Axway
Full Year 2016

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Full Year 2016 Analysis

Jean-Marc LAZZARI
CEO, Axway

I) Preamble

Welcome to the 2016 full-year results. The agenda will be very classical: Patrick and I will share the first part of the presentation, and then we will open up for a Q&A session. I will give you some highlights on the full year, as well as some quantitative and qualitative information on my view of the overall result we have had. Patrick will, of course, as usual, deep dive into the details of the accounting and financial information, and I will conclude by giving you a status on where we are in our journey, our transformation to more digital.

II) Highlights

1) Transformation

If I start by looking at the highlights before commencing some of the more technical and financial highlights, I would probably name those that you see here. As a reminder, 2015 was the first full year of our transformation. We established a three-year business plan, and 2016 should be seen as a transition year towards the new model. It does mean that we have kept a lot of transformation activity during the year. As a reminder, last year I presented the transformation that we have been doing in product management and the transformation that we have been doing in the research and development activity, specifically in the consolidation of the different areas that we have. I presented to you, of course, everything that we did around the services side, and that we wanted to move toward more strategic services, not only to get better margins, but also to prompt some of the partners that we do business with to also be able to do services. A lot of those transformations have continued in 2016, and the vast majority of those activities will also continue in 2017.

2) Appcelerator

We made the acquisition of Appcelerator very early last year, of course, and we have integrated Appcelerator both in the business that we are doing, but also in the product that we have coupled to it, and I will come back at length to that item. We have created image and branding, because you do not invent visibility in digital unless you look and feel digital, so we have changed our branding and we have changed our digital image that runs through our websites and so on. We have also changed the logo, and that little thing that you see is actually a griffin. It is a little artistic, but it is a griffin, and we think that specific legendary animal represents what Axway's project is all about: a strong foundation, with the body of a lion, and a digital business, which takes innovation, with the upper part of the body being an eagle. That is why we have picked that logo.

3) People

People are very important in Axway, and during 2016 we have moved more than half of the total population of Axway into business centres in several capitals around the world. That has happened in Paris – we have moved more than 500 people in La Défense – and we have moved people in Sydney. Following the Appcelerator acquisition, we now have a hub in Silicon Valley, so we have moved to a more business-oriented, but also a more digital location for most of our employees.

Then, of course, in 2016, we announced and have started deploying our AMPLIFY platform, and I will come back on that platform later today.

III) Revenue

1) Total Result

Although it is not 2016, it is a 2017 event that was announced yesterday, I will also comment on the latest acquisition that we have done with Syncplicity. I will explain the rationale and talk about the strategy behind it.

Let us go to the result. I am very happy with the result the team have delivered this year, as you can see, total growth of 5.8%. We have crossed EUR 300 million, which has never happened before since the company was listed, and as you will see and hear further from Patrick, we have significantly improved both the operational business activity margin as well as the net margin.

When you look at Axway's revenue stream, we have, again for the first time ever since we were listed, improved all of the revenue lines. Licences grew by 2%, maintenance by 4.7%, and services by 6.7%. The reality is that we came from negative 6.7% last year in licences, and obviously you saw from the press conference that we could be disappointed in that 2% growth, but it is driven mainly by three effects. The first one, which is extremely tangible, is that we have seen some big deals in Q4, specifically in the US, but overall, in 2016, we have seen a very clear switch, with very clear markers, from customers who were very licence-oriented in the way they would buy software, to a more cloud/subscription mode.

2) Digital

Regarding the digital business, we provide two different solutions, two different prices, two different contractual relationships to the customer almost every time, so that also explains licences. 4.7% growth in maintenance is an acceleration as well, mainly driven by the first part of the year. You have seen that we started getting significant growth very early in the year, and that has resulted in very aggressive growth. The growth in service may change, specifically after the Syncplicity acquisition, and start reporting cloud and subscription activity separately, but for now in service revenue you have the mix of cloud and professional services, and by the way, both grew significantly.

