems will need to be developed (in particular, support mechanisms for indirect sales).

R&D costs decreased from €17.3 million to €16.4 million. This decline is attributable, in nearly equivalent measures, to two factors:

- the company received a higher research tax credit than in the previous year;
- the effects of exchange rate fluctuations were positive.

It is worth noting also that Axway's workforce R&D is growing and that investments have continued apace.

Overheads amounted to €9 million in the first half of 2010 and reached €9.8 million in the first half of 2011. Operating expenses remained stable (56.6% of revenue, compared to 56.4%).

Operating profit on business activity increased, from €8.2 million to €10.3 million.

### 4. Simplified balance sheet

#### *Slide 10: Simplified balance sheet*

In the first part of non-current assets, I would like to point out that the changes are uniquely the result of exchange rate fluctuations. No transactions were carried out. Non-current assets amounted to €199.4 million at 30 June 2011.

Current assets remained stable at €83.7 million for the first half of 2011.

Total assets therefore came to €283.1 million.

Now let us turn to liabilities:

Capital decreased from €75.6 million to €32.2 million, due to the payment of dividends to Sopra Group, but later recouped this loss with the recognition of the capital increase.

Retained earnings and profit for the period rose from €54.6 million to €66.2 million, due to tax reserves. At 30 June 2011, equity amounted to €18.4 million, to which would later be added €60 million.

Non-current liabilities totalled €18.9 million. I will not be discussing this item.

Current liabilities – the current account with Sopra Group – will be eliminated in the third quarter.

Total liabilities came to €164.7 million.

The aggregate of equity and liabilities was €283.1 million.

## **5. Change in net debt**

*Slide 11: Change in net debt*

I would like now to comment on the change in net debt and the cash flow position. At the beginning of the year, net debt came to €48.1 million. The net borrowing cost remained stable year-on-year. Cash from operations before changes in working capital rose from €4 million to €6.9 million. Changes in working capital also improved by about €1 million. Net cash from operating activities increased from €2.2 million to €5.3 million, which constitutes an excellent performance. Free cash flow thus amounted to €2.3 million, as against €20 million for the same period the previous year.

With respect to the total net change during the period, the key factor was the payment of dividends to Sopra. This payment was mandatory for technical reasons, in order to complete the spin-off. For this reason, at the end of the period, net debt remained nearly at the same level as at the beginning of the year (€49 million).

## **6. A robust financial structure**

*Slide 12: A robust financial structure*

As for Axway's banking covenants, the three main ratios ended the period at very acceptable levels:

- the leverage ratio (net debt to EBITDA), which must not be greater than 3.0, was 1.6. Upon completing the capital increase, this ratio dropped to zero;
- the gearing ratio (net debt to equity), which must be lower than 100%, was 39%. This ratio was also reduced to zero after the capital increase and the debt repayment;
- the debt service coverage ratio (operating profit to net borrowing cost), which must be greater than 5.0, was 18.9.

It is important to note that Axway has access to a maximum line of credit in the amount of €100 million to carry out acquisitions. Even if this line of credit were to be entirely drawn down, the banking covenants would still be fulfilled. Axway therefore genuinely retains the ability to pursue acquisitions.

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### **III. Additional information on Axway's business activities**

*Slide 14: Our market – Business Interaction Networks*

To shed light on Axway's future, I would like to remind you of our market position. First of all, let us consider the enterprise ecosystem: an enterprise has internal components, a set of distributed entities, divisions, plants, warehouses, points of sale, subsidiaries, branches, etc. It also has a set of key applications within its information system that underpin its business operations. In addition, an enterprise maintains relationships with partners: clients, suppliers, resellers, hosting services, supervisory authorities responsible for drafting and enforcing regulations, etc.

Via its Synchrony platform, Axway enables all of these parties to exchange information in order to work together better. Companies or organisations use Synchrony to improve their operations and to offer new services to their clients and suppliers. Within its information system, each company or organisation is equipped with a system to manage exchanges, supplied by Axway, to support all of its business processes.

Why would a company or organisation choose to work with Axway over its competitors? The answer lies in the key advantages offered by business interaction networks: Axway specialises in the world of business-to-business (B2B) interactions and does not work in the realm of business-to-consumer (B2C) interactions.

In order to best manage their business interaction networks, companies and organisations need visibility, for example into the status of their business relations, of deals with particular clients or the satisfactory completion of internal processes, or assurance that operations are functioning smoothly and efficiently. Above all, companies and organisations want instant feedback should any issues arise, with information on the underlying causes provided in real time.

But Axway also guarantees the security and successful proliferation of exchanges, for companies or organisations interested in making the greatest possible use of the information being exchanged in the ecosystem. Communities are growing thanks to the Internet, the reliability of communication networks is constantly improving and the cost to transmit and receive messages is steadily decreasing. As a result, networks are expanding and greater numbers of partners can connect with each other quickly within communities.

