Presentation of

Axway's 2011 results

Contents

Overview

Christophe Fabre

Chief Executive Officer, Axway

Thank you for attending Axway's 2011 results presentation. On the stage with me are Patrick Donovan, Axway's CFO, and Patrick Gouffran, Corporate Secretary with responsibility for financial communication.

My presentation will cover the financial statements, 2011 highlights, Axway's position in the packaged software market, and our strategy and outlook.

(a) 2011 financial statements

(i) Base effects

The figures are pro forma figures, restated to show Axway as an independent company in 2010. Figures for 2010 have been restated using 2011 exchange rates.

Exchange rates against the dollar had an unfavourable effect (€3.3 million euros on revenue), with no impact on margins. Exchange rates against sterling had a negligible impact.

From a consolidation standpoint, the impact of the spin-off from Sopra Group in the first quarter of 2011 was €200,000.

(ii) Revenue growth

1. By business/period

At the top of this table are second-half figures by type, followed by third and fourth quarter figures. It is worth noting the difference between the third and fourth quarters; in Q4, we finally felt the impact of the economic slowdown, which hit both Licences and Services quite hard. In Services, the impact was pretty much as one would expect: customers did not place many orders for cost-plus contract work. In Licences, there were two factors at play. Firstly, some European licences were deferred until 2012. Secondly, in the third quarter, having perceived that things were becoming tougher, we brought forward the closing of various projects, especially in the United States. This somewhat heightened the imbalance between the two quarters. Licensing business grew by 0.1% in the second half – in other words, it was virtually flat. Maintenance business grew significantly (up 12.9%), with very strong growth towards the end of the fourth quarter. Services posted growth of 2%, compared with 8% in Q3 and -3% in Q4. A genuine slowdown can be seen in Services.

2. By region

Breaking performance down by country, we can see that in the fourth quarter, Europe declined by 4%, after growing by 10.7% in the third quarter. The region posted modest growth over the second half. While both Licences and Services faced difficulties, Maintenance experienced renewed dynamism.

In the United States, Q3 growth of 20.9% was helped by bringing forward the closing of large-scale projects. As a result, the pipeline was weaker in Q4, and growth relative to 2010 was therefore close to zero. The real figure to notice for the United States is 10% growth, which has been constant and should once again be constant in 2012. The figures for Asia-Pacific total no more than a few million euros and are not material, even though the region performed well.

3. By half-year and region

The United States posted growth of 10% or higher in the year, quarter after quarter. Performance in Europe fluctuated throughout the year. It is important to recognise that we are highly exposed to the financial market, whose difficulties you are well aware of. Asia is growth strongly, but volumes are still low.

4. By type of revenue

Note that growth was driven by Maintenance. There are a few operational metrics behind this growth. We have been working hard in the area of receivable collections. However, there are two keys behind growth in Maintenance. The first is the percentage of maintenance sold with licences (in other words, after-sales service, access to new offerings and developments, 24/7 support and support for critical tasks). This percentage of Maintenance sales has grown by a few points. The second key is customer retention. Traditionally, within the industry, there has always been a degree of erosion. However, we have also increased our retention rate by two or three percentage points, putting us well above the industry standard of 90%. This explains the growth we have seen in Maintenance. It is a fact that offering fewer discounts on maintenance often has an effect on licences. This is undoubtedly another factor in the weak growth we see here.

(iii) Analysis of Axway's businesses

This analysis provides a view of the path we have taken over the past six years. It can be noted that the proportion of revenue accounted for by the United States has increased substantially. Our business model, with its split between Services, Licences and Maintenance, remains stable, though with some variation from year to year. Services are part of our marketing mix, though only services based around our products, and not systems integration.

(iv) Income statement

Revenue totalled €217.2 million. In terms of the split between Licences, Maintenance and Services, we can see that there has been an increase in Maintenance.

There has also been a fall in the cost of sales for Licences and Maintenance, mainly arising from a decline in embedded software and reduced OEM costs. In the Services business, service costs have risen slightly, by half of one percentage point. This increase is mainly due to the fact that our Cloud teams fall within the Services business. We have invested in a future-proof Cloud structure, representing an additional expense of €1.5 million.

Gross profit is up from €67.2 million to €68.1 million.

