9-Month Report 2023/2024

(01 December 2023 to 31 August 2024)

Serviceware SE, Idstein

9 Month Report as at 31 August 2024

1.1 Ratios of the Financial Statements of 31 August 2024

Sales Revenues and Earnings Ratios

	01 December to 31 August			
In kEUR	**2023/2024**	**2022/2023**	**Variation**	**%[1]**
Sales revenues	76,249	67,753	8,495	12.5
thereof SaaS/Service	50,786	41,854	8,932	21.3
EBITDA	2,770	-613	3,383	>100
EBIT	-24	-3,367	3,343	99.3
Financial result	145	247	-102	-41.2
Earnings before taxes for the period	121	-3,120	3,241	>100
Income tax	-842	-23	-820	>-100
Earnings after taxes for the period	-721	-3,143	2,421	-77.1

Condensed Balance Sheet

In kEUR	**31.08.2024**	**30.11.2023**	**Variation**	**%[1]**
Cash and cash equivalents[2]	32,272	28,245	4,027	14.3
Equity	45,785	46,254	-469	-1.0
Contract liabilities	78,941	55,447	23,494	42.4
Total liabilities	106,317	78,486	27,831	35.5
Balance sheet total	152,102	124,740	27,362	21.9

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

Another record quarter for Serviceware SE: In the third quarter of fiscal 2023/2024, Serviceware achieved new record levels both in total sales revenues with EUR 25.9 million and in SaaS/Service sales revenues with EUR 18.0 million. Compared to the same period of the previous year, this represents increases of 17.5 percent and 19.8 percent, respectively. The operating result (EBITDA) improved disproportionately during the reporting period. Consequently, Serviceware was able to continue its very good business development in 2023/2024 even in the traditionally weaker third quarter of each fiscal year. Serviceware is making good progress as planned in the transformation of its business model from a licence to a SaaS model and has continuously developed its innovative ESM platform with further releases of almost all ESM modules. Artificial intelligence (AI) has been a key growth driver. AI is already being used across the board in the modules and processes of the Serviceware ESM platform. Serviceware is also planning to integrate further AI use cases into its ESM platform in the future and to utilise them even more in internal processes. Serviceware presented the new AI Process Engine during the reporting period among other things. It has been available for Serviceware customers in

[1] In case of relative changes of more than 100 %, the change is indicated in simplified form as ">100".

[2] The figure reported in previous years under cash and cash equivalents only comprised liquid funds. In order to benefit from the changed interest rate environment, Serviceware also makes long-term investments, which are recognised in the balance sheet item non-current financial assets. In order to improve comparability, the cash and cash equivalents item also includes non-current financial assets in addition to liquid funds since the Annual Report 2022/2023.

Service Lifecycle Management since September 2024. Companies can use this new process modelling software to significantly increase their efficiency and competitiveness and considerably reduce the time involved.

Serviceware recorded an ongoing high demand for its software solutions during the reporting period. Among others, a rapidly growing Central European bank relies on Serviceware's AI expertise. The company uses the knowledge management solution Serviceware Knowledge with extensive AI tools. Artificial intelligence supports service employees in compiling knowledge, among other things, and suggests answers for further customer communication based on the knowledge collected in Serviceware Knowledge.

A Fortune 150 company and a global leader in construction solutions decided in favour of using the Serviceware Financial and Serviceware Performance modules for IT financial management. Serviceware also pressed ahead with its international expansion strategy. Sales activities in North America were further intensified through the partnership with Maryville Consulting in the area of IT financial management. In recent weeks, Serviceware has entered into negotiations on contracts with potential new customers and expects the first contracts from this new co-operation in the USA and Canada in the near future.

In the first nine months, total sales revenues rose by 12.5 percent from EUR 67.8 million to EUR 76.2 million. After three quarters, sales growth was thus already at the upper end of the forecast range of 5 to 15 percent for the full year. In the SaaS/Service segment, growth was once again significantly above average at 21.3 percent from EUR 41.9 million to EUR 50.8 million. As a result, SaaS/Service accounted for 66.6 percent of total sales revenues at the end of the reporting period, compared to around 62.0 percent previously. Contract liabilities show that the transformation of the business model is working and will also be reflected in rising sales revenues in the long term. These consist primarily of the residual values of current SaaS contracts and represent already fixed future revenue based on binding contracts. Since the end of the 2022/2023 fiscal year, contract liabilities have increased by 42.4 percent from EUR 55.4 million to EUR 78.9 million. Thanks to the good operating performance, profitability also improved significantly. The EBITDA turned around from EUR -0.6 million to EUR +2.8 million in the first nine months. In the third quarter alone, a positive EBITDA of EUR 1.2 million was generated after EUR +0.6 million in the prior-year quarter. Cash and cash equivalents increased by 14.3 percent from EUR 28.2 million to EUR 32.3 million. Based on the very good business development during the first nine months of fiscal 2023/2024 and a foreseeable strong Q4, Serviceware is now concretising its sales revenue forecast for the full year to the upper end of the previous forecast range. As a consequence, Serviceware now expects revenue growth of between 10 and 15 percent. Previously, the forecast for sales growth was 5 to 15 percent. Serviceware continues to expect a significant improvement in EBIT and EBITDA versus prior year.

