

# Axway

## Presentation of results for the first half of 2015

### 30 July 2015

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# Overview of the first half of 2015

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Jean-Marc Lazzari  
*Chief Executive Officer*

Ladies and Gentlemen, welcome to this presentation of Axway's results for the first half of 2015. My name is Jean-Marc Lazzari, the company's new CEO. Today, I celebrate my 39<sup>th</sup> day with the company. In theory, that means I still have a few hours left before my 40<sup>th</sup> day to learn more about the company and to say something stupid... while being forgiven!

Our presentation will comprise four sections. After a short introduction, I will hand over to Christophe Rullaud, our Chief Operating Officer, to present the operating results for the first half of the year. He has been with the group much longer than I, so it makes sense that he should deal with this section, as I was only here for six days of the first semester... Patrick Donovan, our CFO, will then present our company's financial results. Patrick Gouffran, our Company Secretary responsible for investor relations, will coordinate this event.

## *Slide 5*

Before handing over to Christophe Rullaud, I will present a few business trends. Axway posted very strong results in the first half, with total growth of more than 17% and organic growth of 4.3%. These results are due to strong business growth more or less throughout Axway's regions, in particular in licences. In the first half, we worked on a stable cost base, which resulted in a strong improvement in the company's operating profit and stable net profit compared with last year.

## *Slide 6*

France continues to deliver strong results. It represents one of the company's two pillars. This performance was driven by the Axway 5 Suite and its success. The US shows growth, which is a good sign as our presence in this country plays a major role in our strategy. Lastly, offers in API management and the cloud represent our main growth drivers.

# Analysis of the first half of 2015

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Christophe Rullaud  
*Chief Operating Officer*

Using some analysis of the data, I will reveal the major trends we observed in the first half and which explain the performance mentioned by Jean-Marc Lazzari.

## *Slide 8*

This breakdown of revenue by region illustrates the performance of France, whose organic growth was around 10%, once again making this country Axway's main growth driver. At the same time, the Americas region returned to growth in this half-year period. The growth is clearly modest and lower than the objectives we set ourselves, but it proves that the efforts made in recent months to restructure and strengthen our sales force in the US are beginning to bear fruit. The rest of Europe showed a slight decrease, but this overall figure masks a variety of situations. Some countries showed growth, such as Italy, Spain and Benelux, unlike the United Kingdom and Germany. Asia Pacific maintained its strong momentum, but our volumes there are lower than in other regions.

## *Slide 9*

In the analysis of revenue by activity, one of the highlights is the strong growth in licences over the first half. Maintenance continues to grow and services show stable revenue. This observation may seem inconsistent with our performance in licences, but we should remember that there is a difference between the signature of licences and their translation into service revenue reported in the figures.

## *Slide 10*

In the second quarter, these figures confirmed and even strengthened the trends observed over the first half. Growth in France accelerated, reaching 11.4% in the second quarter, versus 9.7% over the entire first half. In the rest of Europe, contrary to what might be expected from the figures for the semester, the second quarter shows a positive trend. In the same way, the Americas gradually improved their performance.

## *Slide 11*

By nature, the figures for the second quarter reveal an acceleration in growth for licences. We can also see that services benefited from the strong results for Licences recorded in the first quarter of 2015, and especially in the last quarter of 2014.

## *Slide 12*

Overall, our business model presents global equilibrium unchanged from previous periods. Within the regions, you will notice there is still a form of parity between our two main markets (the Americas and France). From time to time, we observe changes in percentages: these are often due to changes in exchange rates. This is the case for this semester's figures. As for the balance between licences, maintenance and services, the breakdown is more or less identical to the one we identified in the first half of last year.

I would like to specify however that we should take a step back when considering the 50% portion allocated to maintenance. These are half-yearly figures and, as you know, our activity is subject to a high level of seasonality and Licences weigh much more heavily in the second semester. Accordingly, the share of maintenance in this case is not

representative of its annual weight, which is closer to 45% of business activity. This percentage still represents an interesting resilience factor in our business model.