Selling expenses have increased as a percentage of operating expenses. The US network has not required any special investment. However, we continue to invest in inside sales and business development capability within our European network, particularly in France. These investments are intended to generate renewed growth in these regions.

Research and development expenses are slightly down as a result of foreign exchange effects. We have maintained our investments.

General expenses are around 9%, in line with industry standards. All in all, operating expenses as a percentage of revenue have declined. Operating profit on business activities is up from 14.9% to 16.3%, which is a good result.

At the bottom of the income statement is a recap of 2010 and 2011 revenue, organic growth of 5.7%, operating profit on business activities, which is up from 14.9% to 16.3%, and profit from ordinary activities, up from 14% to 15.3%. Other income and expenses mainly consist of the costs of the spin-off.

Turning to the cost of net financial debt and foreign exchange gains and losses, although we repaid the Sopra current account, non-utilisation costs arising from the credit facility remained more or less unchanged in the second half of the year. In the first half of the year, we can see the new €100 million credit facility, to which costs associated with the Sopra current account should be added.

As regards the tax expense, we paid €5.2 million in 2011 after having had a €3 million credit in 2010. I will come back to this point later to explain the mechanics: a lot of extraordinary items in 2010 disappeared in 2011.

Although net profit is down at 9.9%, it would be up if the tax expense were the same. Basic earnings per share amount to €1.20.

(v) Tax expense

The company posted a pre-tax profit of €26.7 million, compared with €23.6 million in 2010. The tax expense excluding exceptional items came to €6.3 million, or 24% of pre-tax profit. We can therefore see that the level of taxation remains unchanged.

However, there are some exceptional items, some of which will be repeated in the future. In 2010, we benefited from accelerated tax depreciation arising from a transfer of intellectual property from the United States to France. This resulted in a €4.6 million tax credit. We also activated deferred tax in the United States, some of it on an ordinary basis and some of it (the part arising from the IP transfer) on an exceptional basis. This represented a credit of €8.7 million in total. In 2011, ordinary deferred tax in the United States amounted to €1.1 million.

This brings us back to the reported tax expense.

(vi) Condensed balance sheet

1. Assets

Non-current assets totalled €209.2 million. The important point is the change in goodwill arising on acquisitions, which is due purely to foreign exchange effects.

Current assets have fallen from €99.8 million to €95.3 million. The main point to note relates to trade accounts receivable, which fell from €65.8 million at end-2010 to €57.1 million at end-2011. In addition to our work on receivable collections, we have been working to shorten collection timescales. This work has had a very worthwhile impact on cash flow and the working capital requirement, of the order of €8 million.

I will go into cash flow in more detail later.

2. Liabilities and equity

Shareholders' equity rose from €148.1 million to €213.4 million. Non-current liabilities totalled €16.6 million.

In current liabilities, note the repayment of the company's debt to Sopra, bringing current liabilities to €74.5 million.

Total liabilities and equity amounted to €304.5 million.

(vii) Changes in shareholders' equity

At the beginning of 2001, we had equity of €148.1 million. Exceptional dividends paid in connection with the Axway spin-off totalled €21.8 million. Profit for 2011 was €21.5 million. The new equity issue completed last summer brought in €61.2 million. After a few other transactions, the position at the year-end was €213.4 million.

(viii) Cash flow

Cash from operations before changes in working capital totalled €26.2 million in 2010. As I explained earlier, the change in the working capital requirement mainly arose from more efficient collection of trade accounts receivable, which improved by €8 million. Net cash flow after the tax expense, tax payments and the cost of net debt rose to €35.3 million.

The net cash outflow from investment activities was €3.6 million. The business generated free cash flow of around €31 million, much stronger than the €21 million generated in 2010.

As regards net cash flow from financing activities, the new equity issue brought in €61 million. The €21.8 million dividend was paid during the year. Repayment of the Sopra current account represented €68.4 million. Taking into account a few additional transactions, the total came to an outflow of €30.8 million.

This gives a net change in cash of €1.4 million, with cash and cash equivalents up from €22.3 million to €23.7 million – a very good result. Opening net debt was -€48.2 million; the position is now €21.3 million, since we no longer have any debt.

(ix) Workforce

The workforce grew from 1,661 employees in 2010 to 1,755 in 2011. It should be noted that this growth was spread across all countries.