1.2 Significant events in the Serviceware Group

Expansion of the Serviceware platform: Serviceware consistently implemented its platform strategy in the first nine months of fiscal 2023/2024 and continued to step up the transformation from a licence to a SaaS business model. With the ESM platform, Serviceware has a comprehensive offering for all services. Between December and August, there were releases for almost all modules of the ESM platform. Among other things, Serviceware Processes 7.2 supports service teams with AI-based individual response suggestions in the dialogue with customers, which significantly accelerates service processes.

One focus in the expansion of the ESM platform is on the further integration of Artificial Intelligence at all levels of the platform. Serviceware has been operating its own AI competence centre in Darmstadt since 2019, which celebrated its fifth anniversary in February this year and was recognised as a “showcase model” by the Hessian Minister for Digitalisation and Innovation Kristina Sinemus. Serviceware continues to make great progress in making the Serviceware platform AI-native. In June, Serviceware presented the newly developed AI Process Engine for the creation of workflows, data modelling and the design of dialogues at the Serviceware Forum. Shortly after the end of the reporting period, in September 2024, the AI Process Engine was released. As the AI-native core of the ESM platform, the AI Process Engine is initially available to companies in the holistic Service Lifecycle Management (SLM) area. It supports companies in the hyper-automation of services, including the definition, description and categorisation of new services. The AI Process Engine also helps to improve workflows by converting written instructions into realisable tasks. In the coming months, the fields of application for the AI Process Engine are to be extended to other services outside SLM, including IT services and customer services.

Customer projects: The high level of AI expertise of Serviceware is also reflected in numerous new customer gains in the reporting period. A leading provider of specialised software relies on the Serviceware ESM platform with its numerous AI solutions and AI applications. Artificial Intelligence supports the company in classifying support requests, compiles relevant information for answering enquiries and makes suggestions for answers based on the knowledge collected in Serviceware Knowledge, the module for knowledge management. This means that customer enquiries can be answered even faster and the time-consuming, manual dispatching - the allocation of customer enquiries to employees - in the company is largely eliminated.

A renowned university in Austria uses the Serviceware platform for its ITSM and HR service management. By automating repetitive and time-consuming tasks using AI, the service requests at the service desk have been reduced by about half. In addition, the university is implementing Serviceware's Solution Bot, which uses AI to answer user questions at a high-quality level. Users receive answers to their questions in a matter of seconds, significantly reducing the workload and costs at the service center.

A food retailer with over 350 outlets in Germany and Austria is also convinced of the strength of the Serviceware platform with its numerous AI modules and saves costs and time in customer service by using Artificial Intelligence. Numerous other companies such as a Central European bank and large property managers have also opted for Serviceware with its innovative AI solutions in recent weeks.

The go-live for Serviceware Financial and Serviceware Performance was implemented at a high-revenue Fortune 150 company from the logistics sector. The software solutions from Serviceware replace the company's proprietary solution and support the company in managing and pricing service costs, among other things. The customer also relies on the Serviceware Digital Value Model. The first phase of the go-live of Serviceware Financial started at a large European telecommunications company. IT cost management is now possible on the basis of the Serviceware Digital Value Model.

Internationalisation: As part of its international expansion strategy, Serviceware has extended its sales activities in North America. Serviceware has entered into a partnership with the leading consulting firm Maryville Consulting in the area of IT financial management. As part of the partnership, Serviceware will expand its operational capacities in the USA and Canada and gain access to the latest best-practice approaches in TBM consulting for the US market. The joint development of software solutions is also planned. Since the partnership was finalised in May 2024, Serviceware and Maryville have further intensified their cooperation and achieved good success in building the pipeline. Initially, the partnership focussed on raising Serviceware's profile in North America, the world's largest software market. Among other things, this was achieved through joint appearances at trade fairs at which the company's software solutions were presented. Serviceware expects the first contracts from the partnership with Maryville in the coming weeks.

