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# Full Regular Transcription

## SoftwareOne Holding

### H1 2024 Results

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#### COMPANY REPRESENTATIVES

Brian Duffy, Chief Executive Officer

Rodolfo J. Savitzky, Chief Financial Officer

Anna Engvall, Head of Investor Relations

## PRESENTATION

### **Engvall Anna**

Good morning, and thank you to everyone for joining SoftwareOne's H1 2024 results. I'm Anna Engvall, Head of Investor Relations at SoftwareOne. Joining me today are Brian Duffy, our CEO, and Rodolfo Savitzky, CFO. In terms of agenda, we will kick off with a summary of our H1 2024 results presented by Brian. Rodolfo will then take us through our financial performance. We will finish the session with Q&A, as usual.

Before handing over to Brian, please let me draw your attention to the disclaimer regarding forward-looking statements and non-IFRS measures on slide three. With that, I will hand over to Brian.

### **Duffy Brian**

Good morning, everyone, and thank you for joining the call. Let me begin with some key highlights for the first half of the year. In H1 we delivered solid results with 7% growth and an improved margin, against the backdrop of continued macroeconomic uncertainty. Our performance was supported by the implementation of Vision 2026, which is progressing according to plan. We successfully launched our transformed go-to-market model in key markets, with our new sales hub set to capture share in the growing under-served SME segment.

We also completed our operational excellence programme, exceeding the initial target that we set last year. While we saw improved momentum in many of our growth markets in H1, and most remain fully on track, the macroeconomic environment continues to affect clients' purchasing behaviour, specifically in DACH. Secondly, our public sector application services business in Colombia has been impacted by the change in government. Consequently, we have revised our revenue guidance to 7 to 9% growth, down from 8 to 10%. We have maintained our adjusted EBITDA margin of 24.5 to 25.5%.

Now, before moving on, I would like to briefly comment on the update from the board of directors. The board has received indications of interest of a potential going private transaction. Discussions, although challenging given the business environment, are progressing, and the board will provide further updates if and when required. Now looking at our financial results in more detail, we delivered solid growth of 7% in H1, with a similar level in Q2, benefiting from our global footprint, the breadth of our portfolio and improved execution across the business.

Adjusted EBITDA grew by over 11%, with a margin of 23%, up 1 percentage point, reflecting our focus on profitable growth.

Moving on to regional performance, DACH grew over 3%, primarily driven by lower results in the Microsoft business. Momentum improved in Q2, up 6%, driven by other ISPs and a few excellent customer wins in IT portfolio management and SAP services. With new leadership in place since January, we have very good visibility on pipeline progression in Q3, although as mentioned, we do see the uncertain macroeconomic environment having a slightly larger impact than anticipated.

The rest of EMEA was up over 4%, driven by strong momentum in Southern Europe, particularly within services in Central and Eastern Europe. France and Italy both grew double digits, with Spain surpassing 20%. APAC delivered a strong H1, up of over 10%. Growth slowed slightly in Q2, driven by China, which is currently a challenging market. Nevertheless, we have a broad presence in the region and remain confident in delivering a strong performance for the year.

Meanwhile, NorAm was up by 15%, supported by several large customer wins in both quarters, and as we emphasised in February, North America is a priority market for us, and we intend to continue strengthening our organisation in the region to ensure we have the right capabilities to succeed there.

LatAm grew by 10%, with an astounding 15% in Q2, and improved results across the majority of markets in the region. Clearly, the turnaround measures which have been implemented by our new leadership team are working, and we see further upside with the ongoing launch of our new go-to-market model.

Turning to our business line, software and cloud Marketplace was up over 6% in H1. Microsoft billings reached US \$11.9 billion, up 8% year-on-year, which translated into revenue growth at a slightly lower level. In other ISPs, we delivered double-digit growth in Q2, supported by successful renewals and pricing initiatives launched earlier this year, and an increased focus on our prioritised partners.

Software and cloud services delivered over 8% revenue growth in H1. Growth was driven by strong momentum in cloud services across all three hyperscalers, IT portfolio management, as well as SAP services. Meanwhile, application services was impacted by weak public sector results in Colombia following the change of government.