Looking at the regional view, as a reminder, we have a very clear ambition, which I will come back to in the conclusion, to stabilise France. France was decreasing significantly last year, and we have managed to get flat revenue. Europe and Asia continue to grow, as you can see, and as has been the case for several years now. Being a little more precise, our UK business behaved extremely well in Europe, and APAC and Australia behaved very well. The 6% growth in the US should be seen in terms of the transformation of our business in the US, and remember that it was 3% last year, so 6% would double it, and of course that growth has been impacted by the Q4 event that I mentioned earlier.

3) Regions

We present as usual the dual view of the solidity of our business, the first one by region. The increase of the US versus the flat situation in France has definitely put our US business in the first rank, and this is by far the biggest business now, representing 41% of our business. You can see that France is 31%, the cornerstone of the business, where the company was born, and there is also Asia-Pacific and the rest of Europe.

4) Type of Revenue – Recurring, Cloud, Product Software

We also have the same revenue, but broken down by revenue line, and going beyond looking at the traditional maintenance and services lines, I would specifically highlight that last year we crossed, while touching, the 50% of recurring revenue bar, and the company is now definitely over it with almost 54% of recurring revenue, which is signed and will be delivered on 1 January. One important point is the materialisation of our cloud business, which is about 6% to 7% of our revenue, and you have the organic growth of the cloud. Basically, our cloud activity was boosted inorganically by Appcelerator last year, and as we will discuss further, obviously Syncplicity will provide another significant boost this year.

However, regarding organic growth, the growth of the business we were doing prior to acquisition, it grew by 26.6%. Our recurring revenue was 9.9%, and here you have still another view that some of our colleagues would report as product software revenue, which mixes all the direct activity driven by licence and maintenance as well as services in the cloud, and there you can see it rose significantly, representing more than 80% of our revenue.

Patrick will provide a deep-dive into the numbers. I mentioned people, and we also see there the reflecting effect of the size. Our headcount moved up a little, mainly with in-and-out and the acquisition and addition of Appcelerator and our colleagues in Silicon Valley. There was a slight decrease in France and in the US, but overall it was pretty stable. We are a software company, even though our non-cloud services grew and we like services, and we did not significantly grow headcount as a whole.

Patrick will now dive more deeply into all those numbers. That was just an umbrella and a highlight.

Accounting & Financial Results

Patrick DONOVAN
CFO, Axway

I) Income Statement

1) Revenue

Thanks, Jean-Marc. I will go through and give a little more detail about the figures for the fiscal year ending 2016. I will start off with a few comments about our income statement. Our revenue for 2016, as Jean-Marc mentioned, finished at EUR 301.1 million, up 5.8% from the EUR 284.6 million for 2015. We were happy to see an improvement in gross margins for gross margins, finishing at 71.2% of our sales. That is in comparison to 2015 and 2014, at about 70%, and as you can clearly see, we were able to hold our services cost of revenue, which includes both our PSO and cloud services, flat through some strong efforts to improve the margin this year, while we had an increase in revenue base. That is an area where we were able to improve the gross margin in 2016, and we will continue to work in this area as we move on our cloud journey.

2) OPEX

Overall, our total operating expenses finished at EUR 163.7 million, up from EUR 153.8 million in 2015. That was mainly through continued investment in R&D and our product teams over the years as part of our strategic plans. Therefore, with the improving revenue and the improving gross margin, we were able to increase our profit on operating activities to almost EUR 51 million, or 16.9% of our revenues, versus EUR 44.5 million or 15.6% in the prior year. Our stock option extent was EUR (1.1) million for the year. We had an increase in amortisation, as we purchased Appcelerator in January, so this was almost a full-year effect. Our operating profit finished at EUR 35 million, up from EUR 27 million in fiscal year 2015, and our net income finished at EUR 31.5 million, up from EUR 27.9 million in 2015. We have been able to improve our earnings per share up to EUR 1.51 in 2016 over 2015 and 2014.