(x) A robust financial structure

With no debt, our bank covenants are, of course, excellent. I will not go into any more detail.

(b) Highlights

(i) Key events

One of the main highlights was the finalisation in 2011 of the spin-off from Sopra Group. I will not go into the details. The key point is the provision of a credit facility that will enable us to finance our growth in the future.

One of the key characteristics of 2011 was the general economic slowdown which is, of course, reflected in our 2012 Guidance.

In summary, at a regional level, 2011 revenue growth of 5.7% was driven by the USA, which saw growth mainly in Licences. Work on maintenance began several years ago; in 2011, the business grew by 5.7%. There was very strong growth in Licences and strong growth in Services. In terms of business type, growth was underpinned by Maintenance throughout the year.

Better optimisation of Product margins led to a 1.4 percentage point rise in the margin. It is important to note that in 2011, we maintained investment in order to generate growth, while naturally going through expenses with a fine-toothed comb. We will adopt the same approach in 2012.

The company was in a strong financial position following the spin-off, with positive net cash and satisfactory bank covenants.

As regards the relevance of our offering and our ability to continue to sign attractive contracts, although we observed a slowdown in licensing business in some regions, we experienced success and growth in every part of the portfolio, especially in the United States – whether in managed file transfer, B2B or integration, including in particular the release of new versions towards the end of the year. We won attractive new business across all regions.

(ii) Summary of operating performance

1. United States

The US business experienced growth in all vertical markets. The three main vertical markets in the US are banking, supply chain and Government. I would include healthcare alongside supply chain. We saw sustained growth in all vertical markets, with business very strong and our new customer penetration rate maintained at 20%. Services posted very strong growth, arising from business written at the end of 2010 as well as that concluded during 2011.

2. Europe

In France, we saw a lot of deals deferred from the fourth quarter into 2012. As such, these deals are not dead; they are still active. We do not know when they will be finalised. France is highly dependent on performance in the banking sector: more than 40% of revenue is generated in this area. In Services, we saw demand fall throughout the second half of the year, particularly in the banking sector, which represents 60-70% of our Services business.

Germany also encountered difficulties outside of its traditional vertical market. Axway's main market in Germany is the automotive market, and this market performed well. However, we had begun to expand into adjacent sectors (banking and supply chain), but have seen our growth come to a standstill in these sectors.

Other European countries ended the year very strongly, giving European growth something of a boost. This strong performance mainly arose from major deals, which I will explain in detail shortly.

Finally, Asia-Pacific performed in line with our expectations.

(c) Axway's position in the packaged software market

(i) Axway's market

Through its Synchrony platform, Axway helps businesses connect with their ecosystem. These investments are guided by a business's need to improve governance of its exchanges, which translates into better visibility – since all data flows embody business events – and the need to secure data flows in order to avoid data loss. The exchanges we are talking about are fundamental to a business's key processes. This means that we need to be able to implement, measure and monitor those processes. Statistically, this community is growing as a result of automation, the democratisation of the internet, falling network costs, growth in mobile offerings, etc. We therefore help businesses work on managing this community, which represents thousands of partners.

(ii) Competitor analysis

The middleware market includes both major generalist players (IBM, SAP, Oracle and Microsoft) and specialists who are trying to position themselves to satisfy large corporates and specific needs. When a business has a specific need and wants to differentiate itself, it looks for specialists. Such specialists include Software AG, which specialises in processes, Tibco, which specialises in real-time processing, and Informatica, which specialises in managing data. Axway specialises in managing businesses' ecosystems. The diagram shows a degree of overlap, which corresponds to the fact that we also need to connect internal application portfolios.

There has been no change in our competitiveness. We continue to win 90-95% of all of the deals for which we bid. Other players have made no major moves, whether belligerent or aggressive. However, we continue to move forward and strengthen our offering.

(iii) Major deals

1. United States

I would like to provide you with an overview of a few deals to illustrate our results. In the US region, the company we worked most closely with in 2011 was JP Morgan Chase, with two large deals. This company has consolidated its managed file transfer platform with Axway. With business volumes booming impressively, the company has also upgraded by adopting new versions including high-availability clustering.

Sony has chosen Axway for its managed file transfer activities. This is an initial implementation. The State of Connecticut has also chosen Axway to manage its paperless health information platform. The Government has launched a major initiative across the entire healthcare ecosystem to ensure that all such information is made paperless and accessible. Axway is market leader in this segment, having won the highest number of contracts; we will win more in 2012.