Transforming our go-to-market model and driving sales productivity are key to building a world-class organisation, which leverages our existing scale and reach.

In H1 we made significant progress completing the implementation of our new go-to-market model in key markets, including DACH, North America, UK and Ireland, Mexico, Brazil, and India. These markets account for around 60% of our revenue, and the remaining 40% will transition during H2.

As part of the new model, we launched hubs in Nashville and Barcelona to effectively target the growing and underserved SME segment with a digital-led sales notion. We are also opening hubs in Bogota and Sao Paulo to serve the Latin American markets. These hubs will initially focus on the Microsoft tech stack, including Copilot and security solutions, before offering a broader portfolio. Meanwhile, we reorganised our client coverage for the enterprise and corporate segments to enable our account managers to go deeper with our larger customers, to gain wallet share, as well as fund for new logos.

Additionally, we strengthened our global alliance team with strategic hires. The team is working with our prioritised partners to build joint, go-to-market programmes, and share targets to cross- and upsell our broader portfolio. And as we mentioned, we've seen early results on this with our other ISPs accelerating to double-digit growth in Q2.

Finally, we implemented an AI-based renewal model for the Marketplace business line and will roll it out across managed services in H2. We are also driving pricing excellence with successful pilots in DACH, the UK, Nordics and Benelux. Supporting our digital first go-to-market approach, our Marketplace platform facilitates bringing customers and vendors together to disrupt our industry. Our existing relationships and decades of tribal knowledge are significant advantages versus the many generic marketplaces that are out there today.

The platform continued to gain traction in Q2, with the number of trial subscriptions growing to over 35,000 and LTM growth sales increasing to 825 million CHF. This translates to around 100 million of revenue, or 10% of group revenue for SoftwareOne. We continue to add new features to enhance the customer experience. For example, split billing from multiple customer entities and scale at the platform by adding new vendors. We are also focusing on automation of all back-end processes, and aim to reach an end-to-end, automated chain by the end of 2025. Over the medium term, we expect this platform to become a key driver of both top line growth and margin for SoftwareOne.

Copilot 365 have now been generally available for around two quarters. Our focus remains on being the number one partner for Microsoft, while supporting clients with exploring use cases, addressing data security and compliance concerns, and creating effective adoption programmes.

By June 2024, we had reached around 600,000 Copilot users, nearly double the number of users by the end of Q1. We have also delivered an additional 240 services engagements in Q2.

Now let's turn to some examples. Arendt, a Luxembourg law, tax and business services firm is a great example of how we've been partnering with clients to explore use cases for Copilot 365 to transform their ways of working. As part of our holistic Copilot advisory service, SoftwareOne brought together the firm's most relevant stakeholders to showcase Copilot's capabilities. We demonstrated its integration with the 365 suite, highlighting its potential to streamline content creation, data analysis, legal research, and translations. The SoftwareOne team also proposed new, innovative uses, such as a chat bot to support the legal teams. And that, based on these results, Arendt intends to expand the use of Copilot throughout its entire organisation.

In addition to Copilot, we continue to focus on our expanded services in high-growth segments, such as data and AI, supporting mid-market clients with getting their data in order. An example of this is AmRest, a restaurant operator in Europe, managing a diverse portfolio of well-known franchises, such as KFC, Pizza Hut and Starbucks. They were looking to enhance their data infrastructure, to better analyse and utilise data for improving sales and marketing operations. As a solution, we helped them build an enterprise data warehouse on Microsoft Azure. Today, AmRest has a scalable solution, which accommodates their growing data needs and provides them with deeper insights into customer preferences and behaviours, and enabling them to deliver a more personalised and effective marketing strategy.

Now with that, I will hand over to Rodolfo, who will take us through our financial performance in H1.

### **Savitzky Rodolfo J**

Thank you, Brian. I'd like to extend a warm welcome from my side as well. Let me begin by discussing our financial performance at the group level. Revenue growth in H1 was solid at 7%, in line with our expectations, with broad-based growth across the regions and business lines. Our focus on operational excellence continue to yield positive results. We reduced delivery costs, offsetting the effect of portfolio mix changes. These resulted in a 3 percentage point increase in contribution margin, both in H1 and in Q2. SG&A expenses increased by 13% in H1, with productivity improvements largely offset by growth investments.