### *Slide 13*

A few words on our workforce: Salaries represent our main expense item. As such, we manage them very carefully, which allows us to have a stable and even slightly decreasing workforce over the period. The entire group has a workforce of slightly fewer than 2,000 people. This stability also applies to R&D employees, which proves our continued efforts to invest in our product offering.

From a geographical perspective, our objective is to strengthen our presence in the United States. The workforce operating in this region is therefore likely to grow in the future, with a special focus on the strengthening of our sales capacity in North America.

### *Slide 14*

As for the market trends relating to the most significant signatures we have achieved, I will highlight three points: Firstly, we are still enjoying strong demand for our traditional offers. This concerns our "file transfer" offers, with customers like Mercadona in Spain, which is speeding up the implementation of our MFT solutions to ensure the secure management of exchanges between its thousands of stores and central structures. The trend also concerns our B2B solutions, illustrated through the example of OneHealthPort in the United States, which securely manages the exchange of sensitive data using our B2BI offers. This sensitive data consists of patients' personal information, shared with professional health partners or bodies responsible for payments.

Our business in traditional solutions thus remains strong, and at the other end of the demand curve, we can observe very strong traction around our customers' digital transformation, which is reflected in increasingly frequent requests for solutions based on API Management technologies, in which we have been investing for several years. For us, during this first part of the year, these trends have led to a very high number of significant signatures and the arrival of many new customers, major brands and so on.

At the convergence of both trends, we can observe a new event during this period. More and more opportunities are combining the two generations of product offerings. We can see this through customers who previously implemented our MFT or B2B solutions and who now need to enhance these solutions with services based on delinquency management technologies. We can also see it through statements of requirements which call for a combination of both types of solution from the outset.

In short, in addition to the very strong activity leading to significant growth in our figures over the first half, there was also a marked shift in the nature of customer requests, which we must and can support in the future.

# Accounting and financial results

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Patrick Donovan

*Chief Financial Officer*

Thanks, Christophe.

Slide 16

As Christophe mentioned, our total revenue grew to 135 million for the first half of 2015, or about 17.6% growth over the first half of 2014, or EUR114.9 million. As for total cost, two basic impacts for the first half of 2015 versus the first half of 2014 impacted our cost. First, we picked up an additional quarter of Systar cost; if you remember, we picked up Systar in April of 2014, so we added another quarter of Systar cost in this half. And then we have a strong currency impact coming from the US Dollar and Great British Pound conversion of their income statements into Euros.

If you exclude those two impacts, we actually had no cost growth over 2014 to 2015. So we are holding the costs stable over the period, and with our 4.3% organic revenue growth, we were able to drop that down to the profit on operating activities, and finished with EUR12.7 million worth of operating profit, or 9.4% for the first half of 2015, versus 5.4 million or 4.7% in the first half of 2014.

Slide 17

Operating profit finished at EUR1.3 million for the first half of 2015, versus EUR2 million for the first half of 2014. You have seen that in the first part of 2015 we took a EUR8.1 million restructuring charge; this was due to the rationalisation of a lot of our business after years of acquisitions, and so we rationalised primarily in the R&D centres and also in the sales distribution networks. And we will take that saving back and reinvest it back into our business and our areas of growth. And so you will see Jean-Marc come up later and talk about our strategy. This gives us the capability to reinvest those funds into the strategy and help boost our strategy for the future.

Net profit finished at EUR2.3 million or 11 centimes per share for the first half of 2015, versus EUR3 million or 13 centimes per share for the first half of 2014.

Slide 18

Our balance sheet was augmented in goodwill to EUR248 million by the currency effect of the US Dollar to the Euro. We had no additional goodwill other than the currency impact. Our cash finished at EUR41.7 million for June of 2015, quite similar to the same balance at the end of 2014 first half. However, we were able in March to pay back our full borrowings under the revolving credit facility that we took out to buy Systar in April of 2014.

Our trade receivables finished at EUR69.3 million, or 80 days' sales outstanding, the metric we use to track, versus 83 DSO, days' sales outstanding, for the first half of 2014.