II) Balance Sheet

1) Assets and Liabilities

Regarding assets, our total assets finished at EUR 558 million in 2016. We had an increase in cash position, finishing 2016 at EUR 51.7 million, up from EUR 44.7 million at the end of 2015. The increase in intangibles is from the Appcelerator acquisition, and the metric we tracked, the healthiness of the receivables, finished at 85 days outstanding, which was comparable to the same 85 days at the end of 2015.

Our liabilities finished at EUR 183 million, up from EUR 148 million at the end of 2015. This includes EUR 20 million of borrowings under our revolving credit facility. This was taken out to purchase Appcelerator and used to roll over cash as well. There was an additional EUR 15 million of bank liabilities, so we have a total debt of approximately EUR 35 million. Regarding current liabilities and other current liabilities, this includes EUR 74.5 million of deferred revenues, up from EUR 66.6 million in 2015. These are deferred revenues from both our maintenance and our cloud businesses.

Regarding our equities, we finished the year with an equity position of almost EUR 375 million, up from EUR 340 million in the prior year. We were heavily impacted in 2014 and 2015 by the change with the US Dollar straightening to the Euro. We did not have such an experience in 2016, because the conversion rates stabilised. You can see that we paid approximately EUR 8 million in dividends over the period, and with our press release yesterday, we will be proposing a 40c increase in dividends to the shareholder later this year.

2) Cash Flow

Regarding our cash flow statement, we were able to generate an additional EUR 8 million in treasury for the year. Our net cash from operating activities continues to improve and to be strong. We generated almost EUR 40 million from our operating activities in 2016. The change in working capital requirements is slightly negative at minus EUR 5. 9 million, and in 2016 for a software company this is a little more standard, as our sales often end up in deferred revenue and we had a very back-end-loaded Q4. We make a lot of sales into Q4 which are sitting in our receivables at the end of the year, and this entails a negative BFR, change in working capital requirements, and so we will normally be break even or slightly negative at the end of the year unless different actions happen. We were able to monetise some assets a little early in 2014, which gave us a nice improvement, and then in 2015 we drastically improved our DSO and collected a lot of cash through the year, which improved these two periods. Free cash flow for 2016 finished at EUR 27.9 million versus the EUR 44.5 million in 2015.

We have a EUR 125 million line of credit RCF with the banks and three financial covenants, all of which we were clearly under, as we had net treasury of EUR 16.3 million for the year. Our main covenant ratios are leveraged ratios which need to stay below three times our net debt, three times below our EBE, and clearly we need that ratio. Our shareholder structure remains constant, and we have a concerted action of about 57% of our shares. Summarising the year, we were able to increase our profits to 16.9% of our revenues. We had solid cash, and we had a nice growth in our revenue at 4.4%. I will hand it back to Jean-Marc.

Mid-Term Status

Jean-Marc LAZZARI
CEO, Axway

I) Change

Thank you, Patrick. What I will try to do before we open up for questions and answers, which I am sure you are waiting for, is to try to give you perspective in terms of where we are on the execution of our transformation as well as strategic intent, and I will probably start with one of the quotes that I like the most: ‘It is not the strongest or the most intelligent who survives; it is the one who adapts the most’. I think this has never been truer, as we saw a clear shift in 2016. The movement in licence and maintenance is still there, but will probably only provide low single-digit margins to all the actors, while cloud and subscription will probably take off.

Why do we have to change? You know that better than I do, and I will not comment on all the numbers, but we now have clear evidence that digital is driving the economy. We have clear evidence that almost 100% of the transformation projects of our customers are driven by some digital activity. Digital is truly anchored as the change agent now for all industry; whether you are a bank, whether you are in the oil business, whether you are in the distribution business, you have to cope with the pace of providing some user experience, getting some connectivity, getting some mobile device networks in your IT.

Platform:

It is also very clear – and you have probably heard the word 'platform' more often than ever before – that the approach to digital in the IT business as well as most of the business actors is via a platform approach, and I like to see the next three to five years as being the platform domination period, where those who have architecture and those who provide services via a platform will make a huge difference versus those who only provide a traditional way of addressing the business in their software.

