Quarterly Report 2022/2023

(01 December 2022 to 28 February 2023)

Serviceware SE, Idstein

Quarterly Release as at 28 February 2023

1.1 Ratios of the Financial Statements as at 28 February 2023

In kEUR	01 December to 28 February 2022/2023	01 December to 28 February 2021/2022	Variation	%[1]
Sales revenues	22,014	21,021	992	4.7
thereof SaaS/Service	13,215	10,982	2,232	20.3
EBITDA	-957	11	-968	>-100
EBIT	-1,871	-900	-971	>-100
Financial result	50	-29	79	>-100
Earnings before taxes for the period	-1,821	-929	-892	96,1
Income tax	9	-8	17	>-100
Earnings after taxes for the period	-1,812	-936	-876	93.5

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

The transformation of the business of Serviceware SE from a licensing to a SaaS model continued during the first quarter of fiscal 2022/2023. Despite the systematic shift of sales revenues into the future and the macroeconomic and geopolitical challenges, Serviceware was able to close the reporting period with record sales revenues. Serviceware is thus back on the growth track after the restrained quarterly development in the middle of the previous year. With an increase in sales revenues of 4.7 percent versus the same prior-year period, Serviceware is moving in the direction of the full-year target corridor of 5-10 percent and is confident that it will achieve this with a further dynamization of growth in the course of the year. The fact that the switch to a SaaS model is working and will be reflected by significantly growing future sales revenues is underlined by the current strong growth in the residual values of SaaS contracts, which are recognised in the balance sheet under contract liabilities. These increased by 38.2 percent during the 1st quarter and amounted to EUR 44.8 million. The SaaS business was further expanded during the reporting period and grew by 20.3 percent, so that in the meantime around 60 percent of sales revenues are generated recurrently in this structure. In line with the strategy, licence revenues were reduced at the same time. Serviceware assumes that SaaS sales revenues will continue to show well above-average growth in the coming quarters.

Notwithstanding the accelerated growth dynamics which are becoming apparent, Serviceware took further measures during the reporting period to increase efficiency and productivity. In terms of HR, the areas which are important for strategic product sales were strengthened, while downsizing was carried out in other administrative areas. Due to the expenses limited in time for the transformation of the business model, the EBITDA for the first quarter was temporarily below the prior-year value at just under EUR -1.0 million. Serviceware anticipates that profitability will also be influenced in a significantly positive way by the measures initiated, which will take effect during the coming quarters. For the full year 2023, the EBITDA is therefore expected to improve again versus the prior-year value due to the further dynamization of the revenue development.

[1] In the event of relative variations of more than 100%, more particularly due to smaller absolute starting figures, the variation is stated in a simplified manner by “>100%”.

The basis for the economic success of Serviceware is its ongoing operational development. During the reporting period, the focus was on the expansion and strengthening of the Serviceware ESM platform as well as the acquisition of new customers. With new releases, a continued high level of intensity in the integration of Artificial Intelligence and various corporate groups as new customers, as well as extensive activities with regard to further internationalisation, Serviceware considers itself well positioned to actively shape the current radical change in the digitalisation of services and to benefit disproportionately from it.

1.2 Key Events in the Serviceware Group

Customers and Projects: During the reporting period, the positive development of the previous quarters continued, with Serviceware succeeding in leveraging cross-selling potential by having customers use several solution modules of the ESM platform at the same time. Among the new customers signed up during the quarter, for instance, more than one in two already opted for two or more modules.

A leading European wholesale company has expanded its use of Serviceware solutions. After the Serviceware Financial software module had already been in use at the IT subsidiary of the group for some time, the go-live for the Serviceware Performance module was likewise implemented smoothly during the first quarter of the current fiscal year. Through an interface to Microsoft Teams, users can, for instance, record and adjust planned and actual project times. The actual values are then transferred to Serviceware Financial for billing. This replaces the solution of another global software company as a data source by the Serviceware module.

The lighthouse projects and prominent new customers included the reporting period included a globally operating Fortune 500 retailer with sales revenues in the mid-double-digit multi-billion-euro range and several hundred thousand employees worldwide. After the group opted for Serviceware Financial at the end of 2022, the implementation was driven forward within a short period of time during the reporting period, so that the go-live could already take place immediately after the end of the reporting period. Serviceware Financial was seamlessly integrated into the customer's existing systems and processes and replaces the previous proprietary solution. Serviceware Financial is used for a new cost model based on the Serviceware Digital Value Model.

The go-live for Serviceware Processes and Serviceware Knowledge was realised in a combined project at a leading European agricultural machinery manufacturer. Both modules of the Serviceware platform are used in the customer's internal IT service management. It is planned to extend the use of Serviceware technology to the areas of Artificial Intelligence and Messaging.

At industry events such as Call Center World in Berlin and the Confare CIO Summit in Vienna, Serviceware presented itself to other potential customers and introduced its products and innovations.

