Quarterly Report 2019/2020

(01 December 2019 to 29 February 2020)

SERVICEWARE SE, Bad Camberg

1 Quarterly Release as at 29 February 2020

1.1 Consolidated Key Performance Indicators

	01 December to 28/29 February			
in kEUR	**2019/2020**	**2018/2019**	**Variation**	**Variation**
Sales revenues (IFRS)	17,271	16,413	858	5.2 %
thereof SaaS/Service	*7,263*	*5,641*	*1,622*	*28.8 %*
EBIT (adjusted)*	891	2,073	-1,182	-57.0 %
EBIT margin (adjusted) *	5.2%	12.6%	-7.5%	
Earnings after taxes (adjusted) *	841	1,478	-638	-43.1 %

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

During the first quarter of fiscal 2019/2020 Serviceware SE has continued its **success course with a long-term orientation.** It has succeeded in taking important strategic decisions and laying the foundation for significant large-scale orders, which we have been able to finalise immediately after the end of the reporting period. We have gained a large US group for our solution *Serviceware Performance* (cubus outperform). With a large German DAX-listed group, which has decided in favour of *Serviceware Financial* (anafee), we have, moreover, completed one of the largest licence deals of our corporate history. In both cases we were able to prevail over North American competitors or replace them at the customer.

Our balanced business model, which accompanies and supports companies at the digitalisation of their service processes has proven its worth. Against the backdrop of the economic slowdown in Germany and Europe, which has been emerging for several months already, the expected increase in demand for our products *Serviceware Financial* (cost analysis and budgeting of service processes) and *Serviceware Performance* (corporate planning and management) has set in. This trend has continued after the end of the quarter with the growing COVID-19 crisis. The requests for information and offers for the mentioned solutions increased by around 50% (status: April 2020). During the first quarter the high demand for our solutions for cost control and controlling has already led to an increase in sales revenues in this field in a mid-double digit percentage range versus prior year.

The extension of our integrated and modular ESM platform within the framework of our inorganic growth strategy likewise is increasingly bearing fruit. During the first quarter we succeeded in leveraging cross-selling potentials both in approaching new customers and also for existing customers. In more than 80 % of all cases we have in the meantime succeeded in offering the solutions *Serviceware Performance* and *Serviceware Financial* as a bundle with customers. Through the acquisition of cubus in mid-2019, we can offer a package of solutions which is significantly different from competition and unique on the market. *Serviceware Knowledge,* which has been added to our portfolio of solutions through the acquisition of SABIO, is likewise extending the platform for our existing customers.

In the integration of Artificial Intelligence into our solutions, we see first results of our co-operation with the Technical University Darmstadt. The “Content Creation Assistant”, which has emerged from the co-operation as a first Serviceware product, was completed by the end of the first quarter and is offered by Serviceware as an additional, fee-based module of *Serviceware Knowledge.* The new module helps companies to increase the efficiency of their knowledge management and improve at the same time service quality. The co-operation with the Technical University Darmstadt is very productive, so that we are convinced that further marketable solutions will result from it.

The share of SaaS / Service revenues in the total sales revenues has continued to increase. 42 % of the sales revenues were generated during the first quarter of the fiscal year in SaaS/Service; during the comparable prior year period this amounted to around 34% and in fiscal 2018/2019 to a total of around 36 %. We consider this development to be positive and we are extending the long-term recurring revenues partly at the expense of currently higher but non-recurring licence revenues so that the financial basis and the visibility of our business development is enhanced.

1.2 Key Events in the Serviceware Group

Highlights from Customer Projects

During the first quarter of the fiscal year Serviceware secured a large number of mid-sized projects and continued to make clear progress for various large-scale projects. For a large automotive group with worldwide operations Serviceware has finalised the complex and demanding project during which the Serviceware platform was commissioned with the modules Financial and Processes. With the combination of the two modules the benefits of an integrated platform offer were fully leveraged for the customer. For the automotive group corresponding synergy and efficiency potentials were secured. Processes with an annual billion Euro volume are now managed and analysed with the Serviceware platform.