II) Heritage

This is our heritage. You know Axway, we have been growing both organically as well as by acquisition, and the worldview back then was that you get a larger portfolio, you increase your addressable market potential, and you basically go to the customer saying, 'Here is everything I have'. Most of the customers are no longer looking at your portfolio like that. The way they look at it is like this: they basically want you to provide a service which will match the end-to-end needs that they have. It is no longer about product, and it is no longer even about technology. The business is driving the change, and if you were to ask how we might address the needs of the client and how they might demand you to serve them, clients are now clearly asking for a service in real time, and they are asking for it to be delivered in the cloud, or under a form of subscription, or some of them would even ask for a form of leasing, as we did 25 years ago in IT, but clearly demand has changed. Customers want to use micro-services and they want micro-functionality, and today that may sit in different products of the range, but of course they do not want to buy all of the products in order to be able to use them partially.

III) Platform

It does answer a technological move, but it also answers a business move that customers are now trying to provide via their IT to their users. That is why we created the platform. The platform is nothing else than being able to provide any service, any feature, of the whole portfolio that we have. It will come over time. Not all of Axway's products are under the platform yet, but basically you can address every functionality of those products in a single place, and you can make the choice of whether you want to run that platform on a private or a public cloud. It does signal something new in Axway to include external providers in that ecosystem, and by the way, that is a lot of the learning we have had from Appcelerator in terms of their platform. Remember that Appcelerator is a dedicated environment that will provide connectivity to developers and end users, and all that in the same environment.

IV) Trends

Looking at the other trends I think are playing for us in terms of opening our addressable market, artificial intelligence, robotics and machine learning have never been as prominent in terms of client interest. We are dealing with robots every day and we will be dealing with more robots in the future. Clearly, artificial intelligence has made quantum leaps in 2016 because there is now enough data available and communication is so fast that the engine that existed even 10 years ago cannot fully deliver the service they provide. We are in that business when we provide end-to-end connectivity, when we provide access to data via data flows and secure those data flows. We provide API, of course, and we participated in a lot of the projects.

The same goes for big data and augmented reality. This is nothing else than transporting information from one place to another, gathering this information, industrialising this information to get to the point you want, and securing this information.

We have seen a lot of projects in 2016 where we not only participate via the mobile apps that we can develop with the tools that we have but also truly access enormous amounts of data all over the cycle. For example, one of our clients in the aeronautics industry basically uses our old repository base of MSD, transferring a huge amount of information on planes to run a learning system on how to repair the plane engines, so you basically write with an iPad or its equivalent, you face the engine, you look at it via the picture – it is a little like the Pokémon game – and you see what is wrong, with an enormous amount of data which is driven to your workstation.

Regarding the Internet of things, we have done a lot of projects connecting cars and connecting different forms of objects, and there also it is nothing else than using some of our technology APIs but also some of the file capacity transfer that we have to provide secure and industrialised flows of data over a connected machine.

All of that truly participates in bringing addressable projects and to bring new approaches to our strategy, and as a reminder, remember that our strategy was very simply expressed in terms of the portfolio. We have a heritage of what we called the foundation. This is still 55% of our business, this is still an enormous cornerstone for the clients, and basically we wanted to articulate a strategy that would link and mix that foundation business, those products that belong to the foundation, with the ecosystem engagement, as we call it, with the digital. We have one foot in the foundation and the other in digital. It is a very important notion. We also grew our addressable market, as a reminder, by almost EUR 2.5 billion, which is always helpful when your intention is to grow.

V) EFSS

However, coming back on the latest acquisition that we did, EFSS, which is a little barbaric as an acronym, this little company, Syncplicity, that we acquired yesterday, specialised in file transfer. You will tell me that you thought we were specialised in file transfer, but here we are talking about a very different notion of file transfer, which I will explain, but my this acquisition we basically pump up the addressable market of about EUR 1.8 billion in potential, driving EUR 7.7 million in addressable, but also driving significant growth. The MFT market has not been growing anywhere else but in synchronised shared file transfer.