Our adjusted EBITDA margin stood at 23% for the first half, reflecting a 1 percentage point increase versus last year. In terms of foreign exchange, the Swiss franc continued to strengthen in Q1, but remained relatively stable compared to key currencies in Q2.

Overall, these resulted in a negative impact on revenue of 2.4 percentage points in H1. However, thanks to our natural hedge with similar forex exposures in expenses, the impact on the adjusted EBITDA margin was once again minimal.

This bridge illustrates the year-on-year changes in adjusted EBITDA, highlighting how we achieve margin expansion through revenue growth and enhanced productivity, while investing in the business. Beginning with delivery costs, we continue to improve productivity by cutting down on higher cost external resources and shifting more internal resources from local to remote delivery teams. The increase in sales and marketing was due to ramp-up investments across key countries as part of our revised go-to-market model. Admin expenses grew due to investments behind Vision 2026, organic personnel cost increases, and certain one-offs. These were partially offset by productivity gains as a result of operational excellence.

Moving on to the business line view. In Marketplace, revenue growth in H1 was 6.1%. As in Q1, the Microsoft business maintained revenue growth in the mid-single digits, while growth in other ISPs accelerated to double digit in Q2, benefiting from an increased focus on prioritised partners. Thanks to a strong decline in delivery costs, contribution margin in Marketplace was 88.4%, reflecting an increase of 2 percentage points versus last year.

The adjusted EBITDA margin stood at 50.2%, up 1 percentage point compared to the prior year. In services, growth was primarily driven by cloud services, IT portfolio management, and SAP services. We achieved the notable increase in contribution margin, reaching 43.7% for H1, which represents a 4.8 percentage point improvement compared to the prior year. SG&A increased at a lower rate and contribution margin, resulting in an adjusted EBITDA margin of 7.3%, 4.2 percentage points up from last year. And it is worthwhile mentioning that services achieved and 11% adjusted EBITA margin in Q2.

I am pleased to report that we have now completed our operational excellence programme launched in early 23. Final annualised cost savings amounted to 76 million, compared to the raised 70 million target, of which 7 million have been reinvested in growth initiatives. This programme has laid the foundation for a stronger, more resilient organisation, ensuring we continue to benefit from its impact in the future. While we will no longer report our savings related to the programme, we will, of course, continue to control costs and drive productivity improvements. Among the initiatives ongoing, we will increasingly utilise AI-driven recommendations to drive sales force effectiveness. We will continue to internalise and right-shore delivered resources.

And lastly, in our shared service centres, we will further standardise and automate processes with increased focus on the order to cash process.

As Brian outlined earlier, we have completed the implementation of the new go-to-market model across our key markets, representing the majority of our revenue. The remainder will be done in H2. With a new coverage model, we expect productivity to increase across the sales force through optimisation of customer facing and support resources, more effective client coverage, improved lead generation, and AI-driven cross-sell. We expect to see these benefits come through already in H2, with local sales and marketing costs approaching 21% by 26.

On a 12-month basis to eliminate seasonality, our cash conversion to CapEx was 169 million or 66% of adjusted EBITDA. The CapEx investment into our Marketplace portal in terms of our net cash development, we have further outflows, including M&A and earnout payments. Significant return to shareholders in the form of dividends and the share buyback programme of combined over 90 million, as well as restructuring expenses. These led to a net debt position of 208.7 million at June 30 this year.

At the end of the half year, net working capital was at 182.6 million, a level similar to our June position last year. Our days sales outstanding have risen due to current market conditions and the growth of consumption based offerings, which involved accrual for the fixed commitment and invoicing later, compared to enterprise agreements where the invoice is issued upon delivery of the license. To better manage the extended customer payment cycle, we have managed to optimise our IFT payment terms. Working capital management remains a top priority. Some of the operational excellence measures we are putting in place will allow us to expedite collection by increasing the percentage of accurate invoices, as well as providing greater transparency on overdue invoices to our collector.