Slide 19

As I mentioned, our revolving credit facility, which is EUR125 million, is fully available now to us. We were able to pay that back fully in the first half of the year. And one note, our other liabilities include about EUR82 million worth of deferred revenues, mostly

maintenance revenues, versus EUR72 million of that figure in 2014, so our deferred balance is growing over the period.

#### Slide 20

Our change in equity is a little boring. It finished at EUR307.6 million, mostly impacted by the currency translation differential of our balance sheet. Otherwise, there is no specific impact to mention.

#### Slide 21

For cash flow for the first period, I remind everybody that the first half of the year is when we generate all our cash, and the second half of the year is when we generate most of our profit. So in the first half of 2015 we have generated quite a strong working capital change, or BFR in French, of EUR27.8 million versus EUR21.3 million in the first half of 2014, which resulted in a free cash flow of EUR34.4 million for the first half of the year.

Additionally, you will notice that we have declared dividends in June, but the payment was in the first part of July, so the EUR8.2 million of dividends helped boost our cash balance a bit at the end of June 2015. And additionally, you see we were able to pay off our loan during the period.

#### Slide 22

Our financial structure under our banking covenants are all well met, because we do not have any borrowings under it, so it is quite easy to meet the covenants. Under the line, we ended the period with, actually, a net treasury of EUR31.5 million, versus a net debt at the end of June 2014, which included the borrowing for the Systar acquisition.

#### Slide 23

So overall for the first half of 2015 we had a strong financial performance, which allows us to invest in the strategy going forward, but I remind everybody that we still do a significant portion of our licence revenue, normally 60%, in the second semester of the year, and that is where we generate most of our margin, so we still have work to do to secure the year.

And with that I will turn it back over to Jean-Marc.

# Strategic direction

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Jean-Marc Lazzari  
*Chief Executive Officer*

I would now like to look at our strategic work, transformation and future activities.

## *Slide 25-26*

In keeping with the first part of the year, we will strive to maintain strong results and to ensure sales continue during our work. We have started the repositioning of our company, which will lead to in-depth work and the establishment of a business plan at the end of the year. This plan will be approved by our board and will be presented to you during a meeting dedicated to the year-end results.

In order to align ourselves with this new strategy and to rectify some problems I identified upon arriving in the company, we will transform a certain number of operations within the company.

## *Slide 27*

The company's strategy goes hand in hand with the position it adopts. I won't go back over Axway's mission statement for the last few years, as the company has undergone a profound transformation of its way of doing business. We all sensed it was coming, but this digital transformation did not seem as significant one or two years ago. As our customers are large corporations, we are forced to reposition ourselves to meet their demand for digital transformation.

## *Slide 28*

I would like to remind you that Axway is an independent software company specialised in managing enterprise data exchange solutions. When a company's customers, suppliers or partners change their way of interacting due to the arrival of digital technology, their methods for data exchange and for approaching various aspects of their activity and their ways of doing business are disrupted.

## *Slide 29*

When we examined this digital transformation, we ascertained the existence of a before and after. The arrival of the cloud, connected objects and mobile devices obviously changes our vision of a company's boundaries. The boundaries are those which separate back-office, IT and data centres from the furthest connection, whether through objects or individuals. As company boundaries are pushed back, Axway's basic business (MFT and B2B), which consists of enabling the exchange of information, and which initially made it possible to start the company, has become a more central focus. As such, we have decided to take the largest part of our product portfolio, the part for which we have strong expertise, experience and a huge customer base, and to turn it into the digital foundation, namely the cornerstone of digital transformation in companies.

We have also observed that, as part of the process to push back boundaries, many companies wanted to monetise these new business opportunities. Technologies such as API Management were then developed, and we have most of them. We differentiated this layer through what we call digital engagement. We are convinced that by organising Axway around these two major layers, we will be able to help companies transform their business

and become digital. One cannot exist without the other. When one serves as a basis for the other, companies are able to improve the use of their technologies.