Expansion of the Serviceware Platform: The high acceptance among customers and the cross-selling successes are largely due to the fact that Serviceware consistently pursues its platform vision and implements it through ongoing technical developments and opens up additional application possibilities.

With the release of Serviceware Financial 6.3 towards the end of 2022, the platform modules Financial and Performance have grown together even further. Serviceware also offers its customers a powerful tool to monitor, analyse, plan and optimise cloud costs in addition to on-premise costs. For example, the transfer of data from VMware Aria CostTM powered by CloudHealth® is also seamlessly possible and offers users immediate added value.

With the release of Serviceware Performance 9.4, the speed of innovation remains high for this module as well and offers customers further optimisations and potentials in its use.

With the release of Serviceware Processes 7.1, a further milestone in the platform vision was reached in January 2023. It is now possible to access the service portfolio directly via Serviceware Processes as the second platform module - after Serviceware Financial. Within the framework of digital service processes, different user groups can work on one platform with standardised tickets and still assign customised authorisations in real time. The implementation of Serviceware Processes has likewise been significantly simplified with the new release.

Investor Relations: The executive management of Serviceware presented the transformation of the business into a SaaS model as well as market developments, operational developments and the strategy of the company in numerous meetings with existing and potential investors. The interest of national and international discussion partners was equally high.

Detailed and up-to-date information on the company, its products and the Serviceware share can be found in three languages on the Internet at www.serviceware-se.com. The Investor Relations section also contains Serviceware's financial reports as well as ad hoc disclosures and company announcements, etc. Currently, analysts at Montega AG and Quirin Privatbank AG cover the Serviceware share (ISIN: DE000A2G8X31). Both analysts recommend the share as a buy and mention fair values of EUR 18.00 and EUR 18.50, respectively. Compared to the price level of mid-April 2023, this means an upward potential of more than 150 percent.

1.3 Business Development

1.3.1. Development of Sales Revenues

During the first three months of fiscal 2022/2023, Serviceware's sales revenues grew once again and, at EUR 22.0 million, were 4.7 percent higher than during the same prior-year period. The SaaS/Service business area continues to be the growth driver, increasing by 20.3 percent versus the same period last year. SaaS/Service revenues now account for around 60 percent of the total sales revenues of Serviceware (prior-year figure: approx. 52 percent). As in the previous quarters, contracts whose performance period begins after 28 February 2023 are not included in the sales revenues. Together with the residual values of maintenance and SaaS contracts already in progress, these are accounted for in the contract liabilities, which rose again by 38.2 percent (prior year 27.4 percent) to a record level of EUR 44.8 million. Sales revenues from licences fell by 15.7 percent during the reporting period. Maintenance revenues were 8.7 percent below the previous year's figures. The trend towards SaaS/service transactions is thus continuing at an accelerated pace. Compared to the licensing business, this results, among other things, in a shift of sales revenues into the future, which, however, goes hand in hand with greater planning certainty and recurring revenues. Sales revenues break down as follows:

	01 December to 28 February		
In kEUR	**2022/2023**	**2021/2022**	**Variation in %**
Revenues SaaS/Service	13,215	10,982	20.3
Revenues Licences	4,427	5,252	-15.7
Revenues Maintenance	4,372	4,787	-8.7
Total	**22,014**	**21,021**	**4.7**

1.3.2. Operating Income (EBITDA/EBIT)

The consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) for the first three months of fiscal 2022/2023 amounted to kEUR -957. This means that the EBITDA is kEUR 968 below the value of the same prior-year period of kEUR 11. The high investments in the transformation of the business model from one-off licence invoices to a SaaS business model with monthly recurring revenues continue to have a negative impact on earnings. The trend towards SaaS/service business is associated with the fact that sales revenues are only recognised with a delay and over a period of several years, while in particular the sales expenses for identifying and processing leads are recognised in full during the current reporting period. This effect is particularly significant for enterprise customers and international projects.

The consolidated earnings before interest and taxes (EBIT) amounted to kEUR -1,871 during the first quarter and were thus kEUR -971 below the prior-year result of kEUR -900. The EBIT thus essentially follows the change in EBITDA.

1.3.3. Financial Result and Earnings before Taxes

The financial result of the first three months of fiscal 2022/2023 improved from kEUR -29 in the previous year to kEUR 50, among other things due to scheduled repayments and effects from the interest rebound.

The earnings before taxes (EBT) amounted to KEUR -1,821 (prior year: kEUR -929), which corresponds to a decrease of kEUR 892 compared to the previous year.

1.3.4. Tax Expenses and Earnings after Taxes

For the first three months of the 2022/2023 fiscal year, tax income totalled kEUR 9 (prior year: tax burden of kEUR -8).

The consolidated earnings after taxes for the first three months of fiscal 2022/2023 amounted to kEUR -1,812. Compared to the same period of the previous year (kEUR -936), this corresponds to a minus of kEUR 876.

