9-month report 2019/2020

(01 December 2019 to 31 August 2020)

SERVICEWARE SE, Bad Camberg

1 9-month report as at 31 August 2020

1.1 Consolidated Key Performance Indicators

	01 December to 31 August			
In kEUR	2019/2020	2018/2019	Variation	In %
Sales revenues	52,715	47,731	4,984	10.4
thereof SaaS/Service	22,414	15,994	6,420	40.1
EBIT (adjusted)*	2,540	4,061	-1,521	-37.5
EBIT margin (adjusted)*	4.8 %	8.5 %	-3.7 %	
Earnings after taxes (adjusted)*	1,803	2,742	-939	-34.3

* For the earning capacity of the Serviceware Group to be comparable to prior years, the EBIT/EBITDA is adjusted for expenses in conformity with its strategy which was announced at the time of the IPO and implemented.

Serviceware can report about successful nine months of fiscal 2019/2020 during which the company was able to continue its growth despite economic slowdowns and uncertainties around the Covid-19 pandemic. Furthermore, major strategic goals were implemented in all areas of the expansion strategy during the first three quarters, and the further course for long-term corporate growth was set. Apart from successes in internationalisation and the increasing approaching of large customers, the unique modular Enterprise Service Management (ESM) platform of Serviceware was further expanded. Another focal point in business activities was the further extension of SaaS/Service. Here, Serviceware can rely on growth potentials which are in line with increasing recurrent proceeds. The plannability of the business development is likewise increased by the rising importance of SaaS.

Sales revenues rose during the reporting period by 10.4% to EUR 52.7 million. In line with the strategy, the SaaS/Service revenues were extended by 40.1% to EUR 22.4 million. The SaaS/Service share in total sales revenues was hence 42.5%. Moreover, Serviceware succeeded during the reporting period in leveraging further cross-selling potentials both on the level of existing customers and in approaching new customers. A strong demand was recorded during the period under review, more particularly, for the modules Serviceware Financial (cost analysis of service processes and budgeting) and Serviceware Performance (corporate planning and management). The demand for modules for quality optimisation of service processes remained, as expected, slightly behind.

With the ESM platform, Serviceware can rely on a strong offering for all services. Serviceware works towards the permanent extension of the ESM platform and supplemented it during the reporting period by the messaging and chat solutions of the provider smoope. Companies can integrate smoope into existing websites or apps without the customers having to download additional new apps or chat programmes. In the field of Artificial Intelligence, additional possibilities are available for the full automation of service processes. The Serviceware Centre of Excellence for AI (Artificial Intelligence) based in Darmstadt, which co-operates closely with the Technical University of Darmstadt in the field of research, has launched with “Solution Assistant” another Serviceware product. The most recent research results from the field of Artificial Intelligence can be implemented into the ESM platform in this way.

With its ESM platform Serviceware considers that it is very well positioned for the future. The driver of the corporate growth remains the trend towards digitalisation and cost transparency in service processes.

1.2 Key events in the Serviceware Group

Highlights from our customer projects: During the first three quarters of fiscal 2019/2020 Serviceware was able to gain a large number of customer projects – although customers were partly reluctant or postponed projects to the coming months because of the Covid-19 pandemic. This included an increasing number of projects with large international customers and groups. An international food group decided, for instance, in favour of the software solution Serviceware Financial and an internationally operating investment bank from the USA opted for Serviceware Performance. Moreover, a DAX group with more than 100,000 employees has launched the module Serviceware Financial. After planning processes, eg for project planning, cost centre planning or budgeting, were so far operated separately so that there had been media discontinuities, the Group has now with Serviceware Financial a single point of data / single point of truth. The time needed for different planning scenarios has significantly decreased with Serviceware Financial whilst transparency in controlling is simultaneously increasing. At a German insurance company Serviceware Performance was successfully introduced. With this module the company has a uniform data source with continuous and consistent analysis and reporting possibilities. Within a very short period reports can be generated, and results can be examined. The manual consolidation of different business units and their ratios is hence a thing of the past.

