Quarterly Report 2023/2024

(1 December 2023 to 29 February 2024)

Serviceware SE, Idstein

Quarterly Report as at 29 February 2024

1.1 Ratios of the Financial Statements as at 29 February 2024

Sales Revenues and Earnings Ratios

	01 December to 28/29 February			
In kEUR	**2023/2024**	**2022/2023**	**Variation**	**%[1]**
Sales revenues	24,954	22,014	2,941	13.4
thereof SaaS/Service	15,945	13,215	2,730	20.7
EBITDA	569	-957	1,527	>+100
EBIT	-307	-1,871	1,564	83.6
Financial result	-16	50	-66	>-100
Earnings before taxes for the period	-323	-1,821	1,498	82.3
Income tax	-171	9	-180	>-100
Earnings after taxes for the period	-494	-1,812	1,318	72.7

Condensed Balance Sheet

In kEUR	29.02.2024	30.11.2023	Ver.	%[1]
Cash and cash equivalents[2]	31,476	28,245	3,231	11.4
Equity	46,009	46,254	-246	-0.5
Contract liabilities	67,759	55,447	12,312	22.2
Debt capital	92,112	78,486	13,626	17.4
Balance sheet total	138,121	124,740	13,381	10.7

Please note: all numbers in this report are rounded arithmetically to thousands. The calculation of totals can lead to rounding differences.

Serviceware SE is able to report a successful business development in the first quarter of fiscal 2023/2024. The conversion of the business model from a licence to a SaaS business model continues to make good progress as planned. Serviceware was able to consistently expand its innovative ESM platform during the reporting period with further releases in the Financial, Performance and Knowledge modules. Thanks to the far-reaching and early integration of Artificial Intelligence (AI) across the modules and processes of the ESM platform, a clear technological edge was achieved for the benefit of the customers. The decisive factor was a strategic decision immediately after the IPO in 2018 and the subsequent setting up of the AI Competence Centre. Since then, developments relating to AI have been pushed forward here in cooperation with the Technical University (TU) of Darmstadt, and are continuously integrated into Serviceware's ESM platform. AI is already being used in numerous applications on the ESM platform and will continue to be a key growth driver during the coming years.

The demand for software solutions from Serviceware was again high during the first quarter. Consequently, the company was able to further expand its customer portfolio. AI applications were one of the growth drivers. For example, a long-standing existing customer that has been using the Serviceware platform for its IT service

[1] In case of relative changes of more than 100 %, in particular due to small absolute output variables, the change is indicated in simplified form as ">100 %".

[2] The figure reported in previous years under cash and cash equivalents only comprised liquid funds. In order to benefit from the changed interest rate environment, Serviceware also makes long-term investments, which are recognised in the balance sheet item non-current financial assets. In order to improve comparability, the cash and cash equivalents item also includes non-current financial assets in addition to liquid funds since the Annual Report 2022/2023.

management for over 10 years decided to add AI functionalities. In addition, this customer has expanded the services purchased to include the Knowledge module in order to be able to implement further knowledge-based AI use cases in the future.

During the first quarter of 2023/2024, sales revenues increased significantly by 13.4 percent from EUR 22 million to EUR 24.9 million. As in previous periods, the transformation to a SaaS-based business model played an important role. SaaS/Service sales revenues grew disproportionately by 20.7 percent to EUR 15.9 million (prior year: EUR 13.2 million), which corresponds to a 63.9 percent share of total sales revenues. The increase in staffing levels in strategic product sales in recent months has thus been bearing fruit. Serviceware also expects significant shifts in favour of SaaS sales revenues during the coming quarters.

The order backlog, characterised by advance payments received for SaaS and maintenance contracts, has increased by 22.2 percent to EUR 67.8 million as at 29 February 2024 versus 30 November 2023 due to the growth of the SaaS business. These are already fixed future sales revenues of Serviceware on the basis of binding contracts.

Thanks to the dynamic sales development, in which the technical development in the AI area also played a significant role, profitability increased substantially. The EBITDA turned around from EUR -1 million for the first quarter of 2022/2023 to EUR +0.6 million for the first quarter of 2023/2024.