In addition, growth in Asia was stepped up and a first major customer was acquired on the continent. A Fortune 500 global company from the raw materials sector uses the Serviceware Performance and Serviceware Financial modules from the Serviceware ESM platform as well as the Serviceware Digital Value Model. The implementation of these software solutions is currently in full swing.

Share: The Serviceware share is currently being covered by analysts at Montega and Quirin Bank. Both research firms recommend the share as a “buy”. The price targets are EUR 18.00 and EUR 23.00, respectively.

1.3 Business Development

1.3.1 Development of sales revenues

During the first nine months of the current fiscal year, the sales revenues of Serviceware continued to grow. At EUR 76.2 million, sales revenues were 12.5 percent higher than in the same period of the previous year. Following revenue growth of 10.0 percent during the past fiscal year 2022/2023, this represents a further dynamization of the growth course. The continuous growth is being driven by the SaaS/Service segment, whose sales revenues increased by 21.3 percent compared to the same prior-year period. SaaS/Service sales now account for 66.6 percent of Serviceware's total sales revenues (prior year: 61.8 percent). Sales revenues from licences increased by 2.7 percent during the reporting period. Maintenance sales revenues were 6.1 percent below the prior-year figures. The transition towards a SaaS/Service business is thus continuing consistently. Compared to the licence business, this results amongst other things in a shift of sales revenues into the future, which is, however, accompanied by a higher degree of planning certainty and recurring revenues. Sales revenues are broken down as follows:

	01 December to 31 August		
In kEUR	**2023/2024**	**2022/2023**	**Variation in %**
Revenues SaaS/Service	50,786	41,854	21.3
Revenues licences	13,273	12,921	2.7
Revenues maintenance	12,190	12,978	-6.1
Total	**76,249**	**67,753**	**12.5**

1.3.2 Operating income (EBITDA/EBIT)

The consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) for the first nine months of fiscal 2023/2024 amounted to kEUR 2,770, which is kEUR 3,383 higher than the figure for the same period of the previous year, in which a loss of kEUR 613 was recorded. The result includes the capitalisation of own work, which meets the capitalisation criteria in accordance with IAS 38 “Intangible Assets” and must be capitalised accordingly, in the amount of kEUR 1,184 (prior year: kEUR 341). Capitalised development costs are amortised over the expected useful economic life (3 years). Amortisation begins after completion of the development phase at the time when the asset can be used. Own work that does not meet the capitalisation criteria in accordance with IAS 38 continues to be expensed in the period in which it is incurred. For the subsequent period of the current fiscal year, own work capitalised is expected to be proportionately comparable.

The consolidated earnings before interest and taxes (EBIT) for the first nine months also improved significantly compared to the same period of the previous year. Although considerable expenses for the transformation of the business model from one-off licence billing to an SaaS business model with recurring revenues continue to have a negative impact on earnings, the EBIT improved by kEUR 3,343 to kEUR -24 during the reporting period (prior year: kEUR -3,367). The trend towards SaaS/service business means that sales are recognised over a period of several years, while the sales expenses for identifying and processing leads in particular are fully recognised in the current reporting period. However, the earnings trend shows that the progress made in transforming the business model is increasingly reflected in the business figures. In addition, Serviceware took a number of measures to increase profitability in the first half of fiscal 2022/2023, which had a delayed effect.

1.3.3 Financial result and earnings before taxes

The financial result mainly includes interest on deposits, interest expenses for the long-term financing of the most recent company acquisition, expenses from the compounding of lease liabilities in accordance with IFRS

16 and interest expenses from the discounting of trade receivables. The changed interest rate level is also included in the calculation of the compounding of lease liabilities and interest expenses from the discounting of trade receivables, thereby increasing the imputed interest expenses. In total, the financial result in the reporting period decreased by kEUR 102 versus prior year and totalled kEUR 145.

Earnings before taxes (EBT) for the period totalled kEUR 121 (prior year: kEUR -3,120), which corresponds to an improvement of kEUR 3,241 compared to the previous year.

1.3.4 Tax expenses and earnings after taxes

For the first nine months of fiscal 2023/2024, tax expenses totalling kEUR 842 were incurred (prior year: kEUR 23), which resulted in particular from positive pre-tax results in individual companies of the Serviceware Group as well as foreign withholding tax.

