Full Regular Transcription

SoftwareOne

SoftwareOne Full Year 2024 Results

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COMPANY REPRESENTATIVES

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PRESENTATION

Engvall Anna

Good morning and thank you to everyone for joining SoftwareOne's full year results. I'm Anna Engvall, head of investor relations at SoftwareOne. And joining me today are Raphael EBS, as CEO, and Rodolfo Savitzky, CFO.

In terms of agenda, Raphael will kick off with an overview of key developments in 2024 and the fourth quarter. Rodolfo will take you through our financial performance and thereafter, hand back to Raphael, who will provide an update on the combination with Crayon and outlook for 2025.

We will finish the session with Q&A, as usual. Before we get started, please let me draw your attention to the disclaimer regarding forward looking statements and non IFRS measures on slides two to three. With that, I will hand over to Raphael.

Erb Raphael

Thank you, Anna. Good morning, everyone, and thank you very much for joining the call today. Before diving into the full year and Q4 numbers, which are in line with guidance, let me start with some overall perspective on last year. 2024 was challenging, and our results reflects this. But it was also a pivotal year where in Q4, we undertook fundamental changes to restore customer centricity and build a trajectory of sustainable, profitable growth at SoftwareOne.

I would like to touch on a few key highlights. In terms of financial performance, we delivered 11.4 billion CHF across billings, with revenue over 1 billion, and adjusted EBITDA of 223 million CHF in 2024. As a company, we are capable of much more. With two years of organisational changes now behind us, I want to clearly communicate our target to more than double reported EBITDA this year, drastically cutting our level of earnings adjustments.

We have also taken action to resolve the GTM related sales execution issues and made significant progress on our new cost reduction programme, which support our outlook for 2025.

Furthermore, our announced combination with Crayon opens a new chapter for SoftwareOne. We are bringing together two leading software and cloud solution providers with dedicated teams around the world and shared core values. The value creation opportunity is significant, and for both companies, it's the right next step in an industry which continues to evolve and consolidate.

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Finally, you have read that Rodolfo will be stepping down as CFO of SoftwareOne. I would like to thank him for his many contributions, including strengthening the finance and IT organisations, and implementing the Operational Excellence Programme, which leaves the company with a solid basis for the integration of Crayon. But we do not say goodbye yet, as he will still be supporting us into the second quarter.

Let's now look at our full year and Q4 performance. Revenue for the group was up 2.9% year on year. As expected, Q4 was a challenging quarter as customers continued to exercise caution due to the macroeconomic environment. The annual budget flush was muted, particularly in our largest market DACH. In addition, we had certain markets emerging from GTM related execution issues. Conversely, contribution margin was up 5% for the year, driven by efficiencies in our delivery network. The adjusted EBITDA margin was 22%, down 2.3 percentage points compared to prior year, with some immediate benefit from our cost reduction programme and tight business management.

Moving on to the geographical performance, it's a mixed picture. APAC continue to deliver excellent results, with nearly 16% growth for the year and 19% in Q4. This was driven by strong growth in our Microsoft business across the region, but also successful scaling of our AWS practice. In this region, we are implementing the GTM step by step, very differently from the rushed approach taken in other markets.

India is a great example, having completed the transformation while delivering revenue growth of 17% for both Q4 and the full year. DACH grew by 2% for the year with a solid performance in other ISVs, offset by the Microsoft business. Following a strong Q3 driven by a number of large customer wins, Q4 was weak as expected with not much of a budget flush.

The performance in the other regions, rest of EMEA, NORAM and LATAM, was impacted by the GTM related disruption in the second half. Based on actions taken, we are now seeing early signs of momentum in new pipeline generation and sales productivity gains.

Turning to our business lines. Software and cloud marketplace revenue was down for the year, with slightly higher growth in other ISVs, offset by Microsoft business. The overall decline was due to a combination of our GTM sales execution issues in the second half and external macro conditions. We added 67,000 Copilot users in Q4 2024, with some natural slowdown in the adoption curve following high initial interest.

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At the same time, we are seeing continued strong momentum in services as customers explore use cases which drive ROI and seek our advice on security and governance topics.