It is also worth noting that processes, rules and metrics are enabling better governance of business interaction networks.

*Slide 15: Analysis of the competitive environment – Relevance of distinctive positioning strategy*

In this part of the presentation, my aim is to situate the competition and Axway's position in this environment. Axway works in the middleware segment, whose leading players are SAP, IBM, Oracle and Microsoft. These firms are generalists, handling all types of interactions and all possible integration needs. Specialists are also active in this market, focusing on high value-added services for specific problems, often for large companies or organisations. These specialists set themselves apart from the competition, in the same way as automobile manufacturers: on the one hand you have generalists like Renault and Fiat and on the other, speed specialists such as Porsche.

In the middleware field, the best-known specialists are:

- Software AG, specialising in business process management;
- Tibco, whose specific expertise lies in real-time messaging;
- Informatica, specialising in data integration and data governance;
- Axway, which has staked out a position in business interaction networks.

Each time that Axway bids on a new project involving its specific expertise against one of its competitors, it wins the contract. The results of Axway's operations in the period just ended have reaffirmed this trend.

*Slide 16: Breakdown of Axway's revenue in first half 2011*

The geographic breakdown of Axway's revenue was as follows:

- the United States represented 34% of the company's total business;
- Axway generated 63% of its revenue in Europe, of which France accounted for between 37% and 40%, at current exchange rates (assuming parity between the US dollar and the euro, the United States nevertheless remains Axway's leading market);

This global presence allows Axway to retain its position as a specialist.

Licences and maintenance (pure software development products) represented more than 70% of total revenue. Services are only offered in relation to Axway products (implementation, consulting), due to its position as a software developer.

*Slide 17: Change in the workforce*

Axway's teams continue to grow, even though they are smaller than those of the generalist integrators.

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## **IV. Strategy and outlook**

*Slide 19: Growth prospects*

The market drivers contributing once again to our success in the first half of 2011 are still relevant and will continue to shape future trends:

- security;
- support for new standards and protocols: each industry segment uses specific business interaction networks, develops its own protocols and requires a platform suited to its business;
- consolidation: some companies and organisations are looking to streamline their infrastructure to achieve cost savings;
- innovation: companies may also be interested in offering new services.

Axway's growth is expected to be fuelled on a lasting basis by the United States, due to its installed client base but also thanks to a good market position. Axway's offerings also appear to be very competitive for its new clients.

In the Q2 press release, we stated that some European projects had been frozen. These projects are still active; and seem to have simply been deferred. The current economic climate calls for caution, and it is difficult to set about making forecasts. However, we will try to bring these projects to fruition.

Costs will remain under control. I can't say that they will follow the trend described for gross margin, but they should grow less quickly than revenue.

#### *Slide 20: Growth outlook*

In light of our H1 performance and the economic environment, we are maintaining our forecasts. We confirm positive organic growth, as well as at least maintaining last year's operating profit margin of 14.9%.

#### *Slide 21: A strategy that serves our enterprise project*

We are working on key aspects to secure the future of our enterprise project :

- ⇒ Continue to use our offerings and work on cross-selling and up-selling to existing customers (MFT customers are increasingly buying B2B, while B2B customers continue to buy MFT, as in Germany). We therefore continue to cross-sell Synchrony implementations. We are also seeing strong penetration rates, regularly reaching 10-20% of new customers by number of deals.
- ⇒ Continue our key account approach: before you can handle an ecosystem, you have to first serve the company at the centre of that ecosystem. In order to satisfy each company better than the competition, Axway staff try to understand that company's markets and the business interactions specific to it.
- ⇒ Continue to work on our offering and invest in products so that Axway continues to be the best specialist. For example, we are starting to bring to market cloud modules, which will round out our current offering.

*Slide 22: Actively seeking out M&A targets*

- ⇒ Pursue market consolidation via existing financing arrangements. We already have a track record in this area: in the past five years, we have acquired Cyclone Commerce in the United States, B2B activities of Atos in Germany and Tumbleweed in the United States (for €140 million). Axway has the capacity to absorb bigger companies, creating organic growth opportunities and having a positive effect on margins. We are continuing in this direction.
- ⇒ Continue to strengthen our geographical positions. The US remains a major sector in view of the fact that this is where the software is created. The stronger Axway is in the US, the greater the benefits for our customers. If the opportunity were to arise, the Company could also expand in continental Europe and the United Kingdom.
- ⇒ Try to access new customer groups so as to be able to continue cross-selling and up-selling, as well as additional technologies to sell to existing customers.

All the components required for organic growth are therefore in place, and our existing credit facility means that we can also consider other options – for example, dilution via share-based payments. If opportunities arise – whether they are small or more strategic – Axway is absolutely in a position to seize them.

*Slide 23: A long-term project for Axway*

This development project will enable Axway to plan for the long term.