Commerzbank has significantly extended its use of Serviceware solutions. After *Serviceware Knowledge* was already implemented for use by the internal service staff last year, the knowledge management solution of Serviceware is now also part of the front end in the self-service portal of the bank under www.commerzbank.de. In the digital service offering of the bank on the internet and in the app telephony has been integrated. The extension of the application range illustrates the comprehensive possibilities to use *Serviceware Knowledge* and is at the same time an indication of the high customer satisfaction with this solution.

New Customers and Internationalisation

With again more than 20 new customers during the quarter, the success trend of Serviceware continues. The demand included a broad range of Serviceware solutions and we have again been able to leverage also cross-selling potentials. Moreover, we have continued to extend the share in Managed Services, enhanced customer loyalty further and gained several renowned new customers for this offering. Apart from the contracts concluded during the quarter, the period was marked by the final initiation of large-scale projects for which the contracts were then signed immediately after the end of the period. This included the gaining of an internationally positioned large group with headquarters in the USA and another DAX-listed group as new customers.

The new customers of the first quarter included, apart from companies of different sizes from Germany and Austria, also the Dutch group company of a large international group with several ten thousand employees. In Austria we have been able to significantly increase our sales revenues through the conclusion of new contracts

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during the quarter. In the United Kingdom we are optimistic that the intensive customer approach during the coming quarters will result in first contracts. In April 2020 it cannot yet, however, be seen in how far the Covid-19 pandemic will delay or impair the initiation of the conclusion of contracts. In Scandinavia Serviceware has entered into a partnership agreement with the management and technology consulting firm BearingPoint. This was preceded by a successful co-operation with a customer from the field of telecommunications.

Brand and Marketing

A stepping up of national and international marketing activities has accompanied the operational successes of the first quarter. A significant role was also played by online measures such as, for instance, the Serviceware blog.

The strong market position of Serviceware is likewise reflected by a corresponding appreciation by industry experts. A Forrester Study (Total Economic Impact Study) on the economic efficiency of *Serviceware Financial* provided convincing results: following the data evaluation at group customers of Serviceware an average ROI of 270% was determined after the use of *Serviceware Financial.* The average payback period of the investment is less than six months. The savings and efficiency gains in a three-year analysis are hence in the mid-single digit million Euro range for a customer with an annual IT spending of EUR 150 million. The Research in Action “Vendor Selection Matrix for IT and Enterprise Service Management” was led by Serviceware already for the third time in a row and Serviceware also secured the first rank in the Recommendation Index.

Investor Relations

The reporting period was marked – also against the backdrop of the worldwide stock exchange turmoil in the wake of the COVID-19 pandemic – by an intensive dialogue of the Serviceware management with existing and potential investors. In this connection Anglo-American investors showed increasing interest in Serviceware. The Serviceware share continues to be analysed by Commerzbank and Hauck & Aufhäuser. The recommendation of all analysts is currently “Buy”. The securing of further analyst coverage was pushed at the end of the first quarter.

1.3 Business Development

1.3.1. Further Growth in Sales Revenues

The sales revenues of Serviceware were further increased during the first three months of fiscal 2019/2020 versus the comparable prior year period. Sales revenues rose by 5.2 % to EUR 17.3 million. The strongest growth was recorded by SaaS/Service with an increase by 28.8 % versus the comparable year period. The trend towards SaaS/Service transactions hence continues. This is in line with the shift in sales revenues from non-recurring high licence fees to monthly recurring subscription fees. Sales revenues from licences were declining during the reporting period (-19.3 %) and amounted to EUR 4.4 million. Maintenance revenues rose by 5.6% versus the prior year period, since in addition to the licence revenues from the current reporting period, amongst others, also the other licence revenues of the last 12 months have resulted in incremental maintenance revenues. Sales revenues break down as follows:

In kEUR	01 December to 28/29 February 2019/2020	2018/2019	Variation
Revenues SaaS/Service	7,263	5,641	28.8 %
Revenues Licences	4,440	5,500	-19.3 %
Revenues Maintenance	5,569	5,273	5.6 %
	17,271	16,413	5.2 %

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 net inflows 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 large 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 mentioned areas Serviceware has made significant progress during the past months and has consistently implemented its programme for accelerated growth. The additional personnel expenses and cost of materials 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, we report, in addition to the existing reporting, adjusted values. The adjusted values do not represent IFRS-based ratios and are exclusively to increase transparency.