Microsoft has also recently introduced Copilot Chat, allowing organisations to start using AI without the full Copilot investment. Services delivered over 7% revenue growth in Q4, driven by cloud services, digital workplace, and SAP services. Revenues from xSimples declined in Q4, largely due to more aggressive pricing. While momentum at the billings level was maintained.

While we report our two business lines separately to provide granularity to the market, it's important to note that the world of licensing and services is becoming more and more integrated. This means we should not lose sight of the overall ecosystem view across marketplace and services. And it’s key that this ecosystem continues to grow. I'll come back to this topic later on.

At Q3 I set out certain immediate priorities, which I'm pleased to say we have delivered on, while also progressing the acquisition of Crayon, On GTM, we took action to overcome the disruption and ensure successful adoption of the new model. We now see a foundation for higher growth in the impacted markets.

Secondly, we delivered on our cost reduction programme well ahead of schedule, with 58 million CHF of annualised savings from 1st January this year.

Thirdly, we took decisions to drive regional empowerment, with new leadership appointments across DACH, rest of EMEA and APAC. It's important for me to emphasise that these changes are part of a broader change in mindset. Moving away from the top heavy organisation that we had become to empowering the frontline, holding them accountable, and restoring agility.

Now focusing on our GTM transformation and the specific actions taken. On the people side, we have announced three new regional presidents, Patrick Kaegi in DACH, Rico Andreoli leading rest of EMEA, and Varun Paliwal taking over APAC from myself. They have all been with the company for more than ten years in various sales leadership roles and understand our business and culture inside out. We also implemented further changes at the country level to ensure the right people are in the right seat on the bus.

Finally, we implemented an experienced central business management team and cadence to manage our 60 plus country organisations and ensure we stay focussed on our targets. To drive improved performance, the teams intensified the level of customer engagement to drive pipeline.

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P&L responsibility is now with the regions who will be held accountable for results. We also adjusted compensation plans with quotas and incentives tailored to different sales roles and tightened business cadence.

By year end, the impacted countries had successfully adopted key elements of the transformation, including the new segmentation, with digital sales for SMEs, dedicated resources for new customer acquisition, and the focus on service led sales motions. Early signs also indicate generation of new sales pipeline, and improvements in sales productivity.

As for timeline, the remaining markets, including rest of EMEA and APAC, are progressing in a phased approach, safeguarding customer relationships. Meanwhile, LATAM has completed the transition.

Moving on to the cost reduction programme. We initiated this programme with my CEO announcement, and today, I'm very pleased about the progress we have made. Again, it's very important to emphasise that this programme is about more than cost reductions. It's about shaping the organisation towards customer centricity and sustainable profitable growth. As of year-end 2024, we had achieved 58 million CHF annual savings against an original target of 50 million by end of Q2 2025.

We have simplified the organisation quickly and removed non value creating processes and management layers. We now expect the cost reductions to reach 70 million before the programme is completed at the end of Q1. Creating a strong starting position for profitable growth and the integration with Crayon.

We are actively positioning our offering to support customer needs and capitalise on market opportunities, by also aligning with key profit drivers, including vendor incentives. As I mentioned earlier, we increasingly look at our business with vendors more and more from an ecosystem perspective. With integrated solutions consisting of licenses plus services, driving business outcomes for our customers.

We are tailoring our offerings towards customer segments, very aligned with our GTM strategy, where we have dedicated sales teams focusing on specific segments and offerings.

I would now like to share some exciting developments with clients and partners over the last three months.

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We recently renewed the 2024 OCRE Framework Agreement, expanding our role beyond educational and research institutions to supporting the broader public sector. This puts us in a unique position to help 25,000 public sector organisations across 35 plus European countries as a multi-cloud and AI advisor.

This is a significant win which enables us to scale our hyperscale solutions around Microsoft, AWS, and GCP within public sector across Europe, which continues to offer attractive vendor incentives. In addition, we recently signed a strategic partnership agreement with US based ServiceNow, combining their leading workflow automation capabilities with SoftwareOne's expertise in optimising customer's IT investments. We are the only European based partner with such an agreement, and it will further enable us to provide tailored solutions in the IT asset management space.