The larger the opening to the digital world, the greater the data flow, the higher the number of connections and the more important it is to govern them. For this reason, our centralised governance system and our tool for visibility and security are even more essential to the system. As such, governing the flow of data is still Axway's core business.

### *Slide 30-31*

Axway's new positioning is as follows: "Enabling your digital business by connecting people, processes and things while governing data flows throughout your ecosystem." This positioning is extremely strong, and the concept of digital enablement is very important to Axway. When we try to pool the various products and business models in the two layers mentioned above (digital engagement and digital foundation), we realise that it makes complete sense to work with robust, tried and tested systems that are established and serve as a basis for data repositories, and engagement systems that will function to the rhythm of the digital demand. These two layers work in different ways. At Axway, we have decided to create a bi-model (mentioned by Gartner): one model that thinks and acts at digital speed, and another that secures and organises at foundation speed, i.e. the fundamentals of the basic organisation of data flow.

It is essential to understand this differentiation, since it is set to become very important at Axway. Accordingly, parts of our product portfolio will belong either to the foundation or to the engagement. This differentiation results from the concept of time, which differs from case to case. In terms of engagement, the production of new software versions requires, for example, production in quick succession, practically simultaneously with new releases. In terms of foundation, however, we certainly don't expect any updates during the year (except corrections of problems) as this concerns much longer cycles. As such, we have decided to set the pace, whether in terms of speed, innovation or time to achieve returns on investment, by focusing on digital technology.

### *Slide 32*

This development is the fruit of a very important legacy. In the business foundation, at Axway, this legacy comprises 11,000 customers. 80% of large corporations – which are our main targets – declare that they have a digital strategy. However, 20% of them acknowledge that they do not have the tools and resources enabling them to implement the strategy. Just over 9,000 of our customers are unsure how to implement such a digital strategy. Most of them have a digital foundation; we will of course support them. In order to provide customers with this digital enablement, one asset is key: having considerable experience, a history and a large number of references in terms of "mission-critical" solutions and in terms of size. The exchange flows of these large corporations are increasing; imagine how it will be when five billion connected objects send information to systems that must react in real time. This multiplicity of flows and information requires true expertise in terms of scalability and security.

### *Slide 33*

Governance is very important and represents real expertise for Axway. We have strong differentiation, whether in digital foundation or digital engagement, through our ability to govern flows, to make them visible with layers such as operational intelligence, and to secure them. Indeed, not a week goes by without an incident of hacking. Recently, there was the issue of connected cars, but we know that the hyper-openness of companies will lead to security problems and that the core of these systems must be under perfect control to manage them intelligently.



### *Slide 34*

Through positioning our competitors and the market, we show that, by turning towards digital technology, Axway is positioning itself in-between the two worlds. The company is able to both search for native digital customers, who will have a foundation problem, and to differentiate itself from companies that come from the foundation by offering a seamless layer of digital technology. Specialists are striving to focus on these two approaches, but they are facing problems, in particular regarding focus. This enables us to be extremely confident about the company's new positioning.

### *Slide 35-36*

For Axway, this strategic decision is reflected in the various transformations under way in the company and within its organisation.

It also leads us to consider an addressable market that is getting bigger and bigger. In the digital engagement layer, it represents an additional USD2 billion, out of the four that we were already addressing. As you know, a software company is measured by its growth and high profitability. Without an area of growth, such a company finds itself in a difficult position. So, a much larger addressable market.

### *Slide 37*

At the same time, the geolocation of our business shows that there are regions where we need to expand, where Axway's market share is not proportionate to the market size. Moreover, we don't have the same penetration rate in the United States, England and Germany as we do in France. However, those three are still the most important countries, since together they account for 75% of our market. Our company's positioning will rely on a strong business strategy in these regions.

Our current business in the US balances out almost exactly our French business, which continues to perform well. America and France are two business units that are constantly on each other's heels, each of them accounting for 35-37% of our revenue. The aim isn't to try and expand in markets with high growth potential while abandoning our strong positions. We have a customer base in France that enables us to supplement all the established portfolios with offers, whether digital or other. In this way, we will remain focused on this country while seizing opportunities existing in the rest of the world in terms of geography and product portfolio, noting that we currently operate in 22 countries.