Let me explain that a little further, and I will take a very simple example. Last week I was in the US with one of our larger customers, whom I cannot name, but basically we see that customer as probably the biggest MFT industrialised hub. They have five or six data centres dedicated to file transfer, it is a huge company with a global reach, and basically that company CIO, who happens to be our main client, was explaining that the problem they have is that their back office of MFT is very well-organised, is running in a scalable way and is transferring enormous amounts of data all over the world, but the problem is that their end users are using a lot of other free technology to exchange files between themselves. Therefore, they have two problems: how to connect everything they exchange to their main provider of files, which is their factory, and secondly, one day they will have both competitiveness as well as compatibility problems in letting everyone run several solutions. When the product is discontinued or has an upgraded version, they will have problems.

That is our challenge in terms of our customers. We are probably the leader in MFT, traditional system-to-system file transfer, highly secure, highly industrialised and high-volume. We now have our Syncplicity offering on top, which is human-to-human transfer. You are using an EFSS product when you attach a document to your email, and you are using an EFSS product when you send a collection of pictures of your family to the guys who were on vacation with you. We are talking about the same functionality, although Syncplicity is very different in terms of market, that is, it is not end users or consumers who are using the Syncplicity product but enterprises, exactly the same enterprises that we have been dealing with in MFT.

VI) Opportunities

Therefore, to oversimplify, that market is basically divided in terms of need into two opportunities of equal size, one being MFT. When you run a big MFT organisation in your shop, you cover 50% of your need. The other 50% is covered by the human-centric, the synchronise-and-share systems that EFSS provides. Therefore, when you have MFT plus EFSS, you have digital MFT, which is what the customer wants today. They cannot get rid of, and they do not want to change, their MFT factories, but they are putting on top, they are connecting and they are guaranteeing in terms of security a new area of functionality to serve the end users. Some of the Syncplicity clients are ours as well. Some of them have deployed the solution for over 300 000 feeds – they have feeds they deploy with EFSS – and the merger of the two offerings is highly value-adding. One market is flat or decreasing a little, and the other is a growing engine of that market.

Remember that we said we would reinforce our digital offering as we go forward, but that we will never forget where we come from and will reinforce our foundation business; that is the way we differentiate in digital. Here we are at the border of both, and digital file sharing and synchronisation is pulling MFT to digital, so that is very important information. Syncplicity has been the leader for many years. They used to belong to EMC before being spun off and acquired by a fund, and Forrester along with all the other reference firms would rank Syncplicity as a leader in that specific area. Therefore, there is a lot of hope in that acquisition, and we will answer some specific questions later on today.

VII) Ambitions

Concluding and coming back on our strategic ambition, remember that when you are transforming or going somewhere and do not know where you are going, every road will take you there. We know exactly where we are going, and we are transforming, transitioning and rolling over our strategic plan. We gave you a few key highlights, a few key ambitions, that the strategic goals should serve. The first one was to preserve margin before acquisition. That was the exact wording. You saw that we improved the margin, but margin is the priority for Axway, and that says it all.

The second point in our strategic ambition is that France is where we originated and has probably the most powerful customer base that any software vendor on the planet has, and we cannot afford a decrease or a slowdown in France. We were negative last year, I made it an ambition that, at a minimum, we should get the business flat, and I am very happy to report not only that it was flat but also that the growth that compensated for the decrease, because we have a fugal effect, is absolutely driven by digital. We have grown our digital business in France, and remember that we go to our customers and upsell them from the foundation to digital. We grew by 80% and basically did a fantastic Q4, growing by over 16%.

The third ambition we have is to reverse the trend on the other side of the water, in the US. We want to grow our software revenue by over 20%. Remember that licence is software plus cloud. Although we had a pretty disappointing quarter in the US, we have managed to get 23.4% where our goal was 20%. We need to continue that. That indicator is extremely important, because the US is more mature in terms of their transformation to some of the digital areas.