During the first three months of fiscal 2019/2020, additional expenses were incurred under the programme for accelerated growth in the amount of kEUR 1,359 on an EBITDA level and kEUR 1,509 on an EBIT level. They include investments into internationalisation (kEUR 964), temporary integration costs within the framework of inorganic growth (kEUR 311) and the orientation towards the strategic key account business (kEUR 84) as well as kEUR 150 caused by acquisition-related costs and amortisations.[1]

The EBITDA adjusted for these expenses decreased versus the prior year period by 27.0 % to kEUR 1,576. When including the expenses from the programme for accelerated growth, the EBITDA amounted to kEUR 217 (Prior Year: kEUR 1,127).

The adjusted Earnings Before Interest and Taxes (EBIT) decreased versus the prior year period by 57.0 % to kEUR 891. After expenses for acquisition costs, internationalisation and orientation towards the strategic key accounts business, it amounted to kEUR -618 (PY: kEUR 918).

[1] Purchase price allocation to customer base and brand as well as internally generated intangible assets acquired through the acquisition, which are subject to scheduled amortisation of up to 20 years.

The financial result of kEUR -57 (Prior Year: kEUR -41) declined by 34.2 %. The adjusted earnings before taxes for the period decreased versus the prior year period by kEUR 1,198 to kEUR 834. After special charges it amounted to kEUR -675 (PY: kEUR 877).

The tax result was essentially influenced by effects from changes in deferred taxes. During the first three months of the current fiscal year this has resulted in tax income in the amount of kEUR 446. During the prior year period the tax expenses amounted to kEUR 218.

The adjusted earnings after taxes for the period were at kEUR 841. After expenses for the programme for accelerated growth, they amounted to kEUR -229 (PY: kEUR 659).

	01 December to 29 Feb	
In kEUR	**2019/2020**	**2018/2019**
EBITDA (IFRS)	217	1,127
Costs in connection with the internationalisation outside DACH	964	921
Temporary integration costs in connection with inorganic growth	311	
Costs in connection with key account additions and the related marketing	84	110
Adjusted EBITDA	1,576	2,158

	01 December to 29 Feb	
In kEUR	**2019/2020**	**2018/2019**
EBIT (IFRS)	-618	918
Amortisations of intangible assets capitalised within the framework of company acquisitions	150	124
Costs in connection with the internationalisation outside DACH	964	921
Temporary integration costs in connection with inorganic growth	311	0
Costs in connection with key account sales and corresponding marketing	84	110
Adjusted EBIT	891	2,073
Financial result	-57	-41
Adjusted earnings before taxes for the period	834	2,032
Income tax	446	-218
Tax effects referred to adjustments	-440	-336
Adjusted earnings after taxes for the period	841	1,478

1.3.3. Personnel Expenses and Non-Recurring Effects in connection with Organic Growth and International Expansion

Because of the planned headcount expansion in conformity with the strategy as a basis for further corporate growth as well as the second successful acquisition within only one year, personnel expenses have of course been rising. For the first three months of fiscal 2019/2020 these amounted to kEUR 9,965. Compared to the first three months of fiscal 2018/2019, this corresponds to an increase by kEUR 2,586. Other operating expenses decreased, by contrast, by kEUR 141 to kEUR 2,272.

Development costs continue not to be capitalised in the balance sheet but 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 that capitalise development expenses.

1.3.4. Operating Income

The unadjusted consolidated Earnings Before Interest, Taxes, Depreciations and Amortisations (EBITDA) of the first three months of fiscal 2019/2020 amounted on an IFRS basis to kEUR 217. As a result of the additional personnel expenses explained above, the EBITDA dropped versus the prior year period (PY: kEUR 1,127) by kEUR 910.

The unadjusted EBIT dropped as a result of the significantly higher expenses (cf. 1.3.3) and scheduled higher amortisation expenses following the cubus acquisition on an IFRS basis to kEUR -618 (PY: kEUR 918).

1.3.5. Financial Result

The financial result of the first three months of fiscal 2019/2020 amounted to kEUR -57 and fell by kEUR 16 compared to the prior year period (kEUR -41).