### *Slide 38*

I won't read out the transformations under way, as the list will grow longer, despite the approaching end of year. It is important to note that we have to completely redesign our Product Management structure to ensure strategic alignment. In this bi-model mode, the management of the new digital model is different to that of the digital foundation. In addition, a significant portfolio needs to be managed and we must take its management, together with that of our development centres, very seriously in order to maintain investment capacity.

### *Slide 39*

To sum up, during the second part of the year, we will strive hard to maintain sales, despite the work under way. We have a lot to do in order to be able to present you with a business plan appropriate to this new strategy. To ensure the strategy's profitability, we must consider its impact on figures over the next three years. The company's transformation will be gradual, brought about in particular by the development of its organisation. In line with this, we recently hired a new product manager. We will also hire a Chief Digital Officer. We believe there can be no proper dialogue with a customer if we don't have the right person able to talk with the CDOs. In addition, we will carry out a major transformation process towards a digital Axway, because we believe that we cannot be

credible in this digital world if we have only a product-based approach. We must have undergone the process ourselves and escape from the old saying: the shoemaker's children are always the worst shod.

I've deliberately kept this short, in order to have time for questions and answers.

## Questions and answers

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### **Derric Marcon**

What is your analysis of the Axway product portfolio? Your presentation didn't include many statistics on the number of products or the breakdown of Licence sales by product, in particular. I would like to know your analysis and quantify the existing products.

I refer back to the slide about the foundation and the engagement, in addition to all the products required in one's portfolio in order to have these elements. Compared to other players, I think Axway's coverage is less than comprehensive. Does that mean you intend to expand your product portfolio? As of now, do you need to fill the gaps and get the products that you did not have before? It would be a real change for the company.

Lastly, my third question is about the EUR8 million in restructuring expenses recorded in the first half. Have you assessed the payback for this restructuring? If so, what is it? In your cost base (excluding Systar and currency flat), for the first half, can you already see the initial effects?

### **Jean-Marc Lazzari**

Mr Donovan will reply to your last question.

Taking your comment about the portfolio, the art of being a software company lies in product management and, therefore, the product portfolio. You probably heard about the recent news: companies like Informatica and Tibco were forced to go private due to a disproportionate number of offers and, therefore, products. I'm talking about companies that had between 400 and 450 products in their portfolio. As such, it was difficult for them to position their portfolio in terms of a carefully chosen strategic or tactical decision. When you manage a wide portfolio, you have very limited flexibility in terms of focusing investments.

The Axway portfolio cannot be compared to the portfolios of companies of that size, but it still requires extensive work in terms of categorisation. We have products nearing the end of their life, which will require transition solutions, and other recent releases that require massive investment and the pooling of active resources. In a software company, the portfolio is an almost constant concern and we will certainly speed up its management. We cannot simultaneously maintain a wide portfolio and meet the corresponding customer requirements, while focusing our efforts to conquer new territories.

For your second point, we are in a strategic framework. When we define the foundation and digital engagement area, we define market potential that is broken down into more specific elements; you will discover them throughout the year. In the end, we know whether or not we have products enabling us to serve the specified areas. Through digital foundation and digital engagement, we already have a large number of products (operational intelligence, API Gateway, etc.). It's a framework we will use to define the areas where we will develop through organic or external growth. It would not be relevant to present the breakdown of these two types of growth in our strategy, as we are unable to define it before we have established our business plan. The work we carried out to understand the areas we serve today revealed that we were already operating in the business. As Axway has already left its mark in the two areas, we are not starting from

scratch. However, we need to supplement this. The additional USD2 billion in addressable market come mainly from the digital engagement section. The amount implies access to future tools, applications as a platform, mobile as a platform, which are currently part of the micro market, but show great potential. We are open to taking digital engagement even further. As I said before, we are building on a very solid basis, in particular for customers who find themselves on the foundation side only. These customers, who until now have placed their trust in us, will also trust us to support their digital transformation. Customers coming from the digital side, on the other hand, will need to build stronger foundations. These two layers represent a virtuous unit.