As Brian already mentioned, as a result of continued macroeconomic uncertainty impacting clients, purchasing behaviour and development in our application services business in Colombia, we now expect revenue growth for the full year of 7 to 9% in constant currency, and we confirm our adjusted EBITDA margin target of 24.5 to 25.5%. We anticipate a positive impact on growth in the second half of the year, as the new sales organisation becomes fully operational. Also, as mentioned, we expect to maintain our productivity improvement in deliver and support functions, which in addition to operating leverage, will lead to continued EBITA margin improvement compared to prior year in line with guidance. Our mid-term guidance remains unchanged.

I will now hand back to Brian for his closing remarks.

### **Duffy Brian**

Thanks, Rodolfo. To conclude, we have delivered a solid set of results in the current environment, and the implementation of Vision 2026 is well on track. We are not yet finished, but our progress in H1 adds to our confidence in delivering on our 2026 targets, which is mid-teen revenue growth, and a margin approaching 28%. Thank you. And now let's move on to the Q&A.

## **QUESTION & ANSWER**

### **Operator**

We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Questioners on the phone are requested to use only handsets, and eventually turn off the volume of the webcast. Anyone with a question may press star and one at this time. The first question comes from Florian Treisch from Kepler. Please go ahead.

### **Treisch Florian**

Thank you very much for taking my question. Maybe two on my end. The first one, I simply assume that you would not give deeper insight into this potentially going private transaction, but maybe just one on this wording around the challenging environment. Do you want to flex simply that we don't or should not expect any near-term solutions to that, and that these discussions will simply take several months to go? Or is it just reflecting in which kind of environment we are at the moment?

The second part is around your confirmed EBITDA guidance. If you'd look at Q2 margin, the first question would be can you elaborate a bit on the one-off item in there? This five-something million, is that recurring also going into H2? And with that, you simply imply a nice margin uptick in H2. Can you give us some more details on the bridge from H1 margin to H2 margin? Thank you very much.

### **Duffy Brian**

I'll take the first part, and then I'll hand it over to Rodolfo. As you know, in May we established a transaction committee. That transaction committee is made up of the independent board members. The board is committed to completing everything in a timely manner. When and if there is a further update to be provided, the board will be doing so. And that is the extent that we can comment specifically in terms of a potential transaction. And then I'll hand it over to Rodolfo.



**Savitzky Rodolfo J**

Florian, thanks for the questions. A couple of questions here, one is around the EBITDA guidance. As I mentioned in my remarks, we expect an acceleration of revenue growth in the second half. This goes hand-in-hand with improved sales force productivity behind the new go-to-market model. And the other important reference point is, if you look at our H1 results, our margin at 23% is 100 basis points ahead of prior year. Here, it's very important you know our business has certain seasonality and certain patterns, it's important to keep an eye on the improvement year-on-year. And therefore, we are confident to deliver the guidance of 24.5 to 25.5.

Then on the one-off, this is associated with primarily a couple of legal cases in emerging markets, South Africa and China. And we definitely do not expect that this will be recurring in the second half.

**Treich Florian**

Right. Thank you very much.

**Operator**

As a reminder, if you wish to register for a question, please press star, followed by one. The next question comes from Martin Jungfleisch from BNP Paribas. Please go ahead.

**Jungfleisch Martin**

Good morning. Thanks for taking my question. I have a couple, maybe we can go one by one. First one is really on the guidance. You delivered 7% constant currency in H1, and that requires obviously a bit of a step-up in the second half. You mentioned that it's primarily driven by go-to-market, but what is also underpinned a macro recovery in Europe as well? That's the first one.

**Duffy Brian**

I can take the first question, Martin, and thank you for it. We didn't see momentum in many of our growth markets in H1. We specifically called out and were very specific in what was driving the revised guidance change, and that is two things. Firstly, that slowdown that we saw specifically in DACH in Q2, in terms of customers' buying decisions. And then in addition, in our application services had business in Colombia only, and that was tied specifically to a government change and the end of a contract that we had. And then the non-renewal specifically of that contract on the heels of a government change.

Now, having said that, we are very happy with the pipeline progression that we have seen at the end of Q2 and into Q3, specifically in DACH. And with the new leadership that we have in place in January, we're very confident in terms of a strong performance in DACH, specifically in Q3.

**Jungfleisch Martin**

And then the second question is on services, it has decelerated quite a bit to mid-single digits now. Is that also more macro? Is it also market share driven? Because when you look at the other resellers that have reported in the last couple of quarters, they've actually reported an acceleration in their services. What you hear is also a bit of market share issues there?