AWS continues to be a top priority. We grew over 35% in 2024 and aim to build a sizeable AWS business in all regions, to become the fastest growing partner globally. Furthermore, we won the AWS Global Non-profit Consulting Partner of the Year in 2024.

Finally, we have also just been named a Global Red Hat Premiere Partner. Red Hat is one of our top ten partners, and we grew nearly 40% last year with them. To recap, these investments and recognitions are fully aligned with our strategic direction of offering integrated solutions, upselling and cross-selling our services and cloud consumption offerings, and being a leading partner of choice for our vendor community.

On that note, I hand over to Rodolfo to take us through our financial performance.

Savitzky Rodolfo J.

Thank you, Raphael. And welcome, everyone. After three years at SoftwareOne, it is now the right time for me to move on to pursue other professional opportunities. I have to say, it has been an exciting journey, with many changes and a few challenges. Nonetheless, I'm really pleased that during this time we managed to build a stronger foundation for SoftwareOne, particularly with operational excellence to help the company realise its future growth trajectory, and to capture the value creation opportunity of the combination with Crayon.

With that, let me begin by discussing our financial performance at the group level. Revenue growth for the full year was 2.9% in constant currency, in line with our revised outlook.

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In Q4, revenue declined by 5.1%, driven primarily by a muted budget flush in key markets, such as DACH, and continued underperformance in certain markets, reflecting the rushed implementation of the go to market transformation.

Our focus on operational excellence continue to yield positive results, with further delivery cost efficiencies, translating into a 5% constant currency increase in contribution margin for the year. As the expenses increased by 12.4% in the full year, mainly as a result of GTM ramp up costs and other non-personnel cost investments.

Our adjusted EBITDA margins stood at 22% for the full year, reflecting lower growth in H2, while benefiting slightly from new cost reductions in quarter four.

In terms of forex, the strengthening of the Swiss Franc versus several key currencies led to a negative impact of 2.3 percentage points on group revenue for the year.

Finally, I would like to mention that we intend to start reporting organic growth from Q1 this year, to further enhance transparency. For 2024, organic growth was around 2% year on year in constant currency, with M&A contributing approximately 100 basis points. The bridge illustrates the year on year changes in adjusted EBIT.

Marketplace delivery costs improved compared to prior year, driven by ongoing process optimisation. Service delivery costs remained nearly unchanged, despite increased volumes, benefiting from our leaner and more agile global delivery footprint. Meanwhile, sales and marketing costs increased due to ramp up investments across key countries as part of our go to market transformation. Admin expenses grew due to the expansion of corporate functions in the first half in IT investments to support automation. All these partially offset by productivity gains.

Moving on to the business line view. In marketplace, revenue declined 0.8% for the full year as go to market related sales execution issues impacted the ability to effectively respond to changes in incentives in the second half. This was compounded by muted year end customer spending. Thanks to improvements in delivery costs, contribution margin was 88.3% for the year, reflecting an increase of 1.4 percentage points versus last year. The adjusted EBITDA margins stood at 49.6%.

In services we delivered 7.3% growth for the full year, with a sector leading margin of 43.3%, up three percentage points. The adjusted EBITDA margin remained broadly stable due to higher SG&A.

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Finally, corporate costs grew due to IT investments in the ramp up of new functions in the first half. However, with the ongoing cost reduction targeting corporate costs, we are confident in keeping them stable or even lower in the coming years.

As in prior quarters, I would like to remind you that the allocation of some sales and admin costs is based on a combination of contribution margin and revenue. The more muted marketplace growth in Q4 relative to services significantly impacted the allocation. We're internally reviewing the allocation keys to present a smoother distribution of cost between business lines in upcoming report.

Over the last two years, we have invested significantly in effectiveness and efficiency to create a scalable platform for growth. This is the backbone for a smooth integration and synergy achievement with Crayon. We can see the impact of the programmes on the almost flat development of personnel costs in admin and delivery over the last two years, despite inflation and volume growth.

Now, let's look at the different pillars of our initiatives and what lies ahead. The go to market transformation is geared towards driving, cross-selling and increasing SME revenue via our digital sales hubs, which complement Crayon's channel platform.