AmerisourceBergen is a compliance deal in the healthcare arena. DISA is a US Government agency that has been expanded and has upgraded its security offering.

2. Europe

In Europe, ING, a long-standing customer of Axway, has once again extended and renewed its generic Axway solution while also upgrading to new versions.

A SEPA project has been kicked off with Delta Lloyd.

We have worked on cloud activities for TietoEnator (business networks). This company uses Axway as the foundation for its cloud-based offering. It has also renewed its generic Axway solution and upgraded to the next version up by adding community management modules.

It is worth pointing out an attractive deal with BNP Paribas, where MFT has been extended to Capital Markets.

Finally, Barclays is an example from the UK market. Barclays is using our FEX (Financial Exchange Platform) offering to manage cash flows.

3. Asia

I will not go into any more detail on Asia. I will simply emphasise that Axway's key segments (managed file transfer and B2B) are also meeting with success, whether in China, Taiwan or Indonesia. This is particularly good, since it means that major groups can make global choices based on Axway solutions and roll them out in every country.

(d) Strategy and outlook

(i) Growth outlook

In addition to integrating business interactions to business ecosystems, Axway's comprehensive growth outlook comprises:

- Security;
- Management of new standards - each industry is subject to new exchange standards, therefore businesses must constantly upgrade and adapt to novelties;
- Platform consolidation - these exchange platforms have been around for twenty, thirty or even forty years. Businesses often have several service providers. When they are doing fine, they remain and build new projects with Axway; when the situation gets tougher, when the business needs to streamline its operational costs, it consolidates: it chooses a service provider and discusses its modernisations with that provider only. It thus choses the best offering in the market. These consolidation offerings are the ones currently driving our growth.
- Innovation projects, which can be seen in the United States but which have not yet appeared in Europe.

The American order pipeline for 2012 continues to develop, at a rate of around 10%. In Europe, projects postponed from 2011 are still effective. In addition, other operations have been added to the pipeline. The problem still lies with the economic context. The issue is whether the seemingly current breakthrough will remain throughout the year or not.

Investments for growth are continued, even though they are measured and expenses remain under control. We are giving ourselves the means to propose new offerings to allow clients to upgrade and to adopt different areas such as cloud computing.

(ii) 2012 Guidance

We have a good visibility in the United States for the first half year and a strong pipeline in Europe. However, we have very low visibility in the second half. The macroeconomic context will be interesting. However, I can safely say that we will record positive organic growth and a very slight improvement of operating margins.

(iii) Strategy to sustain the project

The strategy to sustain out project as follows:

- Optimise the Company's growth levers, to work on MFT and B2B;
- Intensify the vertical approach - In these systems, industry per industry, specific offerings need to be proposed, technical protocols need to be implemented and specific processes need to be understood. We are currently developing this vertical approach.
- Reinforce our position as a specialist, especially by also offering cloud modules or proposing our On-Premise offerings in Hosting, Private Cloud or Public Cloud mode.

(iv) Actively seeking M&A targets

Lastly, we are always actively looking for M&A targets, aiming at several objectives which are:

- To reinforce geographical coverage in our core markets (United States and possibly United Kingdom);
- To gain access to new client bases and create opportunities for cross- and up-selling;
- To acquire additional technologies, in order to be differentiated from other middleware players.

(e) Conclusion

In 2011, we showed that Axway, after its spin-off from Sopra can work. Axway is robust and is holding up well within the economic context. Axway's distinctive features in the software market are becoming increasingly pronounced.

Questions/answers

Christophe Fabre

We are now ready to answer your questions.

An attendee

Services' gross margin decreased, especially because of investments in cloud computing in 2011. I would like to know what is budgeted for Services investment in 2012. Moreover, could you go back over the measures undertaken to improve Services' margin? What is the current situation?

Christophe Fabre

Indeed, in 2011 Services margin suffered as a result of a difficult economic environment in Europe. Several usual recurring contracts were not continued. In the meantime, we used these resources to work on the cloud and infrastructure. What I am saying applies especially to Europe. In the United States, the situation was entirely different, with strong growth at 20%. In this context, we had to take on employees in order to be certain that we could meet demand. We recorded growth but Services' margin in the United States has not improved. For system optimisation to be implemented, growth should be not so frenetic.