**Duffy Brian**

Again, specifically, that is tied to one line of business, our application services business, and tied to one geography, Columbia, as I said, based on the government change, and certainly not part of a larger macroeconomic environment that has led to a slight tweak in terms of our guidance.

**Jungfleisch Martin**

Thank you. And then the last one is just on Copilot. You recorded users almost doubling, so that's pretty great. But then, can you talk a bit about the market share that you have in Copilot suite? Would you say that it's greater than your current market share in Microsoft reselling, or is that more or less in line?

**Duffy Brian**

Thank you. We're very happy with the numbers in terms of the 600,000 users, and that doubled, as you know, since the end of Q1, and we now have around 240 additional services engagements. And we're very happy with those services engagements where we are going deeper and deeper with our customers to explore how they can get the full benefits and from Copilot to help them bend the curve on productivity.

It's still very early days, and now we are only reporting six months of trading because, as you know, Copilot became available on January 15th. We have been very clear that we aim to be partner number one for Microsoft. We are the only partner that I'm aware of that discloses our Copilot numbers.

And I will say that we are well on track to being partner number one for Copilot. We are very happy here, and they are very happy in Seattle with us.

**Jungfleisch Martin**

That 300,000 users per quarter, would you say that's a decent run rate that you would expect on the Q3, Q4?

**Duffy Brian**

I think what we've seen is customers, some have started small. And now, in terms of the examples that we gave you, we're now seeing the customers deciding to do a mass roll-out across the entire organisation for Copilot. And we expect to see the momentum with Copilot continuing and accelerating into the second half of the year.

**Jungfleisch Martin**

Cool. That's all. Thank you very much.

**Operator**

For any further question, please press star, followed by one. We have a follow-up question from Florian Treisch from Kepler. Please go ahead.

**Treisch Florian**

Great, thank you. Two follow-ups from my end. The one on Copilot, as well. You're obviously happy with the adoption rate now, clearly going up towards a decent level, I would say, for only six months on the market. Can you give us a first indication on ROE, indications on performance, to really get an impression that... Because I get a feeling if your 15% adoption rate you assume, and you branded as conservative in the past, is that really still a very conservative number from your end? I.e., is it really a game-changing solution for the client for a respective price tag?

And the second one would be, in general, around Microsoft. You mentioned around 5% growth dynamic. Can you provide some feedback? Where is this coming from? Is this driven by lower underlying demand, by lower commission levels for key products? Really to understand if that is a headwind for the coming quarters as well. Thank you.

**Duffy Brian**

Thanks, Florian. As you know and as I said, we're very happy with the progress that we're making. And we do anticipate, as I said to Martin, that we will see a continued acceleration of demand from our customers around Copilot. What I can say is, given that it's still early days, if we continue to see that acceleration through the second half of the year, it is fair to assume that we will be issuing a new target for ourselves in terms of the conversion of our users.

As you know, we have 12.5 million users that we're supporting from a Microsoft perspective, and we issued a target to convert 15% of those. If we continue to operate, as we have in the first six months of this year, it's fair to assume that we will see a change in a target, that we will issue to our teams internally and then externally as well.

And then I would also comment that Copilot can be viewed two ways. Firstly, there is the out-of-the-box Copilot. Then secondly, there is specific use cases that customers can explore around Copilot that are customised for their business. We're very fortunate that, one, we have a diversified portfolio. Secondly, the relationship that we have with customers and our understanding of their business. That's where we now get to hold the hand of a customer and help them explore how they can use Copilot to truly change their business and receive a return on that investment, much quicker than they would have been used to in the past. And then I'll hand the second part of the question to Rodolfo.

**Savitzky Rodolfo J**

Florian, on Microsoft, if we step back and look first we start with the billings for the half year. Business grew by 8%, which is a healthy level. And as we have communicated before, our focus is to accelerate what is called the subscription base, the examples, the CSP. And here we saw a very healthy growth in billings, significantly above the average. Not all of that translated into revenue growth. When we look at the examples, it was ahead of billings. Part of that was a play to reduce a little bit the front-end margin to accelerate the volume growth. All in all, we see the development in Microsoft as quite healthy. Consistent results quarter-on-quarter, as we communicated, in the mid-single digit. And this is in line with our plan.