Due to ongoing geopolitical turmoil and armed conflicts in Europe, the general economic environment remains challenging. Nevertheless, Serviceware expects to be able to increase its sales revenues during the current fiscal year by between 5 and 15 percent versus the prior year. The company also anticipates further growth in sales revenues and profits in subsequent years.

1.2 Significant Events in the Serviceware Group

Customers and projects: During the reporting period, Serviceware recorded a number of far-reaching sales successes in the acquisition of new customers. A leading global company for construction solutions with tens of thousands of employees in around 70 countries has opted for the Serviceware Financial and Serviceware Performance software solutions. The diverse functions for planning, analysing, reporting and simulating rely on a central database from a single data source. This minimises the time and personnel effort considerably and significantly reduces costs - for example in end-to-end cost management or multi-level cost allocation calculations for customer billing. Reports and comparisons of expenditure across several departments and country markets can be created as well.

AI components are also convincing long-standing existing customers. For example, a leading company in the field of technical fire protection systems, which has been using the Serviceware platform for its IT service management for over 10 years, has decided to add AI components. During the first quarter of 2023/2024, the customer implemented special AI functionalities of the platform and also added the Knowledge platform module. This created the basis for being able to implement further knowledge-based AI use cases quickly and easily in the future, amongst other things. In addition to its own ITSM processes, the company also uses the Serviceware platform to map the management of external and internal contracts across the entire life cycle. These include, for example, external SaaS contracts or contracts for other external IT services.

Project implementation: During the first quarter of 2023/2024, a major customer that was only acquired in October 2023 was migrated to the Serviceware Financial software solution in an extremely short space of time. The DAX-listed company benefited from the Digital Value Model (DVM) during the rapid implementation. The DVM made it possible to realise customer-specific requirements quickly and with a high degree of quality. The Serviceware platform enabled the potential of an ITFM to be realised in a very short time, even for a very large customer with complex processes. As a result, 18 DAX companies now utilise the Serviceware offering.

International growth: Serviceware already increased its international sales revenues outside the DACH region by more than 50 percent during the past fiscal year. During the first three months of the reporting period, Serviceware was able to continue its global growth momentum by concluding a contract with an international Fortune Global 500 company from the logistics sector. A far-reaching SaaS contract for the ESM platform with the Serviceware Financial and Serviceware Performance modules was concluded with the international customer. The global player generates annual sales revenues in the mid-double-digit billion USD range and has several tens of thousands of employees. This positive development towards more new international customers continued outside the reporting period. In the meantime, Serviceware has acquired another Fortune Global 500 company from the oil industry as a new customer in Asia, which has decided to use the Serviceware ESM platform with the Serviceware Financial and Serviceware Performance modules as well as the Serviceware Digital Value Model (DVM). These recent customer acquisitions underpin the increasing internationalisation of Serviceware in the relevant segment of large international corporations, where sales revenues in the seven-digit euro range are possible. The company is currently investigating a possible entry into the US market.

Expansion of the Serviceware platform: Serviceware has consistently further developed its Serviceware platform during the reporting period. Among other things, new releases were made available to customers in the Financial, Performance and Knowledge modules, which contained additional features with clear customer-centric benefits. For example, Serviceware customers can now manage their cloud costs with external providers even more easily using the Serviceware platform. The usage costs of leading cloud providers can be read out directly and broken down into the internal IT services and usage areas according to the costs-by-cause principle. Communication between planners and cost centre managers during the financial planning process has also been made more transparent. With the new release, planning data can now be documented at a granular level and cannot be changed. This provides additional transparency in complex and sensitive planning processes. Furthermore, the modelling of service costs has been further simplified and additionally secured against unintentional multiple processing.

The Serviceware share is currently being covered by the research firm Montega and Quirin Bank. According to an update on 28 February 2024, Montega's price target is EUR 18.00. Quirin Bank updated its price target to EUR 20.50 in its research report dated 13 March 2024. Both research reports continue to recommend the share as a buy.