The other very important indicator, and probably the most significant, is to demonstrate that we are reaching our goal of being a digital player, not forgetting that we are a foundation player. We want to maintain the more than 30% growth in digital, which for us is mainly API management and analytics and of course all the offers at the mobile back-end of the service. We grew by 53% this year, and the specific growth that was extremely interesting was in API. We ended the first quarter with a product for which we started to go API plus, which is not really commercial, called Golden Gate, and that product is the consummation and marriage between some of the technologies in both Appcelerator and our API. The ability to develop quickly enough and manage the investment over two to three years can sometimes be challenged with the capacity to buy external technology to save time and potentially money.

Therefore, as a matter of fact, M&A is part of our strategy, organic growth is part of our strategy, and we will do both as we go forward, in the foundation as well as in the digital world. Appcelerator and Syncplicity, in roughly a year or a year and a half, have demonstrated our intention to go to that subscription model. Both companies, when they were independent, provided only cloud and subscription business, so it absolutely does trigger the strategic intention. We will more than double the size of our cloud and our subscription business in 2017 with Syncplicity.

We will open the Q&A a little early on that note, but that will probably be the most interesting part. We will answer some of the questions in the room, of course, and potentially take some written questions.

Questions & Answers

From the floor

Good afternoon, Gregory Ramirez Brian Garnier. I have two questions. Potential of Syncplicity [Loss of audio] My second question is regarding 2017 and especially the margins. Assuming that Syncplicity could dilute your margins a bit, should we understand that, as with last year, the operating margin for 2017 is about to increase despite the acquisition?

Jean-Marc LAZZARI

Let me answer the second part of the question, because I remember that you asked me the same thing after the acquisition of Appcelerator. Start-ups are by definition a growth model. When you are invested massively in products which are delivered by subscription, you bet on one thing: there will be a time when volume is so big that profit will come. Clearly, margin is important, and it is a top priority for Axway. That is why, by the way, we put it first. It is very difficult to guide, not only because we normally do not guide, but we also did not yet look into the details of what Syncplicity is.

I do not think that a business, even if we transform the way we transformed or the market changed, can afford not to combine growth and profit improvement regardless of the situation, and that is the DNA of Axway. Regarding the first part of your question, we did some analysis, and by the way, I would have loved to tell that CIO last week that we were going to acquire the best product there is. We think that the penetration of an EFSS solution is about 60% of our existing base, but most of those 60%, which can say only half of them have the need, are totally broken up into many different solutions, or are just point-of-integration companies in the wider global scale.

What we saw is that, even with somebody who is using multiple other products to share and synchronise files, like some of the large customers you may have seen named in the press release, will decide to deploy a single product across the company, so that they can not only synchronise and secure it with the foundation that they all have but also provide the same user experience to people all over the planet.

Deric Marcon, Société Générale

Good evening. I have two questions on figures, if I may. Could you help us to understand the impact of the variable compensation on your EBIT margin in 2016, i.e., whether you missed some sales? Did it help your margin to reach the level it did? That is my first question. Regarding the second question, if you look to your cost base in 2016 on a pro forma basis compared to the cost base in 2015 on a pro forma basis, with Appcelerator on the twelfth or eleventh month, what was the decline of this cost base at constant currency, and do you expect to repeat this performance in 2017 with Syncplicity in the loop this time?

Regarding my third question, can you help us to understand how you see the profitability of your cloud business? Growth is good, but all the companies that you are acquiring in the cloud are loss-making for the time being. How do you see the ramp-up of their profitability in the years to come?

Jean-Marc LAZZARI

Patrick, maybe I can take the third one and you can take the first two on the bonus impact and the cost trend. Let me just answer on the profitability and the cost. There are basically two reasons for reporting our cloud business within the services business. The first one was that it was so small that it was basically not material enough to highlight before a public audience, even if we have always been clear on the percentage it represents. The second reason is that we were in investment mode for two or three years in a row. The cloud business is a model where you have to invest a minimum first level of infrastructure, or you have to get a contract with Amazon or another player on the planet, and their cost is directly driven by the volume you do. Our cloud business is profitable and has been profitable since 2016, and it is getting to be in the range of where the profitability should be for that business. Before that we were in investment mode.