**Florian Treisch**

Great, thank you very much.

**Operator**

The next question comes from Christian Bader from ZKB. Please go ahead.

**Bader Christian**

Good morning, Gentlemen. I have three questions, please. Firstly, what is your amount of interest income and interest expense?

**Savitzky Rodolfo J**

That's a very specific question.

I think part of that you can see in the cash flow statement, because, of course, this is something we report. Let me follow up separately with you, Christian, I'll give you the breakdown on the details.

**Bader Christian**

Then, secondly, what do you expect in terms of net working capital development for the second half of the year?

**Savitzky Rodolfo J**

The net working capital is very cyclical. When you look at the graph, it's absolutely clear that the level in the half year, like June, is very different from the level we see in December. And here you see, actually, we had a negative net working capital last December. We expect a similar level, as seen December 23 to have in December 24.

**Bader Christian**

All right. And finally, what is your amount of factoring?

**Savitzky Rodolfo J**

I think that remains constant at around, it's below 200 million.

**Bader Christian**

All right. Thank you.

**Operator**

Once again, to ask a question, please press star, followed by one. The next question comes from Vinay Bhardwaj from Cantor Fitzgerald. Please go ahead.

**Bhardwaj Vinay**

Morning, Gents. Just one question on your go-to-market restructuring expenses for the full year. I think I see 14 million for the half year. Can you give some guidance for the remainder of the year, please?

**Savitzky Rodolfo J**

We expect a similar level. The mix will change, you of course cannot see inside the components of the mix. Part of the 14 million you see in H1 is expenses associated with the advisor supporting us on the programme.

That will phase down during the second half, and you will see the full reorganisation impacting in the second half, but we expect a similar impact, and that should be for the go-to-market programme.

### **Duffy Brian**

Maybe I would just also add that our focus as an organisation, when it comes to the go-to-market transformation, is growing our market share and growing our wallet share. That means having the right coverage model, both in the sales and presales perspective. We talk a lot about the digital sales and the SME segment, and that is an investment that we're making where we certainly expect to see it pay off. But already we are seeing a payoff in terms of the investments that we're making at the top of the pyramid, in terms of our enterprise and our corporate customers. And this is the second quarter in a row where we have called out the large wins that we have had in North America. And I expect, based on the progression of our pipeline in Q3, that we will be seeing a similar result in Europe as well.

### **Savitzky Rodolfo J**

And maybe just a final comment on that topic, because I think it's an important one. When we look at the evolution of our sales expenses, as such, we expect them to be either in line or slightly below the current level. This programme, as such, does not translate into higher costs, but rather in net productivity. But even more importantly, as Brian also mentioned, the biggest value is in the growth acceleration and the improvement in productivity as measured by sales per FTE. And here also, as indicated in one of the graphs, we expect already in H2 a significant acceleration of productivity as measured by sales per FTE. It's a programme with a very high rate of return.

### **Bhardwaj Vinay**

Understood, that's very clear. And, sorry, I may not have caught the beginning of the Q&A session, but just on the progression of the go-to-private transaction, since the new board have come in, you've had four to five months to take a look at the advances that you've received. What is it that is taking a longer time than expected in order to reach an agreement? I know you referenced the deteriorating environment, and I think potentially that reduces the probability of a deal completing. But just wanted to get your sense on why it's taking longer than expected.

### **Duffy Brian**

Firstly, Vinay, the new board joined us in April timeframe. The transaction committee was established in May, which we communicated to you with our Q1 results. The board has then received interest May through the end of June.

And now in the summer months, we have disclosed, received indicative offers, and the board is in discussions with each of those parties that have submitted offers. I don't think necessarily that it has taken so long, when we really look at the timeline here. But as we also said, when there is an update to provide specifically on this, the board certainly will be providing that in due course.

**Bhardwaj Vinay**

Understood, thanks very much.

**Operator**

Gentlemen, so far there are no further questions. Back over to you for any closing remarks.

**Duffy Brian**

Great. Thank you, everybody, for joining. We appreciate you taking the time, and have a great day.

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