The consolidated earnings after taxes for the first nine months of fiscal 2023/2024 totalled kEUR -721, an increase of kEUR 2,421 compared to the same period of the previous year (kEUR -3,143).

1.4 Balance Sheet as at 31 August 2024

The cash and cash equivalents of Serviceware, which are calculated from the balance sheet items of cash and cash equivalents and non-current financial assets, increased by kEUR 4,027 to a total value of kEUR 32,272 as at 31 August 2024 versus 30 November 2023. The cash inflow came from operating activities. Non-current financial liabilities were also repaid as planned.

Equity of kEUR 45,785 decreased by kEUR -469 or 1.0 percent compared to the balance sheet date of the 2022/2023 fiscal year (kEUR 46,254). Total liabilities amounted to kEUR 106,317 as at 31 August 2024, an increase of kEUR 27,831 compared to 30 November 2023. The main driver for the rise in total liabilities is the increase in the order backlog as at the reporting date, which is recognised in contract liabilities in the balance sheet. The order backlog is mainly made up of advance payments received for SaaS and maintenance contracts and has increased by kEUR 23,494 to kEUR 78,941 as at 31 August 2024 compared to 30 November 2023, in particular due to the accelerated expansion of the SaaS business. This corresponds to an increase of 35.5 percent. Due to binding contracts, these contract liabilities already represent fixed future sales revenues of Serviceware.

The balance sheet total on 31 August 2024 was kEUR 152,102 (30 November 2023: kEUR 124,740). The equity ratio was 30.1 percent. The equity ratio decreased by 7.0 percentage points compared to 30 November 2023 (37.1 percent). The reduction is mainly due to the balance sheet stretching effect of the increased contract liabilities described above and the negative result for the period in the reporting period.

1.5 Supplementary Report

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

1.6 Outlook

The business model of Serviceware is still undergoing a transformation from one-off sales revenues to recurring and, in the long term, more profitable sales revenues. In addition, such a transformation phase is characterised by the fact that the majority of contracted sales revenues is not recognised in profit or loss in the current fiscal year but finds its way into the income statement or consolidated statement of comprehensive income in subsequent years with a high degree of predictability. In addition, high one-off expenses are usually incurred at the beginning of these multiannual SaaS contracts, which initially place an additional burden on the earnings situation. The SaaS model with a high proportion of recurring sales revenues is characterised by a lower churn rate and higher profitability. This results in a more sustainable business development, which makes Serviceware's business model more resilient in the economic cycle.

The numerous armed conflicts continue to cause economic upheaval and lead to a very high level of uncertainty with regard to forecasts for business development. The following statements for the current fiscal year, as well as the estimates for medium-term business development, are therefore subject to a high degree of variance.

Despite these conditions, some of which are still very challenging, we are confident that we will be able to increase sales revenues in the current fiscal year by between 10 and 15 percent compared to the previous year. The updated forecast is, therefore, in the upper half of the previous estimate, which assumed an increase in sales revenues of between 5 and 15 percent. The prerequisites for achieving this are that we will continue to make significant progress in marketing and customer acquisition in the markets outside our core market and that there are no further exogenous shocks in fiscal 2023/2024 that will have a negative impact on the business activities of Serviceware. We are also confident that we will continue to push ahead with sales revenue and profit growth in subsequent years.

On the earnings side, we expect to significantly improve the earnings situation at the EBITDA and EBIT level during the current fiscal year compared to the previous year.

Idstein, 24 October 2024

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Dirk K. Martin Harald Popp

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Dr. Alexander Becker

Company Description

Serviceware is a provider of software solutions for the digitalization and automation of service processes (Enterprise Service Management), with which companies can increase their service quality and manage their service costs efficiently.

The Serviceware Platform consists of seamlessly integrated software solutions that can also be used independently of each other. Since 2018, Serviceware has been focusing on the potential of artificial intelligence in service management. Today, AI is the central innovation factor of the Serviceware Platform, which is constantly being further developed in the company's own AI competence center in cooperation with TU Darmstadt.

Serviceware partners with customers from strategic consulting through the definition of the service strategy to the implementation of the Serviceware Platform. Further components of the portfolio are safe and reliable infrastructure solutions as well as managed services.

Serviceware has more than 1,000 customers worldwide from various business sectors, including 18 DAX companies, as well as 5 of the 7 largest German companies. The head office of Serviceware is in Idstein, Germany. Serviceware employs more than 450 people at 14 international locations.

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

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