I would like to once again emphasise Axway's firm objective of making acquisitions. We are actively looking for targets, though there is nothing concrete to report for the near term.



## Questions

### **Michaël BEUCHER, CA Cheuvreux**

Could you comment on business by client type (telecoms, finance, etc.)? What feedback have you had from your financial sector clients on the situation in August? Haven't you seen projects come to a halt, at least among these clients?

### **Christophe FABRE**

The financial sector is a critical business sector for Axway, followed by major industries that form part of the generic supply chain: producers of raw materials and finished products, logistics, etc. All sectors are growing.

With regard to the financial sector, Axway is equipped to respond to two types of demand: infrastructure rationalisation and new product development. Axway was highly resilient in the face of the 2009 crisis, with business shifting into consolidation products.

In addition, our sales cycles are relatively long, with the impact of decisions to cut budgets often not becoming visible until later. Moreover, consolidation projects are not necessarily always the first to be dropped.

Although certain signals are currently coming from banks, it is too early to say whether or not the year-end pipeline will be affected.

### **Kevin GUILLOT, Zadig Asset Management**

My question relates to your cost base. Costs totalled €90 million in H1, and you said the H2 figure would be in line with this: does that mean the amounts will be the same? Is future growth based on a cost base of €180 million a year?

### **Christophe FABRE**

Costs – R&D investment, etc. – are based on thresholds. To achieve growth of between 5 and 15%, you have to invest in specific entities. So I cannot guarantee that the cost structure will stay the same and that H2 margins will follow the same analysis as in H1.

For this period, Axway has ambitious licence targets: Q3 and Q4 will be the most important quarters in the year. There will therefore be an impact, but I confirm that we should indeed maintain margins.

### **Kevin GUILLOT, Zadig Asset Management**

Do you think margins will be comparable to last year?

**Christophe FABRE**

We think we will achieve last year's overall margin of 14.9%. However, it's hard to say at this stage whether or not we will be able to improve on this figure.

**Kevin GUILLOT, Zadig Asset Management**

Where is Axway currently in relation to its medium-term target margin of 20%?

**Christophe FABRE**

We will have review this objective at the end of the year.

**Kevin GUILLOT, Zadig Asset Management**

Is that a two- or a five-year target?

**Christophe FABRE**

There are stages involved in this kind of transformation process: our distribution and R&D capabilities should gradually generate efficiency increases, without the need for additional investment. We should achieve this fairly quickly, though it is hard to say exactly when.

**Kevin GUILLOT, Zadig Asset Management**

Will acquisition decisions be based on technological criteria or purely on financial ratios?

**Christophe FABRE**

While technology-driven acquisitions are a possibility, they would only involve small companies. There are also attractive opportunities among large companies: the key criteria relate to reselling opportunities and the ability to increase added value. We will try to buy at the lowest possible price.

**Kevin GUILLOT, Zadig Asset Management**

Will acquisition decisions be based on Axway's existing areas of expertise or on multiples?

**Christophe FABRE**

A company with a Cloud business could be attractive to Axway, since that is a field in which the Company could expand. However, the multiples have for a long time appeared a little overvalued. With the crisis, it's hard to know how they will move. In price terms, it would be cheaper to look at companies that are experiencing difficulties. Multiples could range from one to five times minimum

revenue. Below this threshold, the situation would be difficult. Nor do I think we'll look for multiples of ten.

**Edouard GRIDEL, HSBC**

My question relates to the proportion of sales in Asia-Pacific. This currently represents 3% of total revenue. Do you think this proportion will increase significantly in the coming years? If so, how will you move forward: by growing sales or by making acquisitions?

**Christophe FABRE**

When we picked up the distribution network in 2002 or 2003, we thought we would be able to organically develop a substantial business in Asia. We have since come to understand that to grow organically in emerging markets, and especially in China, you need to be very big.

Our current aim is to make a profit and support our European and US key account customers with their Asian operations. Although business looks attractive in Asia, I do not think that we will aim for exceptional deployment.

I should also emphasise that part of our Asian revenue arises from business generated outside the region, while part of our Europe and US revenue also arises as a result of our presence in Asia.

**Bruno HERTZ, Equigest**

Could you come back to the issue of gross profit margins? Does the H1 gross profit margin arise from a one-off effect that will be reversed in H2, or can we expect a structural improvement in gross profit margins?

**Christophe FABRE**

The gross profit margin has improved as a result of falling R&D costs (enabled by an increase in the research tax credit). Exchange rates have also helped lower these costs. The decline in OEMs and embedded products has also played its part in this change.

While the decline in embedded products is structural, the change in exchange rates is not. As for investments in our distribution network and R&D, these could change as a result of threshold effects.

We plan to improve margins gradually over the long term, if revenue growth continues at a satisfactory level.

Thank you for your time.