1.3 Business Development

1.3.1. Development of sales revenues

During the first three months of the current fiscal year, Serviceware's sales revenues continued to grow and, at EUR 25.0 million, were 13.4 percent higher than during the same prior-year period. Following sales revenues growth of 10.0 percent during the past fiscal year 2022/2023, this is a further dynamization of the growth course. Growth is once again being driven by the SaaS/Service segment, which increased by 20.7 per cent versus the same period of the previous year. SaaS/Service sales revenues now account for 63.9 percent of Serviceware's total sales revenues (prior year: 60.0 percent). Sales revenues from licences increased by 12.2 percent during the reporting period. Maintenance sales revenues were 7.5 percent below the previous year's figures. The transition towards SaaS/Service transactions is thus continuing consistently. Compared to the licence business, this results in a shift in sales revenues into the future, among other things, but is accompanied by greater planning security and recurring revenues. Sales revenues are broken down as follows:

	01 December to 28/29 February		
In kEUR	**2023/2024**	**2022/2023**	**Variation in %**
Revenues SaaS/Service	15,945	13,215	20.7
Revenues licences	4,967	4,427	12.2
Revenues maintenance	4,043	4,372	-7.5
Total	**24,954**	**22,014**	**13.4**

1.3.2. Operating income (EBITDA/EBIT)

The consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) for the first three months of the 2023/2024 fiscal year amounted to kEUR 569, which is kEUR 1,527 higher than the figure for the same period of the previous year, when a loss of kEUR 957 was recorded. The result for the first quarter was relieved by the capitalisation of own work, which meets the capitalisation criteria in accordance with IAS 38 "Intangible Assets" and must be capitalised accordingly, in the amount of kEUR 386. Capitalised development costs are amortised over their expected useful economic life (3 years). Amortisation begins after completion of the development phase at the time at which the asset can be used. Own work that does not meet the capitalisation criteria in accordance with IAS 38 continues to be recognised as an expense during the period in which it is incurred. Own work capitalised is expected to be of a comparable amount in subsequent periods.

The consolidated earnings before interest and taxes (EBIT) for the first three months improved significantly by 83.6 percent compared to the same period of the previous year. Earnings continue to be burdened by significant expenses for the transformation of the business model from one-off licence billing to a SaaS business model with recurring revenues. Nevertheless, the EBIT for the current quarter improved by kEUR 1,564 to kEUR -307 (same prior-year period: kEUR -1,871). The trend towards SaaS/service transactions means that sales revenues are recognised over a period of several years, while the sales expenses for identifying and processing leads in particular are realised in full in the current reporting period. However, the earnings trend shows that the progress made in transforming the business model is increasingly reflected in the business figures. In addition, Serviceware took a number of measures to increase profitability in the first half of the fiscal year 2022/2023, which have unfolded their effect with a time delay.

1.3.3. Financial result and earnings before taxes

The financial result mainly includes interest on deposits, interest expenses for the long-term financing of the most recent company acquisition, expenses from the compounding of lease liabilities in accordance with IFRS 16 and interest expenses from the discounting of trade receivables.

The changed interest rate level is also included in the calculation of the compounding of lease liabilities and interest expenses from the discounting of trade receivables, thereby increasing the imputed interest expenses. Overall, the financial result for the reporting period decreased by kEUR 66 versus prior year and totalled kEUR -18.

Earnings before taxes (EBT) for the period amounted to kEUR -323 (prior year: kEUR -1,821), which corresponds to an improvement of kEUR 1,498 versus prior year.

1.3.4. Tax expenses and earnings after taxes

A tax burden totalling kEUR 171 was incurred for the first three months of the 2023/2024 fiscal year (prior year: tax income of kEUR 9).

The consolidated earnings after taxes for the reporting period totalled kEUR -494, which corresponds to an increase of kEUR 1,318 versus the prior-year period (kEUR -1,812).

1.4 Balance Sheet as at 29 February 2023

The cash and cash equivalents of Serviceware, which are calculated on the basis of the balance sheet items of cash and cash equivalents and non-current financial assets, increased by kEUR 3,231 to a total value of kEUR 31,476 as at 29 February 2024 versus 30 November 2023. The cash inflow was generated from operating activities. In addition, non-current financial liabilities continued to be repaid as planned.