At an insurance group from Switzerland the module Serviceware Knowledge was implemented. Employees in the customer service of the insurer have with Serviceware Knowledge a uniform knowledge database and can answer customer requests through different channels rapidly and in conformity with the law. Serviceware Knowledge was not only responsible for the implementation but also for the concept and the first feeding and optimisation of the knowledge database.

Driven by the Covid-19 pandemic, Serviceware has recorded a constantly growing demand for planning software as part of Serviceware Resources for medical centres, test centres and laboratories. In the Netherlands, several institutions have already decided in favour of the scheduling tool with which for instance visitor capacities can be managed in such a way that social contacts are minimised or patients can make independent appointments through a self-service portal. The already gained customers manage with the planning tool a higher six-digit number of appointments per month.

Further new customer recruitment: Serviceware has been sustaining its success in gaining new customers. During the first three quarters the company has been able to gain altogether 49 new customers for its ESM platform, including 15 during the third quarter. During the reporting period a special focus of Serviceware was on the further pushing of the cross-selling strategy. An increasing number of existing Serviceware customers decide in favour of additional modules of the ESM platform, whereby mainly the software solutions Serviceware Financial and Serviceware Performance are combined with one another. Furthermore, Serviceware has been able to further expand the business involving maintenance, consulting, and services.

Serviceware portfolio: With the addition of the smoope solutions Serviceware has extended the unique modular ESM platform by innovative messaging and chat functions. The integration of the team and technology of smoope taken over in April 2020 into the Serviceware Group is progressing on schedule. In perspective, it is planned to integrate smoope into the service process management of Serviceware Processes.

Moreover, synergy potentials are to be leveraged also between smoope and Serviceware Knowledge. Serviceware is likewise fully on schedule with the integration of cubus AG.

Further progress was also made at the integration of Artificial Intelligence into the solutions of the ESM platform. The Serviceware Centre of Excellence for AI launched a new Serviceware product with “Solution Assistant”. The “Solution Assistant” supports companies in the service process management and is offered as an additional module of Serviceware Processes. Already in March 2020 the “Content Creation Assistant” was a first product to be published from the Centre of Excellence. The “Content Creation Assistant” extends Serviceware Knowledge and supports companies in increasing the efficiency in their knowledge management and improving at the same time service quality.

Investor relations: The management of Serviceware has had many talks during the reporting period – mainly virtually due to the Covid-19 pandemic – with existing and potential investors. The management informed about the business model of the company as well as the current strategy. During these talks Serviceware met with a high investor interest and was able to extend the potential group of investors by adding new contacts. The Serviceware share continues to be covered by the research companies Commerzbank, Hauck & Aufhäuser and FMR Research. Whilst Hauck & Aufhäuser and FMR Research currently classify the share as “Buy” the vote of Commerzbank is “Hold”.

Covid-19 pandemic: Like almost every company around the world, Serviceware has been affected by the Covid-19 pandemic since spring 2020. Serviceware had already reacted at an early stage by taking comprehensive measures to contain the impact of the pandemic on the operational business level and protect the health of the employees in the best possible manner. This includes a comprehensive Covid-19 hygiene concept and the temporary switch to home office work as well as the massive use of digital communication and networking possibilities. Serviceware benefits from the high IT competency within the company. The introduction of short-time work in parts of the company in May 2020 was completely discontinued again at the end of September 2020 throughout the entire company. To save costs and send a personal signal, the managing directors of Serviceware waived a significant part of their fixed salary. Moreover, the CEO and CFO of Serviceware did not receive any bonus payments during the first three quarters.

1.3 Business Development

1.3.1. Further growth in sales revenues

During the first three quarters of fiscal 2019/2020 the sales revenues of Serviceware have further increased versus the prior year period. Sales revenues rose by 10.4% to EUR 52.7 million. A significant growth was recorded by SaaS/Service which now reaches EUR 22.4 million or around 43% of the total sales revenues of Serviceware. With the development towards SaaS/Service transactions there is a shift in the generation of sales revenues from non-recurrent high licence fees to monthly recurring subscription fees. The sales revenues from licences have been declining during the reporting period (-6.2%). The maintenance revenues decreased versus the prior year period by 3%. This likewise reflects the development of the trend towards SaaS/Service transactions.