1.3.6. Earnings before Taxes (EBT)

The consolidated Earnings Before Taxes amounted to kEUR -675. Following the explained additional personnel expenses in conformity with the strategy under the programme defined at the IPO for the acceleration of growth, Earnings Before Taxes declined by kEUR 1,552 versus the prior year period (kEUR 877).

1.3.7. Tax Expenses

During the first three months of fiscal 2019/2020 a total tax income of kEUR 446 is reported (PY: kEUR -218).

1.3.8. Result after Taxes

The Group result after taxes for the first three months of fiscal 2019/2020 amounted to kEUR -229. Compared to the prior year period (kEUR 659), it is kEUR 888 lower.

1.4 Ratios of the Financial Statements as at 29 February 2020

In kEUR	01 December to 28/29 February 2019/2020	2018/2019	Variation	in %
Sales revenues	17,271	16,413	858	5.2
thereof SaaS/Service	7,263	5,641	1,622	28.8
EBITDA	217	1,127	-910	-80.8
Adjusted EBITDA	1,576	2,158	-582	-27.0
EBIT	-618	918	-1,536	-167.3
Adjusted EBIT	891	2,073	-1,182	-57.0
Financial result	-57	-41	-16	39.3
Earnings before taxes for the period	-675	877	-1,552	-177.0
Adjusted earnings before taxes	834	2,032	-1,198	-58.9
Income tax	446	-218	664	-304.8
Earnings after taxes for the period	-229	659	-888	-134.8
Adjusted earnings after taxes	841	1,478	-638	-43.1

1.4.1 Balance Sheet as at 29 February 2020

In kEUR	29.02.2020	30.11.2019	Variation	in %
Cash and cash equivalents	40,395	41,197	-802	-1.9
Equity	55,248	57,464	-2,216	-3.9
Liabilities	53,535	45,120	8,415	18.7
Balance sheet total	108,784	102,584	6,200	6.0

The cash and cash equivalents of Serviceware SE decreased as at 29 February 2020 versus 30 November 2019 (kEUR 41,197) to kEUR 40,395. This difference has been used essentially for the scheduled growth financing with a view to the further internationalisation.

The equity of kEUR 55,248 declined by 3.9 % versus the balance sheet date of fiscal 2018/2019. The debt capital amounts on 29 February 2020 to kEUR 53,535. Compared to 30 November 2019 this corresponds to an increase by kEUR 8,415. Approximately 90 % of this increase results from the first-time application of IFRS 16 (“Leases”). IFRS 16 introduces a single lessee accounting model for leases according to which assets are to be recognised for all leases in the balance sheet for the rights to use and liabilities for the payment obligations entered into. A lease liability is defined as the cash value of future lease payments and a use is basically understood as liability minus payments made in advance or deferred. Within the framework of the simplified approach selected by Serviceware concerning IFRS 16, there is no retroactive application of IFRS 16.

The balance sheet total amounted on 29 February 2020 to kEUR 108,784 (30 November 2019: kEUR 102,584). The equity ratio amounted to around 51 % on 29 February 2020. The equity ratio dropped by approximately 5 % versus 30 November 2019 (around 56 %). The reduction was essentially due to the above-mentioned impact of IFRS 16.

1.5 Supplementary Report

The development of the coronavirus issue (SARS-CoV-2) which has become significantly more dynamic after the reporting date involves the potential of material adverse effects on the assets, financial and earnings position of Serviceware.

1.6 Outlook

When this report was prepared the situation around the propagation of the coronavirus (SARS-CoV-2) is still changing on a daily basis and given the growing dynamics of the events, it is for the moment not possible to accurately assess the consequences of this pandemic. Depending on how long the applicable prohibition of contact will last, our original planning which provided for growth in sales revenues versus prior year and an improvement of the earnings situation will be adversely affected.

Bad Camberg, 24 April 2020

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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 solutions 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 indepenently from one another.

Serviceware partners with customers from strategic consulting through the definition of the service strategy to the implementation of the Enterprise Management Service platform. Further components of the portfolio are safe and reliable infrastructure solutions as well 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.

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