Patrick DONOVAN

Regarding the gross margin level, we captured the cloud, and the services plus the sales were profitable at that gross margin level, which helped contribute to our costs, the R&D costs and those of the other departments. We have talked about investing in the cloud business for many years, in terms of in the built infrastructure, the basis for the cloud departments, so that we can have a standardised cloud approach, network operating centres, monitoring software, etc. We have hit the peak and have now crescendoed in order to be able to handle all these customers. Now we are able to start pushing the margin, so we were able to push strongly this year and are able to push strongly for a few more years to come in order to put our gross margin at the levels of a cloud business. We have targeted over 50% as we grow.

It will take a while. When you really get into the cloud business, you will see that it is based on the revenue. You need significant revenue to cover the base costs in a cloud business, so we were doing the investment in 2014 and 2015. We are starting to break even and are starting to come out of it, and now we are starting to see some early double-digit margins coming out of cloud. We will keep pushing, targeting to get over 50% over the next several years.

Regarding the first question on the bonus, they amount to a couple of percent. They are not huge. They do have a savings impact, though not enough to make the big leap. They do help in our overall cost savings, but the real cost savings came from our projects earlier in the period, where we announced another strategic plan. We were really looking where we wanted to invest and where we wanted to hold back our costs, and as we make acquisitions of these cloud companies, the targets we are looking at are often related to doing something a little more innovative but not that big, so they have a higher cost basis. There is an investing cycle, but the revenue is still catching up. We have to optimise the whole portfolio during a budgeting cycle as we are acquiring these companies with higher cost bases, so, as Jean-Marc says, we are digging into the cost of simplicity in the next two or three weeks, eliminating all the costs and really trying to secure their business so that we can continue to target an improving margin as we do the M&A story.

The second question was on the cost, I have discovered.

Deric

However, you did not give a figure on the currency cost. I am referring to the combined cost of the two companies in 2016 versus 2015 on a pro forma basis.

Patrick DONOVAN

The currency impact in 2016 was nothing, but the Dollar was stable. That is our biggest cost basis. Regarding the rest of the currencies, the Pound moved a bit, but overall our cost basis was fairly stable on our constant currency. We added the cost coming from Appcelerator and then we held the investment. We blended it with the Axway investments and we held the Axway investments quite flat.

Participant

There is a question from the web on Syncplicity. Can you comment on the size of the company, the number of customers, the type of customers, and their origin?

Jean-Marc LAZZARI

You can have hundreds of thousands of customers in that EFSS , by definition, but they can be individual. Remember that with EFSS, as an individual, if you want to go on a platform and buy a service, you can buy it from a telco, you can buy it anywhere. Therefore, the number of customers is less significant, but the fact that the top 50 customers of Syncplicity, which are the large enterprises, would account for 75% or 80% of the revenue of the company. It is truly something that we are happy to find, because that business can absolutely target a different audience in terms of customers, so we can rate the top customer at 75% or 80% depending on how far you go, and you do not have to reach 100 customers to get to 93%. Therefore, there is a huge customer base and a huge number of clients, but also huge penetration in the larger camp, which is where we are comfortable.

Participant

The second question is about the pipeline. Can you qualify globally for Axway the pipeline at the beginning of this year in terms of size, trend and comparison with others?

Jean-Marc LAZZARI

I have told you almost every quarter now that I am satisfied at the level of pipeline that we have, but you can look at the pipeline from two different angles. You can look at it in terms of Dollars or of number filled. We signed roughly 2 000 deals in a year, out of which 40% were in Q4, in some cases, such as the US, it was potentially 53%. Therefore, we are quite back-loaded, as Patrick said, in terms of the number of deals. Regarding value, there is an effect in the sense that a lot of customers would be fine whether they went with the cloud or licensed at the last moment. I told you that that was the only explanation for the few deals that we moved. We were leading the charge, but at the last minute the customer decided they wanted to be served by a cloud approach or a subscription, so in most cases where we could come back with a proposal, that happened very late.