In kEUR	01 December to 31 August 2019/2020	2018/2019	Variation
Revenues SaaS/Service	22,414	15,994	40.1 %
Revenues licences	14,100	15,034	-6.2 %
Revenues maintenance	16,201	16,703	-3.0 %
	52,715	47,731	10.4 %

1.3.2. Adjusted result

To further expedite the growth of the company, Serviceware carried out within the framework of its IPO on 20 April 2018 a capital increase with a net inflow of approximately EUR 55 million. These funds are used as planned during the coming three to five years for three growth areas:

- European expansion (around 15% to 25% of the funds)
- Strengthening of key account sales including supporting marketing (around 10% to 20% of the funds)
- Inorganic growth and extension of the ESM platform (around 65% to 75% of the funds)

In all the mentioned areas Serviceware has made significant progress during the current fiscal year and has consistently implemented the programme for accelerated growth. The additional personnel and non-personnel expenses involved in the European expansion, the intensified approaching of large customers as well as inorganic growth, are immediately charged to expense during a reporting period. In the field of inorganic growth, the amortisations carried out within the framework of company acquisitions since the IPO in respect of capitalised intangible assets are likewise recognised as expense during the reporting period.

To provide a transparent and comparable picture of the use of the expensed funds during the individual periods and show at the same time the accompanying effects on the result, Serviceware reports, in addition to the existing reporting, adjusted values. The adjusted values do not represent IFRS-based ratios and are to exclusively increase transparency.

During the first nine months of fiscal 2019/2020 additional expenses were incurred under the programme for accelerated growth in the amount of kEUR 3,379 on an EBITDA level and kEUR 3,789 on an EBIT level. They include investments into internationalisation (kEUR 2,282), temporary integration costs within the framework of inorganic growth (kEUR 876) and the orientation towards the strategic key account business (kEUR 222) as well as kEUR 409, caused by acquisition-related costs and amortisations.[1]

The EBITDA adjusted for these expenses increased versus the prior year period by 2.3% to kEUR 4,465. When including the expenses from the programme for accelerated growth, the EBITDA amounted to kEUR 1,086 (PY: kEUR 174). When comparing to the previous year, effects from the first-time application of IFRS 16 need, however, to be taken into account. These result in a reduction in other operating expenses with no effect on income and a simultaneous increase in amortisations and interests paid. On an EBITDA level this effect amounts to kEUR 1,385.

The adjusted earnings before interest and taxes (EBIT) dropped versus the prior year period by 37.5% to kEUR 2,540. After expenses for acquisition costs, internationalisation, and orientation towards the strategic key account business, it amounted to kEUR -1,249 (PY: kEUR -549).

[1] Price allocation to customer base and brand as well as internally generated intangible assets acquired through the acquisition which are amortised on a scheduled basis over a period of up to 20 years.

The financial result of kEUR -143 (PY: kEUR -192) rose by 25.6%. The adjusted earnings for the period before taxes dropped by kEUR 1,472 to kEUR 2,397 versus the prior year period. After extraordinary expenses, they amounted to kEUR -1,392 (PY: kEUR -741).

The tax result was mainly impacted by effects from the change in deferred taxes. During the first nine months of the current fiscal year, this has resulted in tax income in the amount of kEUR 509. During the prior year period the tax liability amounted to kEUR 358.

The adjusted earnings for the period after taxes amounted to kEUR 1,803. After the expenses for the programme for accelerated growth they amounted to kEUR -882 (PY: kEUR -1,100). In this way a positive result was achieved after adjustments in a particularly challenging market environment due to the Covid-19 pandemic.