We are hoping that margin will improve in 2012. However, we also recorded strong growth figures in Services in the United States. I think it will be easier in Europe because we have now grasped the situation, at least for the beginning of the year. I would like to remind you once again that it is a software development services business. Therefore the margin cannot really be compared with that of a integration services business.

An attendee

Which business sectors are the most affected by the 4th quarter slowdown, especially in France? Have you noted an improvement over the first few months of 2012?

Christophe Fabre

We have very obviously been affected in the banking and financial market in France. The public sector also underwent a slight decline. In Germany, the automotive market performed well. We benefited from a good order backlog and entered several contracts. We are trying to develop, slowly but surely, in the finance and supply chain segments. There has been a freeze in direct investment in these areas. We do not have a strong client base. In the rest of Europe, we do not have a strong client base either. Results are therefore variable from one account to another. There is a very strong investment on the part of ING despite the fact that the company is certainly undergoing difficulties. I will not carry out a specific analysis for the rest of Europe.

In early 2012, the order pipeline looks active and dynamic. Projects which were suspended during the fourth quarter are being discussed again. They are being discussed with clients. It's only mid-February: client activity is starting up. We are quite optimistic for the first half year but it's only when you actually sign that you can be sure that the client is ready to invest. A certain number of new projects have appeared in numerous vertical markets. It is also true that a company that freezes its investments in infrastructure has to get equipped after a certain period of time.

An attendee

Could you go back to the competitive environment and more specifically to specialists? Which players are your competitors when it comes to calls for tender? Could you also give us some more information about differentiation?

Christophe Fabre

The competitors we face are rarely those I mentioned in the table. The presented slide simply aimed to position Axway in the middleware market. Indeed, when we face SAP or Oracle in calls for tender, it means that we are not covering a specialist need, but rather a need for generic platforms.

The competitors we face are those which cover these exchange platforms. For instance, we may face the IBM's Sterling which you have probably heard about. We have been very successful facing this competitor over the last few years: we won market shares and we are still wining market shares. The other competitors we sometimes face in the area of B2B or Managed File Transfer are smaller players than us. For instance Seeburger for B2B, Ipswitch for Managed File Transfer but there are also local players. In this case, differentiation is based on the completeness of the offering. In this respect, the Synchrony platform really has everything it needs, in addition to cloud extensions. We are also capable of helping clients with their consolidation projects. Our Services are also helping to win Licences though they have not yet recorded an impressive margin. It gives clients confidence in choosing Axway as a long term partner. We are not a system integrator but we do come from Sopra Group. We know what a project consists in and our major clients are well aware of that. They don't need to invest in computer specialists to manage these technologies. They are reassured about having a partner such as Axway to manage both products and implementation. This element of differentiation is not related to products but to the business model mix.

An attendee

Could you specify the 2012 Guidance? I gather you are expecting an organic growth rate of around 5% to 7%.

Christophe Fabre

I will not deal with that last comment. We are in an economic climate which can tighten or loosen from one quarter to the other. It is true that, in 2011, the United States recorded quite a reliable growth rate of 10%. However, considering what may be heard about China, one can't say if the United States will be affected or not in 2012. I can only say that in a usual economic context, our growth potential is between 8% and 12% in the United States. As far as Europe is concerned, we have been subject to a crisis and then to a brighter period. Will the good days last? According to current information, the good days won't last. So we are going to be cautious.

As far as Software is concerned, visibility ranges from 3 to 6 months. It is very difficult to forecast what might happen in the second half year. You mentioned a 5% or 6% organic growth. I'm hoping to reach that result, but I prefer keeping to a cautious Guidance figure.

The main uncertainty is the economic climate. We know if our performance is good or not. We know what clients' demands are. Nevertheless, if clients do not want to spend any money, it's quite difficult to get them to buy anything.

An attendee

Could you give us some information about your ownership structure?

Christophe Fabre

Are you referring to Axway's shareholder structure? It has not changed since the spin-off. Sopra Group retains 26.3% of the capital, Sopra GMT retains 22%, Société Générale holds around 9% and Caravelle 13%. The free float is around 25%.

If there are no more questions, let's take a break after which we will listen to our colleagues from Sopra Group.