

## Full Regular Transcription

# SoftwareOne Holding AG

## Appointment of new CEO and update of Q3 2024 performance

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Duration: 26 minutes

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### COMPANY REPRESENTATIVES

Raphael Erb, CEO

Rodolfo Savitzky, CFO

Anna Engvall, Head of Investor Relations

## PRESENTATION

### **Engvall, Anna**

Good morning, and thank you to everyone for joining the call. I'm Anna Engvall, Head of Investor Relations at SoftwareOne. As you will have seen, SoftwareOne is pleased to announce the appointment of Raphael Erb as new CEO. We also released an update on current trading and financial guidance this morning.

In terms of agenda for this call, Raphael will start by saying a few words. Rodolfo Savitsky, CFO, will then provide an update on our Q3 2024 performance. Finally, we will hold a brief Q&A session. We expect the call to take no longer than 30 minutes in total this morning. Our full Q3 trading update will take place on 13 November, as as planned.

Before handing over to Raphael, please let me remind you that information provided on this call includes forward-looking statements which reflect the best of our current knowledge. Actual results may vary. With that, I will hand over to Raphael.

### **Erb, Raphael**

Good morning, everyone, a very warm welcome also from my side and thank you for joining us at such short notice this morning. As the new CEO of SoftwareOne, I very much look forward to our future interactions. Given today's announcement, I would like to share my perspectives on SoftwareOne and some of my immediate priorities with you.

I joined SoftwareOne more than 25 years ago in our sales organisation. Over the years I've had the joy and the privilege of working in different leadership roles across regions and with that, got the chance to develop a deep understanding of our business. SoftwareOne, in short, it's all about being a trusted advisor. This means that serving our global and diversified clients as well as our partners with excellence is absolutely core to our success.

To understand and keep up with their evolving needs, it's therefore imperative for us to stay close to them and to listen to and empower our regional leadership and teams across our 60-plus country organisation. As CEO, my number one priority will, therefore, be to enhance our focus on the customer, empower our frontline and improve our commercial model to drive growth.

We have a strong foundation in place which I'm very proud of, a large, loyal customer base, deep partner relationships, and a talented team of more than 9,000 colleagues worldwide.

At the same time, we have experienced challenges in recent months that will need immediate attention and action. Some of the reasons affect the entire industry as we are seeing a more cautious corporate spending environment with longer sales cycles in certain key markets.

We are also adapting the organisation to vendor incentive changes. And, on the other hand, we have had sales execution issues with the implementation of our new TTM approach which, by the way, is a model I fully support. We are actively working to resolve those and are making adjustments to the rollout in remaining markets.

Beyond this, I personally see a clear need to respond swiftly to client demands and make the right strategic decisions at a faster pace. I also see significant scope for driving efficiencies towards a more customer-focussed organisation and aligning our cost base to the current environment by reducing costs, including overheads. Rodolfo will shortly go into a bit more detail on our results and outlook and I hope you understand also, given my first day in the new role will be tomorrow, that we will only present a fuller picture with our Q3 trading update in two weeks.

Let me close by saying that I'm absolutely convinced we can get SoftwareOne back on its growth path. As I step into my new role tomorrow, there is certainly work to be done, and it will not happen overnight. I look forward to keeping you posted on our progress as we shape the next chapter together with our excellent team.

With this, I will now hand over to Rodolfo to take you through our performance in the third quarter. Thank you.

### **Savitzky, Rodolfo**

Thank you, Raphael. A few words from my side as well regarding our financial performance. Revenue growth in Q3 was 3.1% year on year in constant currency, below our own and market expectations. Foreign exchange headwinds impacted revenue growth by around 1.7 percentage points. The adjusted EBITDA margin was 16.6%, down 4 percentage points compared to prior year, primarily reflecting the lower than expected revenue growth.

In terms of regional performance, APAC delivered another strong quarter with 24% growth. In our largest region, DACH, it was up 11%, supported by large customer wins in the enterprise and public sector segments. However, revenue in rest of EMEA, NORAM and LATAM declined. The underperformance of these markets in Q3 was driven by a combination of factors.

Firstly, a reduction in certain vendor incentives in Q3 was not compensated for with new incentives, as was the case in the first half of the year. Secondly, the implementation of our new go-to market model, which was rolled out on an accelerated timeline in mid-2024, led to some disruption and challenges with sales execution. These issues were particularly pronounced in key regions such as North America, where we now expect the benefits of the transformation in terms of improved sales productivity to take longer.

Finally, this was compounded by a more cautious spending environment in certain key markets, which we expect will persist through the fourth quarter. As mentioned by Raphael, we are taking decisive action to address the issues and have also revised both our guidance for the year as a result of our performance in Q3 and outlook for Q4, as well as our targets for 2026.

We now expect full-year revenue growth of 2% to 5%, down from 7% to 9% in an adjusted EBITDA margin of 21% to 23% of revenue, down from 24.5% to 25.5%. There has been no change to our dividend guidance.