	01 December to 31 August	
In kEUR	**2019/2020**	**2018/2019**
EBITDA (IFRS)	1,086	174
Costs in connection with the internationalisation outside DACH	2,282	2,713
Temporary integration costs in connection with inorganic growth	876	1,151
Costs in connection with key account additions and the related marketing	222	328
Adjusted EBITDA	4,465	4,366

	01 December to 31 August	
In kEUR	**2019/2020**	**2018/2019**
EBIT (IFRS)	-1,249	-549
Amortisation of intangible assets capitalised within the framework of company acquisitions	409	418
Costs in connection with the internationalisation outside DACH	2,282	2,713
Temporary integration costs in connection with inorganic growth	876	1,151
Costs in connection with key account sales with corresponding marketing	222	328
Adjusted EBIT	2,540	4,061
Financial result	-143	-192
Adjusted earnings before taxes for the period	2,397	3,869
Income tax	509	-358
Tax effects referred to adjustments	-1,103	-769
Adjusted earnings after taxes for the period	1,803	2,742

1.3.3. Expenses

As a result of the planned headcount expansion in conformity with the strategy as the basis for further corporate growth as well as the successful acquisitions, personnel expenses have of course increased. For the first nine months of fiscal 2019/2020 they amounted to kEUR 27,516. Compared to the first nine months of fiscal 2018/2019, this corresponds to an increase by 19.8%. Other operating expenses dropped, by contrast, by kEUR 2,300 (-30.4%). Approximately 60% thereof are, however, accounted for by effects from the first time application of IFRS 16 ("Leases"), on the one hand and an increase in amortisations and interest expenses with no effect on income, on the other.

The increase in amortisations to kEUR 2,335 (PY: kEUR 723) is, therefore, primarily attributable to the above mentioned effect from IFRS 16 and amortisations of the customer base and brand from the acquisition of cubus which were incurred only proportionately from the date of acquisition during the previous year.

No development costs continued to be capitalised in the balance sheet; they are rather charged directly against income during the period, reducing the result in the profit and loss account. This means that the result figures of Serviceware are only conditionally comparable to companies which capitalise development expenses.

1.3.4. Operating income

The unadjusted consolidated earnings before interest, taxes, depreciations, and amortisations (EBITDA) of the first three quarters of fiscal 2019/2020 amounted on an IFRS basis to kEUR 1,086. This corresponds to an increase versus the prior year period by kEUR 911. Compared to the previous year, effects from the first-time application of IFRS 16 have to be taken into account. They result in a decrease in other operating expenses with no effect on income with a simultaneous increase in amortisations and depreciations and interest expenses. On an EBITDA level, this effect amounts to kEUR 1,385.

The unadjusted EBIT decreased following the significantly higher personnel expenses and scheduled higher amortisation expenses following the cubus acquisition on an IFRS basis to kEUR -1,249 (PY: kEUR -549).

1.3.5. Financial result

The financial result of the reporting period amounted to kEUR -143 and has improved versus the prior year period (kEUR -192) by kEUR 49.

1.3.6. Earnings before taxes

The consolidated earnings before taxes amounted to kEUR -1,392 and fell by kEUR 651 compared to the prior year period (kEUR -741).

1.3.7. Tax expenses

During the first nine months of fiscal 2019/2020 a tax income totalling kEUR 509 is reported (PY: kEUR -358).

1.3.8. Earnings after taxes

The consolidated earnings after taxes for the first nine months of fiscal 2019/2020 amounted to kEUR -882. Compared to the prior year period (kEUR -1,100), they rose by kEUR 217.

1.4 Ratios of the financial statements as at 31 August 2020

	01 December to 31 August			
In kEUR	**2019/2020**	**2018/2019**	**Variation**	**in %**
Sales revenues	52,715	47,731	4,984	10.4
thereof SaaS/Service	22,414	15,994	6,420	40.1
EBITDA	1,086	174	911	522.7
Adjusted EBITDA	4,465	4,366	99	2.3
EBIT	-1,249	-549	-700	127.5
Adjusted EBIT	2,540	4,061	-1,521	-37.5
Financial result	-143	-192	49	-25.6
Earnings for the period before taxes	-1,392	-741	-651	87.7
Adjusted earnings before taxes	2,397	3,869	-1,472	-38.1
Income tax	509	-358	868	-242.2
Earnings for the period after taxes	-882	-1,100	217	-19.8
Adjusted earnings after taxes	1,803	2,742	-939	-34.3