Therefore, the effect of the digital business in terms of value when it is sold as a licence, with the exception of the very big deal with did with analytics in Q2. Excepting the big elephant you have from time to time, we have a slightly improving pipeline which basically compensates for some of that switch. Now, as the business moves and changes, we have to conserve the pipeline now with two different categories. There will be a licensed pipeline, if you wish, and there is a cloud pipeline that we follow very, very closely as we go forward. Therefore, there is a good level in terms of the pipeline, both in number of deals and in value, but a serious need to try to identify, as early as we can, where the customer will ask you to go in terms of how he wants to be served. It is difficult when it is decided on the last day, because obviously you are speaking about a totally different financial model, a totally different way of recognising the revenue and a totally different period in which you will recognise the revenue. The pipeline is good.

It is a pretty late conference, and I imagine a lot of you have done other conferences today. We have people who I imagine are looking for a coffee.

Deric Marcon

It is too late for coffee. Patrick, can you share with us some metrics about your cloud business? That is, what is the projected annual revenue for Q4, not the reported figures but what your annual cloud revenue would be based just on all the contracts that you had in Q4 and just looking at the embedded growth you have in 2017 compared to 2016? Do you expect your cloud revenue, or your cloud business, to grow more than 30% in 2017 compared to 2016, so will it ‘accelerate’ on a like-for-like basis compared to the 27% you achieved in 2016? Regarding my last question, if your licence revenues are growing less than you thought two years ago, and your cloud business is growing less than you thought two years ago, do you still believe that some top-line CAGR revenue is achievable, or is it not obvious at this stage? That may be for both Patrick and Jean-Marc.

Patrick DONOVAN

We will probably comment on that too. Regarding the first question, just over 6% of our total revenues are cloud-based, or roughly, EUR 20 million, and that grew about 26%, as we presented. I do not want to get too technical on ARR bookings and so on, but we have the backlog to grow at approximately that rate again for the next years. Then we will be reviewing and adding maybe 10 months of Syncplicity, so we will have both total and net organic growth for 2017. Syncplicity is roughly in the ballpark of what actually does stand alone.

Therefore, we are seeing the growth and the move in the cloud. I mentioned to some members of our audit committee that this was the first period in my career that I have seen some strong push really coming through – because I have managed Linkwell as well – the legal contracts and through the cycles of a cloud consumption model for the customer. It is often about dissolution or the market, but now we are seeing a lot of questions coming, and so the licence is continuing to come less easily, and the cloud is where a lot of the consumption is happening. We have seen in the market companies such as Oracle really beefing up their marketing and stuff on the cloud, so we will have to go and be present in the cloud. We will still always have a strong licence component given our portfolio, and it can continue to be a strong portion of our revenue base, but the growth we are seeing in our own smaller cloud initiative and now with Syncplicity will continue to be a growing element of our overall pie of revenue, and it will hopefully continue to make up a larger portion year over year.

Jean-Marc LAZZARI

You have probably seen the publications of most of the software industry, which would roughly average low single-digit growth in the licence revenue and significant or increasing growth in the cloud revenue. What we have to face is basically a new way of acquiring services and software, and the companies have to react. Therefore, I want to see that we have anticipated it. We have in all the acquisitions, even back to Vordel, the API, and the market-leading digital solution we have is probably the first candidate to run the API under the cloud. It is the same for the acquisition of analytics. A lot of our customers are asking us to run reports and analytics via a subscription mode driven by the amount of usage they will have, and obviously we anchor this point with Appcelerator and Syncplicity, which are cloud-only and subscription-only revenue.

We have technology that we have coupled with products so that you can get them in licence – that was not the case in Appcelerator – but we show the direction in terms of being significantly present in the cloud and subscription. You will see, as Patrick said, that the direction of our cloud revenue is taking on a scissors effect. We do not want that to happen to us but we want to make it happen, and we will be extremely proactive to balance those two sources of revenue.

It was a pleasure reporting on a year we are very happy with. Most of the indicators are in the green zone. Let us have some further discussion outside. Ladies and gentlemen, thank you very much for ether waking up very early or staying awake, and for the people on the web, I imagine we will have a follow-up for the questions you sent us via the different media. Thank you very much.

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