Our 2026 targets have been adjusted to double-digit revenue growth, previously mid-teens, with an adjusted EBITDA margin approaching 27%, down from 28%. We will provide further detail on the Q3 numbers at our planned trading update on 13 November. And with that I'll now hand back to Anna to manage the Q&A.

## QUESTION & ANSWER

### **Engvall, Anna**

Thank you, Rodolfo. We now have time to take a limited number of questions. Operator, could we please have the first question?

### **Operator**

We're now beginning the question and answer session. Anyone wish to ask a question may press star one on the telephone. If you wish to remove yourself from the question queue, you may press star and two. Anyone with a question may press star one at this time.

The first question is from . Kumar, you are starting to. Anyone with a question may press 31 at this time. The first question is from Reto Huber with Research Partners. Please go ahead.

**Huber, Reto**

Very good morning, everyone, and thank you for updating us this morning. I have a few questions. The first one would be on the expected compensation that we did not receive. I was wondering to which products or services are they relating ? Then, secondly, in which IFRS account would you have booked them? And then my third question would be on why are you not also publishing the revenues by segment this morning?

**Erb, Raphael**

Thank you, Reto. Maybe let me start and then, Rodolfo, maybe you can add on. I think, as we mentioned, we have in two weeks our Q3 announcement, and we will certainly go there into more detail on revenues by business line and so on, and that's why we haven't got into so much detail in this call. But maybe, Rodolfo, you can add on this and elaborate a little bit more on the specific questions.

**Savitzky, Rodolfo**

Yes, thanks, Raphael, thanks, Reto. When you said compensation for products and services, I think you mean what we reference as incentives, right?

**Huber, Reto**

Exactly, yes.

**Savitzky, Rodolfo**

So, incentives, maybe it's a word that could be confusing. This is part of our intrinsic business model. This encompasses incentives from our different vendors for either sales performance or specific campaigns that we do, and these are recorded in revenue.

**Huber, Reto**

Okay.

**Savitzky, Rodolfo**

This is part of the famous back end fees that we talk about, or front end fees, and then there's special incentives for achieving certain KPIs or, in some situations, for having a special marketing campaign and then they support that with programmes. And not all but the vast majority are recorded in private.

**Huber, Reto**

Okay. And the other part would be other operating income then.

**Savitzky, Rodolfo**

So, in case some programmes are more directed to funding specific resources, this we book under local sales, for example, because they are really linked one to one to the funding of resources.

**Huber, Reto**

Okay. And can you say something about which products or services this relates to ?

**Savitzky, Rodolfo**

So, I think we look again... As Raphael mentioned, we will go into a bit more detail during quarter three. I think it's less per se... It's more, I would call it, vendor-related and, as you can imagine, given the big impact of Microsoft in our portfolio, the majority of these incentives are related to Microsoft.

And here, again, just to be clear, it's not that all of a sudden this... We hadn't anticipated certain changes, per se, in the incentives. I think the key point is that during the first half, with a combination of getting additional incentives either from Microsoft or other vendors doing some of the big deals, we have managed to offset the incentives, and this was not the case in quarter three.

**Erb, Raphael**

Yes. So, maybe let me elaborate a little bit more on these incentives. And, yes, it's mainly related to Microsoft, which is the biggest impact, for sure. We generated high incentives in Q3 2023, and while we knew that these incentives would be lower this year most likely, we expected to compensate for the changes but, unfortunately, we could not do so with the full extent in Q3 to make that happen.

**Huber, Reto**

So, Microsoft decided to postpone these incentives or just caught them generally.

**Erb, Raphael**

It's in general a slight incentive reduction, which we see from last year to this year. However, we basically accelerated net new business, we speak of deal closing.

We thought we were able to compensate for the most of it. Unfortunately, in Q3 this didn't work out to the extent which we wanted to, and that's one of the reasons for, yes, an underperformance in Q3. And it's also a bit connected, I would say, that we see in general in some key markets a more cautious spending environment, which also didn't help, I would say, to close out some of these larger opportunities and deals successfully.

**Huber, Reto**

Okay, very good, thank you.

**Operator**

The next question is from Martin Jungfleisch with BNP Paribas. Please go ahead.

**Jungfleisch, Martin**

Yes, hi, good morning. Thanks for taking my question. I have just two, please. The first one is on 2025, really. You reduced 2026 guidance but you didn't really say anything about 2025. Would you expect 2025 to be another transition year as well before revenue growth should accelerate in 2026 ? That's the first question.

And then the second one ties a bit into that. It's on the Microsoft incentive changes for next year. So, my take is that next year Microsoft will focus more on Cloud and Co-pilot and less on simply newer editions. Is that broadly correct? And then what is your assessment at this stage how this would or could impact your business in 2025? Will this be another hit to incentives again and lead to lower sales growth margins? Thanks.

**Erb, Raphael**

Thank you for the question. Today's update is focussed more on Q3 and 2024 guidance, and we will certainly come back on our 2025 expectations in much more detail at our full year results next year. But let me highlight the following and try to answer as much as possible your question.