1.4.1 Balance sheet as at 31 August 2020

In kEUR	31.08.2020	30.11.2019	Variation	in %
Cash and cash equivalents	36,872	41,197	-4,325	-10.5
Equity	56,504	57,464	-960	-1.7
Liabilities	52,099	45,120	6,979	15.5
Balance sheet total	108,603	102,584	6,019	5.9

The cash and cash equivalents of Serviceware SE decreased as at 31 August 2020 versus 30 November 2019 (kEUR 41,197) to kEUR 36,872. This results essentially from the scheduled growth financing and investment activity as well as the repayment of financial liabilities (outflow of funds of kEUR 1,678).

The equity of kEUR 56,504 declined versus the balance sheet date of fiscal 2018/2019 by 1.7%. Liabilities amount to kEUR 52,099 as at 31 August 2020. Compared to 30 November 2019 this corresponds to an increase of kEUR 6,979. This change results essentially from the first-time application of IFRS 16 (“Leases”). For lessees IFRS 16 introduces a uniform accounting and reporting of leases in the balance sheet according to which assets have to be recognised for the right of use of leased items and liabilities have to be recognised for the payment obligations entered into. A leasing liability is defined as the cash value of future leasing payments and a use is basically understood to be a liability minus payments made in advance or deferred. Within the framework of the simplified application of IFRS 16 chosen by Serviceware, there is no retroactive application of IFRS 16. For Serviceware, the definition of leases under IFRS 16 includes primarily long-term lease contracts for office spaces as well as car leasing contracts.

The balance sheet total amounted to kEUR 108,603 on 31 August 2020 (30 November 2019: kEUR 102,584). The equity ratio amounted on 31 August 2020 to around 52%. The equity ratio dropped versus 30 November 2019 (around 56%) by around 4%. The reduction is essentially due to the extension of the balance sheet following the application of IFRS 16.

1.5 Supplementary report

The Covid-19 pandemic has significantly gained in dynamics after the balance sheet date. The number of cases has increased throughout Germany. Serviceware has used the experience from dealing with the first infection wave to prepare itself even more intensively and better for the second infection wave. On the company level, a taskforce was already set up at the beginning of the pandemic, which continues to deal with the new provisions on a Federal and State level on an ongoing basis to be able to respond to the pandemic in a targeted manner.

1.6 Outlook

The positive development - against the backdrop of the Covid-19 pandemic – of the first nine months of fiscal 2019/2020 as well as the further strengthened ESM platform make Serviceware confident for the fourth quarter and the full fiscal year as well. The growth path on which the company has embarked is to be continued and the particularly good market position is to be further extended. A concrete forecast for fiscal 2019/2020, based on the reporting date, can currently not be made because of the restricted visibility caused by the Covid-19 pandemic, but the executive management is confident that in a challenging environment Serviceware can convince operationally with excellent performances and also as far as the financial ratios are concerned. Serviceware Financial and Serviceware Performance are in this connection likely to continue to be the drivers of this development.

Bad Camberg, 23 October 2020

Dirk K. Martin   Harald Popp   Dr. Alexander Becker

2 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 core of the portfolio is the Serviceware platform with the software solution Serviceware Processes (helpLine), Serviceware Financial (anafee), Serviceware Resources (Careware), Serviceware Knowledge (SABIO) and Serviceware Performance (cubus outperform). 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 Management platform. Further components of the portfolio are safe and reliable infrastructure solutions such as Managed Services.

Serviceware has more than 900 customers worldwide from various business sectors, including four of the seven largest German companies and 12 DAX 30 companies. The headquarters of Serviceware are in Bad Camberg, Germany. Serviceware employs more than 480 employees at 14 national and international sites. For more information, visit www.serviceware-se.com.

3 Contact

Serviceware SE
Carl-Zeiss-Str. 16
65520 Bad Camberg
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

Registration court local court Limburg a. d. Lahn, Register number: HRB 5894