In services delivery, we remain focussed on standardising our offerings and leveraging our regional and global footprint to profitably cross-sell our differentiated services portfolio with Crayon.

Lastly, are regional shared service centres, where we continue to drive process automation standardisation, will enable the seamless integration of Crayon's local finance organisations and support transactions with customers of around 60 billion CHF for the combined company.

Both the latest cost reduction, operational excellence, and go to market programmes resulted in significant organisational changes with redundancies in external advisory costs. These extraordinary costs are reflected in our reported EBITDA adjustment for 23 and 24.

To understand our true underlying performance, we applied adjustments of 107.3 million CHF in 2024. Of this total, 45.8 million relates to severance payments. With this initiative now behind us, we expect below the line adjustments of less than 30 million CHF in 2025. Of course, excluding Crayon implementation costs.

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As a result, reported, and adjusted EBITDA will converge over the coming quarters on a 12 month basis to eliminate seasonality. Our operating cash conversion, including CAPEX, was 133 million, or 60% of adjusted EBITDA, with minimal change in net working capital.

CAPEX includes investments in internal IT and systems, our marketplace platforms, and support to our services delivery platform. Again, these investments are part of our focus on driving efficiencies and effectiveness throughout the organisation.

In terms of our net cash development, we have further outflows. These include the M&A and earnout payments, restructuring expenses, as well as significant return to shareholders in the form of dividends and the share buyback programme. Leading to a net cash position of 12.6 million CHF at year end.

Net working capital was at -155.6 million at End December, broadly in line with 2023. Our days sales outstanding growth, mainly due to the growth of multi-year consumption based offerings, based on IFRS 15, the accrual for the multi-year revenue recognition represents approximately eight additional days of sales. Therefore, our customer payment terms have remained roughly constant during the past periods.

The accounting for these multi-year contracts is also reflected in the DPOs.
Nonetheless, working capital management remains a top priority. As such, we have put in place initiatives to expedite collection by improving invoicing accuracy to limit rebills, leverage dashboards to collect transactions, along with new KPIs linked to bonus achievement.

I now hand back to Raphael to go through the Crayon acquisition.

Erb Raphael
We are convinced that our combination with Crayon is the right next step for both companies. To provide further context, I would like to take a step back and briefly describe SoftwareOne’s journey until today.

Phase one was very much defined by accelerated growth, rooted in a strong sense of entrepreneurialism. We grew with Microsoft, diversified with our multi-vendor business, and expanded globally. After Comparex and the IPO in 2019, we focussed on rapidly scaling up our services business. Also, via M&A, in response to customer and partner demands.

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This accelerated growth was naturally followed by a period of consolidation and investment. With this behind us, we have the portfolio and capabilities to succeed in the markets and support the Crayon integration.

To recap, the strategic rationale is compelling. We are highly complementary from a geographical, customer, and offering perspective. Together, we will offer partners global access across the full customer spectrum, from enterprises to SMEs. Our customers will benefit from our large marketplace and enhanced services portfolio.

Furthermore, our scalable delivery and transactional platform will support smooth integration and future growth. Along with substantial synergy potential, including 80 to 100 million CHF of cost synergies, there is clearly a significant value creation opportunity.

Over recent weeks, we have done work to reconfirm the substantial synergy potential based on a detailed, bottom up assessment. This analysis has also been verified by an independent expert. We have full confidence in our ability to deliver on the targeted synergies.

Meanwhile, we continue to progress along the transaction timeline. The draft prospectus has been submitted, and we expect the tender offer period to start around 17th March. We also recently announced our intention to apply for a secondary listing in Oslo. Allow Crayon shareholders to hold shares listed in Norway.

In the meantime, we are making headway and integrating integration planning, particularly from a governance perspective, to ensure day one readiness. Importantly, we are also announcing today that Crayon’s founding shareholders, Rune Syversen and Jens Rugseth, will be proposed as additional members of the SoftwareOne board, effective upon closing of the transaction. Their in depth industry expertise and experience will be invaluable as our two companies come together.

Moving on to our 2025 standalone outlook. We are guiding for revenue growth of 2 to 4% in constant currency for 2025 on a standalone basis. We expect a gradually improving trajectory through 2025 as the benefits of our GTM transformation come true. With a slight revenue decline expected in the first quarter.