Patrick, you have the question in French.

### **Patrick Donovan**

To answer simply, the EUR8.1 million will generate about the same amount of cost savings, let us say. But being more complex in my answer, as we went into this year's budget sessions, we were really strong on holding costs stable, and not allowing the growth in the costs so much, and we also looked at our operations and rationalised what we needed to do and took out another EUR8 million or so. So we created a pocket that we are putting back into the business in the growth areas, and so we presented in the strategy sessions some North American ambitions, some digital enablement engagements, and some API. We are investing this money back into it, so it is not going to go straight to the margin and give us three points, let us say, of additional margin and make us look good. We are taking the longer-term approach in putting it back into the business to try and boost the top-line revenue growth.

### **From the floor**

What is the timeframe to get back the EUR8 million? It is a period of 12 months or two years?

### **Patrick Donovan**

In some regards, because as I said, it is possible we are putting the costs back into the business and making organisational changes, investing back in the R&D and sales distribution as fast as we can find the right people to deliver the growth, but the revenue growth does not come as quickly as spending the money, so that will take some time to work through the system.

### **Jean-Pierre Leveille**

I haven't quite understood the new prospects for reforming the company. Could you give us a very basic example so that I (and possibly some other people) can better grasp this point? I have the impression that, with the digital development of "old school" activities and, therefore, the necessity to protect the past while developing the future, we might have to manage two cost structures. However, I'm not sure the revenue base will change dramatically.

In addition, it is my understanding that your predecessors met with several disappointments when trying to develop the business in the United States. From a commercial perspective, various companies have faced such difficulties. Why would this be different for you? In what ways can your vision prevent the problems experienced in the past?

### **Jean-Marc Lazzari**

Talking about foundation means talking about "rebooting", which requires a review of all the company's components. For example, a few months ago, the company had twelve software production sites; this figure has changed to five countries where we develop software. When only a few people develop products in several areas around the world, it is

difficult to focus investments on any specific product. We made the reasonable choice of pooling our centres by increasing our critical masses in order to task people with the development of a specific product without creating a specific risk elsewhere.

**Jean-Pierre Leveille**

*(Talks without microphone)*

**Jean-Marc Lazzari**

When it concerns a single product, nothing. At the end of the year, we will have sold products in the same way as in the past, irrespective of the digital foundation and digital engagement. Only our way of drawing them to the market is different. We started down the digital path with the idea that selling products that contribute to a customer's digital strategy is different to providing solutions to problems. The latter do not concern products, but 'solution selling' (solving a problem).

In order to have credibility, Axway must become a digital company, which is something companies from the native digital world have not demonstrated. Start-ups are often created in this way and with a fast-paced strategy of meeting requirements; they don't sell a product, but a solution. To solve business problems, the product approach and the solution approach involve different people. In this case, we won't go to our traditional contact people to propose a product, but we will focus on solution selling to solve problems with our products. This strategy requires the implementation of suites. Selling based on the points of a product belonging to a complete architecture as part of a transformation process is something we wanted to change by matching several connected products to provide a solution. This involves significant changes on the ground, as each salesperson must go through a specific training period to be able to engage in dialogue with other professionals.

As for the United States, in two years the teams have completely changed the picture in terms of commercial strength and the way of approaching the market. Thanks to our acquisitions, we have a vast customer base to which we continue to sell. Through the digital engagement approach, we can now expand beyond this customer base and contact companies that are not customers, and that are in the midst of transformation, our goal being to serve them also with more traditional products. In the United States, our market share is ridiculous. As such, we are not an obvious choice for companies that are digitising their business.