The equity of kEUR 46,009 decreased by kEUR -246 or 0.5 percent versus the balance sheet date of the 2022/2023 fiscal year (kEUR 46,154). Debt capital amounted to kEUR 92,112 as at 29 February 2024, an increase of kEUR 13,626 compared to 30 November 2023. The main driver for the increase in debt capital is the increase in the order backlog as at the reporting date, which is recognised in contract liabilities in the balance sheet. The order backlog is mainly made up of prepayments received for SaaS and Maintenance contracts and has increased by kEUR 12,312 to kEUR 67,759 as at 29 February 2024 versus 30 November 2023, in particular due to the accelerated expansion of the SaaS business. This corresponds to an increase of 22.2 percent. Due to binding contracts, these contract liabilities already represent fixed future sales revenues for Serviceware.

Total assets amounted to kEUR 138,121 on 29 February 2024 (30 November 2023: kEUR 124,740). The equity ratio was 33.3 percent. The equity ratio decreased by 3.8 percentage points versus 30 November 2023 (37.1%). The reduction is mainly due to the balance sheet extension effect of the increased contract liabilities described above and the negative result for the reporting period.

1.5 Supplementary Report

At the time of preparing this interim report, there were no significant events that would have to be disclosed in the Supplementary Report.

1.6 Outlook

The business model of Serviceware is still undergoing a transformation from one-off sales revenues to recurring and, in the long term, more profitable sales revenues. In addition, such a transformation phase is characterised by the fact that the majority of contracted sales revenues are not recognised in profit or loss during the current fiscal year, but find their way into the income statement or consolidated statement of comprehensive income in subsequent years with a high degree of predictability. In addition, high one-off expenses are usually incurred at the beginning of these multi-year SaaS contracts, which initially place an additional burden on the earnings situation. The SaaS model with a high proportion of recurring revenues is characterised by a lower churn rate and higher profitability. This results in a more sustainable business development, which makes the business model of Serviceware more resilient in the economic cycle.

The numerous armed conflicts continue to cause economic upheaval and lead to a very high level of uncertainty with regard to forecasts for business development. For this reason, the following statements for the current fiscal year, as well as the estimates for medium-term business development, are subject to a high degree of variance.

Despite these conditions, some of which are still very challenging, we are confident that we will be able to increase sales revenues during the current fiscal year by between 5 and 15 percent compared to the previous year. This presupposes that we will also continue to make significant progress in marketing and customer acquisition in the markets outside our core market and that there are no further exogenous shocks during the fiscal year 2023/2024 that will have a negative impact on the business activities of Serviceware. We are also confident that we will continue to drive sales revenues and profit growth in subsequent years.

On the earnings side, we expect to significantly improve the earnings situation at the EBITDA and EBIT level during the current fiscal year compared to the prior year.

Idstein, 19 April 2024

....

Dirk K. Martin

....

Harald Popp

....

Dr. Alexander Becker

Company Description

Serviceware is a leading provider of software solutions for the digitalization and automation of service processes (Enterprise Service Management), with which companies can increase their service quality and manage their service costs efficiently.

The Serviceware Platform consists of seamlessly integrated software solutions that can also be used independently of each other. Since 2018, Serviceware has been focusing on the potential of artificial intelligence in service management. Today, AI is the central innovation factor of the Serviceware Platform, which is constantly being further developed in the company's own AI competence center in cooperation with TU Darmstadt.

Serviceware partners with customers from strategic consulting through the definition of the service strategy to the implementation of the Serviceware Platform. Further components of the portfolio are safe and reliable infrastructure solutions as well as managed services.

Serviceware has more than 1,000 customers worldwide from various business sectors, including 18 DAX companies, as well as 5 of the 7 largest German companies. The head office of Serviceware is in Idstein, Germany. Serviceware employs more than 470 people at 14 international locations.

For more information, please visit www.serviceware-se.com.

Contact

Serviceware SE
Serviceware-Kreisel 1
65510 Idstein
Germany

serviceware@edicto.de
www.serviceware-se.com

Managing Directors
Dirk K. Martin (CEO)
Harald Popp (CFO)
Dr. Alexander Becker (COO)

Administrative Board
Christoph Debus (Chairman)
Harald Popp
Ingo Bollhöfer

Registered office of the company
Idstein, Local Court Wiesbaden,
Register number: HRB 33658