As announced at Q3, we expect a negative impact of 2 to 3% from the changed Microsoft incentives on EAs. These incentives will bottom out in 2025.

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In terms of profitability, we are guiding to an adjusted EBITDA margin of 2024 to 26%, driven by cost reductions, with operating adjustments below 30 million CHF. Reported EBITDA is expected to more than double in 2025.

We continue to guide to a dividend payout ratio of 30 to 50% of adjusted profit. The 2026 standalone targets remain unchanged with double digit revenue growth and an adjusted EBITDA margin approaching 27%.

Before we wrap up, I would like to emphasise three key points. We have taken decisive actions to resolve our GTM issues, significantly reduce costs, and drive regional empowerment, customer centricity, and agility in the organisation.

We are now ready to capitalise on past investments and our scalable platform to drive profitable growth. In that context, reported EBITDA will more than double this year compared to 2024.

Finally, we are excited about the unique opportunity to come together with Crayon to create further value based on substantial synergy potential.

With this, I'll now hand back to the operator for the Q&A session.

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 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 disable the loudspeaker mode and eventually turn off the volume from the webcast while asking a question.

Anyone who has a question may press star and one at this time. First question comes from the line of Michael Briest from UBS. Please go ahead.

Briest Michael

Good morning. A couple from me. Rudolfo, obviously sorry to see you go, but is there anything you can say about the successor? I assume it's not internal, but if it's external, what industry experience they have. And will the person be announced before the tender offer completes?

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Just then, in terms of free cash flow, you talked about the working capital intensity increasing. Can you give any guidance on how you think, with these lower restructuring charges and working capital movements, etc., how free cash flow would develop this year?

And then finally, just on the Copilot progress in Q4, I think you acknowledged it was somewhat weaker. Can you talk a little bit more about what happened there and how you would expect that to progress in 2025, excluding Crayon? Thank you.

Savitzky Rodolfo J.

So, Michael, thanks for the comment. And thanks, as well, for the questions. Look, on the successor, effectively, it's an external successor, as it was announced. You will know more in the coming weeks. I think from my side, I'm absolutely keen on ensuring a smooth handover so that my commitment to Raphael and the board. But unfortunately, for reasons of confidentiality, I cannot comment more at this stage. But I can say we will have a smooth succession, and that will happen over the coming weeks.

I think, in terms of the free cash flow, yes, a couple of points there. One big improvement element would be the, I mean, as we discussed, both Raphael and I here during the presentation, I think we have now completed these big reorganisation programmes with heavy investment. So, the expectations are going forward at the level of below the line, and below the line adjustments will be quite small, 30 million, we have said. Of course, that's a big boost for cash flow.

And then on the working capital, we're taking a lot of measures to optimise parties, process excellence. The better you set the level of perfect invoices, of course, then you eliminate rebills, and therefore, there's less issues to immediately collect the money. We're also including working capital targets with our commercial organisation, so that they increase focus on that.

And so, the expectation that we will see, we don't have a specific guidance for that, but we do expect a significant reduction in DSOs and DPOs in the coming year. So, as you have seen, the impact on cash flow was quite muted on the working capital, is well managed, but the clear expectation is that it will be a positive cash flow generation in 2025.

Erb Raphael

And maybe I take the question, Michael, on the Copilot. So, yes, as we mentioned in Q4, we added 67,000 users. We saw some natural slowdown in the adoption curve following, obviously, the high initial interest, which we have seen.

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I think what's important that at the same time, we see strong momentum on the services side around our Copilot offerings, which we have. That's really what's scaling. And I think in general, from an outlook perspective, we see continuous growth on the Copilot side, but, let's say, not a hyper growth environment, but continuous growth throughout 2025.

Briest Michael
Do you think it'll be comparable to Q4 or better than that?

Erb Raphael
We don't think it will be much better than Q4. Also, because from a seasonality perspective, our Q1 volume is generally slower than Q4 volumes, and therefore, we don't think there will be necessarily an increase in numbers in Q1.