In addition to our sales force, we must also change the way in which we approach the market, since this strategy involves digital marketing in particular. Companies wishing to purchase an API Gateway will not use the Gartner Magic Quadrant or an RFP; they will use web conferences and the Internet, for example, to find a player able to provide them with a solution. They make the purchase very quickly, with a very fast ROI. The IT and digital worlds do not involve the same return on investment timeframes or the same purchasing dynamics. I wouldn't say that customers in the digital world buy disposable products, but that's nearly the case. We can mention the example of a large oil company which, for the summer, wanted to purchase a digital product. In order to prove to management that they were able to move very quickly, they implemented a digital infrastructure to measure customer visits at 11 service stations and behavioural aspects to consider the sale of new services.

One and a half years ago, we reorganised our sales force by taking professionals from the business and refocusing on solution selling. We also modernised our tools, in particular CRM. We are ready and need only to step up our development in this market. In this regard, the United States will be one of the key linchpins in our business plan. I will invest considerable resources to ensure this operation is successful in the United States.

**Jean-François Delcaire**

I get the impression that indirect sales through integrators are relatively low. In this room, we said that they might increase, but according to your presentation, you don't seem to be going in that direction.

In addition, I don't understand the breakdown of the EUR8 million in provisions, which seem to include impairment, R&D and costs for departing employees. How much did Mr Fabre's departure cost? Do these costs concern future or past departures?

**Jean-Marc Lazzari**

Partnership is a key element in the functioning of a software company. However, the business that we conduct through or with partners is not significant; that's a reality. If we plan to develop a dual approach with our customers through the digital business or foundation, we will need to have partnerships. Until now, we had no partnerships, as we offered services including all the elements in the portfolio of an integrator, or even of a consulting firm. This situation needs to change, given our results. Accordingly, our transformation plans imply the complete overhaul of the way services are provided, to once again become a software company that is close to its products, the goal being to offer strategic services while giving an economic space to integrator partners.

We also have "vertical" partners. Axway cannot simply stay in the middleware layers; we are forced to specialise in line with the vertical expression in activities. We cannot properly provide solutions to business problems if we don't know our customers' industry. We are currently working on this point. As you know, the banking and transport sectors are essential to Axway; that is where we left the world of middleware to join the world of applications. For example, SEPA formats. The development of partnerships with vertical players seems to be a key element of our strategy, since they are the ones driving digital transformation.

Lastly, we believe it is important to work with consulting firms. Our portfolio includes various assets requiring compliance. In order to address these issues, we need to work with consultants to know the application procedures.

We won't lead an identical partnership strategy in the United States and in Europe, since the markets are different and customers will drive Axway's activity - not the other way around.

In short, regarding partnerships, we know the right ratios. We know that, as long as 30-35% of our business is not driven by an ecosystem of partners, we are not operating at maximum efficiency.

**Patrick Donovan**

The EUR8.1 million restructuring charge. I understood the question about the five and a half or a little more provision. The rest was cash on 30 June. We have the nature, let us say, of the charge. A little over one million is for facilities and other hard costs and the rest is for salaries. In that salary component is 1.3 million for the CEO change and the rest is spread over R&D, distribution and operations. I think that answers your question.

**Gregory Ramirez**

Systar was integrated just over a year ago and the sales force was trained in the products. The new sales approach now involves addressing operational staff, in particular regarding operational intelligence aspects. How will this change be carried out? I understand that there is still much to do and that the operational intelligence section is still far from achieving its potential. How do you intend to improve product sales?

**Jean-Marc Lazzari**

The change was successful, since Systar products take up the majority of the Axway catalogue. The absence of some products is due to a decision to avoid redundancy. The recent acquisition of Systar has been a success given that it enables us to integrate an OI layer into our catalogue. I see Systar as real-time BI of what is happening in the data flow: it is a helicopter flying over the data flow and issuing alerts. In this way, we can create dynamic alerts and correct elements to come. Customers justify the acquisition of this type of product through the necessity of preventing dangerous situations in terms of data flow.