I'm absolutely convinced about SoftwareOne's potential and that we can return to being an industry leader. But we also have to be honest that we have some homework to do and there are some market issues as well. So, it, honestly, will take a bit of time. My focus at the moment is to address those specific issues that we have identified and focusing on turning around our performance as much as possible.

If we look into 2026, which you mentioned as well, and I think Rodolfo has mentioned it going through the numbers a bit, given the recent developments our 2026 targets have been adjusted to double-digit revenue growth with an adjusted EBITDA margin approaching 27%.

My first day on the job is only tomorrow. So, what I can promise is that we will make fast decisions, act swiftly and come back to you in due course with our thoughts on this and 2026. On the Microsoft incentive part, going into 2025 maybe specifically, we generally expect continued headwinds from those changes from Microsoft. So, incentives related to enterprise agreements have been significantly reduced from 1 January 2025.

However, these can be offset by the opportunity we see around the CSP vehicle and other programmes. And as we are currently in the, I would say, final stage of our internal budgeting process, we will need to revert, we estimate, the impact with our full-year 2024 results in February.

**Jungfleisch, Martin**

Okay, that's helpful. Thank you.

**Operator**

The next question is Florian Treisch with Kepler. Please go ahead.

**Treisch, Florian**

Yes, thank you for taking my questions. I have two, one maybe an add-on to the Microsoft question asked by Martin before. So, I'm fine with not getting a precise guidance on 2025, but can you maybe remind us how much of your current Microsoft revenues relates to businesses which will no longer be really incentives starting January 2025, i.e. how much of your business is at risk or needs to be shifted into the right programme going forward ?

And the second question is around the midterm guidance. So, if I'm coming from, let's say, mid-teens down to, let's call it ten, which is probably double digit, this 5% gap in my assumption, how can you explain it? I mean, most of getting from high single-digit to 15 was a better sales execution. So, do you simply not any longer expect any benefits from it in the coming one, two years? Or do you simply believe the market is not growing any longer 10% but, let's say, 5% on average for you ? Thank you.

**Erb, Raphael**

I think we see some similar trends, like what we see in Q3, also in Q4 and and going into 2025.



In the midterm, however, we are absolutely convinced that we can bring the Company back to double-digit growth, and that's why, in setting the target, 2026 still remains at double-digit growth.

I think on the very specific questions around the impact on Microsoft, we don't have all the facts now ready to give you a good answer here. But I think that maybe already our Q3 announcement full numbers, or then, for sure, full-year 2024, we are ready to provide more visibility and clarity on that.

**Treich, Florian**

It would be much appreciated. To be fair, it is very disappointing that you have not this number available, if it is your biggest client or your biggest vendor partner, to be fair.

**Savitzky, Rodolfo**

Maybe just just to compliment on Raphael's answer, again, in terms of market growth potential we continue to see the same potential that we have communicated before. As Raphael explained, we have had some issues in terms of the deployment of the go-to market. That translates into, of course, a delay in the acceleration of commercial impact, as is normal once you face these issues.

And so of course we had guided before for 2026. We wanted to provide an update. But, of course, we could continue to see a positive growth progression after 2026 as well. That's important. And I just wanted to also reiterate that we continue to see very healthy growth in our addressable markets in the medium term.

**Treich, Florian**

Thank you.

**Operator**

The next question is from Joe George with JP Morgan. Please go ahead.

**George, Joe**

Yes, morning, guys. Thanks very much for taking my question. And welcome, Raphael.

**Erb, Raphael**

Thank you.

**George, Joe**

I've got two, I think. Yes, two. The first one would just be on, again, the Microsoft changes. So, could you just give us, in your view, what has changed in these incentives? Because other resellers have indicated that the direction of travel is broadly in line with Microsoft's cloud strategy, even if the trajectory has maybe accelerated a little bit. So, is it more a case that SoftwareOne is being impacted by the mix of the Microsoft products that you currently resell ? And then, as a follow-up to that, could you just give us a broad idea of what percentage of your Microsoft business is currently enterprise agreements ?

**Erb, Raphael**

Thank you. So, in general Microsoft typically change the incentive structure on an annual basis. And what we see, obviously, and this is related to 2025, is that on enterprise agreements they do some changes and we have a large business on enterprise agreements. I would need to look into the details, exactly how big it is.

However, there is also opportunities, as I mentioned, by basically benefiting from other funding tools and programmes which are available and therefore it's crucial that SoftwareOne and Microsoft are aligned on the priorities, which we are. We have a strong relationship with Microsoft and we remain mutually focussed on a successful long-term partnership, and therefore we just need to make sure we align our business continuously around those priorities and then we can benefit mid-term again very much from that.

But short term we see these headwinds around the incentives and that's just fact, which means even more we need to accelerate basically our go-to market. We need to make sure we win net new locals. We closely engage with our customers to continue to gain market share in order to overcome the impact.

**George, Joe**

Right, okay, thank you.

**Operator**

That was the last question.

**Engvall, Anna**

Great, thank you, Operator. Then thanks, everyone, for joining and speak to you soon.

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