Briest Michael
Okay. And sorry, Rodolfo, just on the margin for this year. Can you talk about how that will develop? Will the first half be below last year, perhaps, given the way the savings come through, etc.?

Savitzky Rodolfo J.
Look, I think as we as we think of the year, as we have said, I think it will be a gradual ramp up in terms of growth. So, that's one aspect to keep in mind. On the other hand, I think all these efficiency measures that we have put in place will translate into a relatively strong margin improvement and that we will see throughout the year.
It would be an acceleration of margin as well. Also, leveraging the higher growth that we will see in the second half.

Briest Michael
Okay. Thank you.

Operator
The next question comes from the line of Knut Woller from Baader Bank. Please go ahead.

Woller Knut
Good morning. Thank you for taking my questions. First to start with, Raphael, You mentioned that you saw early signs of a positive pipe momentum and improving sales efficiency.

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Can you give us some more colour here? And then touching on the expected synergies of Crayon, I'm not quite sure whether I understood the 180 million quite correctly. Can you give us here also some more colour?

And then just quickly on CAPEX for Rodolfo. Can you give us some colour what you expect for 2025 and beyond? Thank you.

Erb Raphael

Yes. So maybe on the pipeline momentum, what we can see is, especially on the services side, and we mentioned it before also on the Copilot question, we see an increase in demand in pipeline from a services perspective, which is good.

We also see in some of the markets where we had the fast and rushed implementation of the GTM, such as the UK as an example, we see a stronger pipeline, and we see also higher sales productivity already now in January. These are just some early signs to share with you.

On the Crayon synergy questions, you mentioned 180 million of cost synergies. Maybe there is a misunderstanding. So, the cost synergies is 80 to 100 million. It's not 180 million. Maybe I wasn't clear enough in my message before, but it's 80 to 100.

Savitzky Rodolfo J.

And maybe on the CAPEX, as you have seen, the level of CAPEX, of course, it reflects investments across three important fronts. One is internal systems development to make sure we accelerate this efficiency and automation. Also, there are investments to support our services portfolio. And finally, the marketplace is also an important area.

So, with this in mind, in this era of improvement in automation and efficiency, we will continue to invest behind modernising our infrastructure. However, as part of our increased focus on efficiency and cost control, we do expect a modest reduction in CAPEX over the coming years. But we are talking more in the mid to high single digit level improvement, percentage improvement. As, again, we think it's important to continue to invest behind these automation initiatives.

Woller Knut

Thank you.

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Operator
The next question is from Christian Bader from ZKB. Please go ahead.

Bader Christian
Good morning, all. I have a few questions regarding your number or your staff. You spent 46 million for severance payments, so I'm assuming the number of employees will decrease further throughout 2025. Can you maybe give some numbers where you expect the number of employees to turn out by the year end on a standalone basis?

Secondly, I would be interested to understand which, let's say, staff categories are let go. Is this a mix across all functions, or is this only for head office functions?

And the third question is also related to that. In light of, let's say, significant reductions of your headcount, and your expected guidance of 2 to 4% growth. It implies either that the individual salesperson has to become significantly more productive, or everybody is about to sell a much better product at a higher incentive, etc.. So those are my questions about staff, please.

Erb Raphael
Maybe let me start and elaborate a little bit on your question. So, in terms of related to the savings programme, I think what we have done now in the initial couple of months is mainly we have taken out management layers and unproductive costs.

So, it's not that we have less headcount. Yes, we have reduced the headcount in Q4, but not significantly. We have basically also taken out, I would say, height costs or more higher costs, management layers. And at the same time, we still have done a few investments as well, into the frontend and into our service delivery organisation to make sure we can deliver the services which we promised to our customers. Maybe, Rodolfo, do you want to add on?

Savitzky Rodolfo J.
Yes. So, a couple of comments. When we talk about these initiatives, as Raphael described, it seeks to improve efficiency through different measures. This last wave has been described by Raphael, I don't repeat. But that doesn't mean that in other areas of the organisation, we don't need to invest to support growth.

So, at the end of the day, you cannot simply take the restructuring. Of course, these are the reductions in FTEs. That's correct. But of course, there has to be hiring of FTEs in other areas.