1.4 Balance Sheet as at 28 February 2023

In kEUR	28.02.2023	30.11.2022	Var.	%
Cash and cash equivalents	26,336	29,075	-2,739	-9.4
Equity	47,914	49,867	-1,952	-3.9
Debt capital	67,614	60,404	7,210	11.9
Balance sheet total	115,528	108,779	6,749	6.2

As at 28 February 2023, the cash and cash equivalents of Serviceware decreased to kEUR 26,336 versus 30 November 2022 (kEUR 29,075). Compared to the previous year, when cash and cash equivalents increased during the first quarter, in particular due to projected annual invoices for maintenance and SaaS contracts, trade receivables initially increased by kEUR 4,877 as at 28 February 2023 compared to 30 November 2022 in the current financial year. More than 80 percent (30 November 2022: 74.9 percent) of the trade receivables were not yet due as at the reporting date. It is noticeable that the share of early payments has decreased versus prior year due to the turnaround in interest rates, before which companies still had to pay negative interest in some cases last year.

The equity of KEUR 47,914 decreased by kEUR -1,952 or -3.6 percent compared to the balance sheet date of fiscal 2021/2022 (kEUR 49,867). The amount of debt capital as at 28 February 2023 is kEUR 67,614, which corresponds to an increase of kEUR 7,210 versus 30 November 2022. The main driver for the increase in debt capital is the increase in the backlog of orders as at the reporting date at the end of the reporting period. The backlog of orders mainly consists of advance payments received for maintenance and SaaS contracts. The majority of the maintenance and SaaS contracts provides for a calendar-year projection, which is recognised in the balance sheet under contract liabilities and increases accordingly in the first quarter. In addition, contracts with a performance period beginning after 28 February 2023 are also recognised in contract liabilities. Contract liabilities rose again by 38.2 per cent (prior year 27.4 percent) to a record level of EUR 44.8 million. Due to binding contracts, these contract liabilities represent fixed future revenues of Serviceware, of which more than 60 percent will already be realised in the current fiscal year. The financial liabilities of Serviceware were further reduced by scheduled repayments.

The balance sheet total amounted on 28 February 2023 to kEUR 125,528 (30 November 2022: kEUR 108,779). The equity ratio was 41.5 percent. The equity ratio decreased by 4.4 percentage points compared to 30 November 2022 (45.8 percent). The reduction is mainly due to the balance sheet leveraging effect of the increased contract liabilities described above and the negative period result of the first quarter.

1.5 Supplementary Report

At the time of preparation of this interim report, there were no significant events that would have to be mentioned in the supplementary report.

1.6 Outlook

At present, the business model is in the midst of a transformation from relatively high one-off revenues to lower, but recurring revenues that are more profitable in the long term. In addition, such a transformation phase is characterised by the fact that most of the contract revenues cannot be recognised in profit or loss in the current fiscal year, but will rather be included in the profit and loss account or the consolidated statement of comprehensive income in the following years. In addition, high one-off expenses are usually incurred at the beginning of these multiannual SaaS agreements, which initially place an additional burden on the earnings situation. In the long term, this business model with a high proportion of recurring revenues and a low churn rate is expected to lead to higher profitability and a more sustainable business development, which will make the business model of Serviceware more resilient in the economic cycle.

Furthermore, the armed conflicts, particularly in Ukraine, and the associated economic disruptions create a very high level of uncertainty with regard to forecasts on the business development. The following statements on the current fiscal year, as well as the assessments of medium-term business development, are therefore subject to a high degree of variance.

The results of the first quarter of fiscal 2022/2023 are within the scope of the planning. The projected business development and the measures taken, which will only take full effect during the second half of the year, allow us to hold on to the forecast made in the 2021/2022 Annual Report that we will be able to increase sales revenues by between 5 and 10 percent during the current fiscal year versus prior year, despite the partly still difficult general circumstances. This presupposes that we will continue to make significant progress in marketing and customer acquisition in the markets outside our core market and that there will be no further exogenous shocks in fiscal 2023 which will have a negative impact on the business activities of Serviceware. We are also confident that we will continue to push sales revenue and profit growth for subsequent years.

On the earnings side, we expect a moderate improvement in the earnings situation at the EBITDA level for the current fiscal year compared to the previous year. At the EBIT level, we anticipate that the improvement will be slightly lower than at the EBITDA level, as higher amortisation on the acquired and capitalised trademarks is to be expected. As a result, the burdens of brand amortisation will end earlier, and the EBIT will be able to develop more positively again sooner than expected.

Idstein, 28 April 2023

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Dr. Alexander Becker

Company Description

Serviceware is a leading provider of software solutions for the digitalisation 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 includes the software solutions Serviceware Processes, Serviceware Financial, Serviceware Resources, Serviceware Knowledge and Serviceware Performance. All solutions can be used in an integrated manner, but also independently from one another.

Serviceware partners with customers from strategic consulting through the definition of the service strategy to the implementation of the enterprise service 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 17 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 500 employees at 14 international sites.

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

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