Systar has also provided us with an OI dimension through analytics. As you know, the latter form part of the digital revolution and necessarily require big data. Accordingly, we are structuring our offers in such a way that we can benefit from this contribution and get into these fields. Systar will also enable us to use this OI for all our products. We decided to purchase a product granting visibility and, as such, a very important component in governing the flow of data. It opens up a door into digital engagement - and not the foundation layer, this truly concerns the digital world.

**Nicolas Brice**

During your presentation, you mentioned the cloud. Can you give us a general idea of your work in this field? Starting from scratch, did you have to - or have you been able to - develop solutions suited to and optimised for the cloud? Does this strategy enable you to go from an invoicing model based on licences and maintenance to an SAS model?

Moreover, what is your partnership with Amazon?

**Jean-Marc Lazzari**

We decided not to release our revenue for the *cloud* business. This business works in stages. I don't agree with the analysis that the rise of the cloud has led to the fall in licence revenue. In reality, one doesn't detract from the other. Our customers are turning towards a cloud approach for a wide variety of reasons, including to optimise their costs and to have opening systems. We are moving towards a very hybrid cloud; however, it is still essentially private, as the public cloud has not yet taken off as we had hoped.

At Axway, we responded to customers who wanted to obtain the same product, but with a cloud operating mode. Nevertheless, we can see that demand is maturing, with customers that now want more than to simply free themselves from infrastructure. In this regard, we have partners that we believe to be the best and Axway will not start operating in IT infrastructure. We wouldn't be able to compete and have therefore decided to work with several suppliers. In this respect, Amazon's success is indisputable, since this company is very successful in terms of infrastructure. It is less successful in other fields, however.

The first stage required doing business with customers and running our products in the cloud. We are working on a second stage, which involves making these products "cloud ready".

Our customers, previously focused on costs and savings, are now requesting more flexibility. They are entering the model you mentioned, which can take the form of SAS. With flexibility in terms of invoicing. This demand and the need to be "cloud ready" require considerable investment, which we have begun to implement for some of our products. The next stage will consist of providing these services via platforms.

We have an extremely clear and well-defined strategy. Whether in terms of foundation or engagement, we are able to provide drivers in OEM format for future platforms. I don't think the market is mature enough to quantify these new platforms, as the volumes in question - although they are part of the two billion addressables market - are still limited. Axway's position lies in making indirect investments through partnerships, in order to control our revenue and use our expertise. Even if we sign 40% of licences in the last



month, or even the last week, 45% of our business is recurring. Our aim is to ensure cloud recurring business can take over from maintenance recurring business.

Lastly, it is important to understand that the cloud is much more present in the digital engagement layer than in the digital foundation layer. By nature, 80% of customer requests in the digital engagement layer concern private cloud and virtualised environments. Through these layers, we are defining two models and, accordingly, two ways of service delivery to customers.

### **Derric Marcon**

I would have liked licence revenue to be quantified. What is the breakdown between traditional activities and digitalised products in view of the EUR35 million of revenue achieved in licences in the first half? How many deals were signed by adding an API dimension to MFT and B2B?

In addition, I was told that a software company needs seven to eight years to become fully cloud ready. Is that the time limit you have set yourself, or are you more ambitious in that regard?

### **Jean-Marc Lazzari**

We don't release our breakdown of revenue by product. However, in the business case that we will present to answer your question, we will provide a quantified goal for the digital business. The latter is far from being neutral: it's the reason why we are continuing our investments in that area. We will achieve this significant progress without however giving more details by product.

The digital business doesn't concern a single product, but a fully-fledged transformation. In our model, we count on customers who continue to buy the foundation, who mature and create their data exchange structure. We also have customers who come from the digital world and ask us to supplement their existing base. Lastly, we have customers who combine these two aspects. Hence we can see that digital technology clearly drives the foundation. It's a considerable challenge for us to influence our 11,000 customers, and in particular the 80% who have a digital strategy.

As for the second part of your question, we will have a sufficient number of cloud-ready products to take on the digital engagement layer in 2016. I am not saying that all Axway products are cloud ready; only those that are necessary to this strategy.

Ladies and Gentlemen, thank you for your attention. I would like to invite you for a cocktail.

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