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So, at the end of the day, we do expect a positive development on FTEs. But you cannot take a one to one assumption, saying these are the restructurings, and therefore, it's a net reduction. There is also some FTEs that are coming in.

As Raphael also explained, there is a mix effect in many cases, whereby we replace resources in higher cost locations, but via resources in lower cost locations.

I think on the point on the sales, it's a very good point you raise. I think in prior presentations, what we have said is we need to increase the level of sales productivity. We know that the benchmark in the industry are around 20 or even below. And we were significantly above that number.

So, I think with all the measures that Raphael and the team are implementing in terms of go to market, you can achieve a higher level of sales productivity as you define meaning, more sales per sales reps. But this is not like we're stretching resources beyond the normal. That's important to keep in mind. That means we are taking our sales productivity in line with the top performers in our class. Where is definitely where we want to be. I don't know, have we covered your questions?

Bader Christian
Yes. No, no. I think that that was useful. But you refer to your latest comment about sales productivity, you mentioned a number of 20. What does that number 20 mean, please?

Savitzky Rodolfo J.
Yes, apologies. It is the expenses as a percentage of sales. And you can see it in, I think we had it in one of our graphs in prior presentations, where we showed the ramp down that we expect over coming, let's say, this is a programme that takes a little longer over the coming years.

Bader Christian
I see. Okay. And just to confirm, you said you expect a number of employees to slightly increase due to mix changes, Right?

Savitzky Rodolfo J.
I would qualify it more as roughly stable for the year with, of course, separations. But then there has to be hiring changes in mix along the way.

Bader Christian

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Okay. Interesting. And then I have another one on your guidance for 2025. Can you maybe also share some thoughts about which assumptions are you making for the segments in 2025, please?

Savitzky Rodolfo J.

Here, we don't provide guidance, I think we shouldn't start today. Maybe the only one thing I can mention, but it's just reiterating something we have already discussed is we expect some headwind related to Microsoft incentives for 2 to 3% for the year. So, of course, if you say, well, this all probably has a bigger impact on the licenses part of the portfolio, of course, you can then do the adjustment in your numbers. But we don't provide the specific guidance by business line.

Bader Christian

All right. Okay, that's fine. And the last one for me, which kind of tax rate shall we model for this year, please?

Savitzky Rodolfo J.

I would say it's similar to 20. The normal tax rate is, we say, around 29%, 28%. So, I would use that tax rate.

Bader Christian

All right. Thanks very much.

Operator

As a reminder, if you wish to register for a question, please press star and one on your telephone. The next question comes from the line of Nooshin Nejati from Deutsche Bank. Please go ahead.

Nejati Nooshin

Hi. Thanks for taking my question. Two for me. First, I wanted to know that on the back of all these initiatives that you are taking to improve the GTM issues, how should we think about your marketplace performance in H1? And specifically, in NORAM. So, should we expect further decline here, or you think that you have already mitigated that risk, and we're going to see some growth there?

And then second one on guidance. I just wanted to see what is the scenarios here for low end and high end of the guidance, specifically for the budget flush in 2025? Thank you.

Erb Raphael

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In terms of initiatives. Thanks for your questions. So, what we expect in terms of marketplace performance is that it gradually improves quarter by quarter throughout 2025. We see an improvement in terms of growth compared to Q4 2024. That's really the outlook which we have. In NORAM, we have freely done the Big Bang implementation of the GTM, so we foresee to see some continued headwinds going into Q1. But then also followed by gradual improvements throughout the year.

And the guidance question, maybe, Rodolfo, you’re going to take.

Savitzky Rodolfo J.
Well, the guidance, we have provided a range, indeed. And if you want to part of the range covers the volatility or uncertainty around our environment. In general, we continue to see the underlying environment has been quite positive. But, of course, like you correctly say, there can be some deviations at quarter end. So that's why we provide the range. So that does capture within our [unclear 00:47:25].

Nejati Nooshin
Thank you.

Operator
Any further questions, please press star and one on your telephone. There are no more questions at this time. I would now like to turn the conference back over to Anna Engvall for any closing remarks.

Engvall Anna
Thanks, everyone, for joining, and we hope to speak to you soon again. Thank you.

- END -

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