Axway
Results for the first half of 2015
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Web Audio Conference

Summary

Semester Overview

Jean-Marc LAZZARI
Chief Executive Officer, Axway

Thanks. Good morning, good afternoon and good evening. This is Jean-Marc Lazzari, and as our operator said, I am the new Chief Executive Officer at Axway, and actually I will celebrate my 39th day today, a few hours before my 40th day in the company. With my partner Patrick Donovan, our CFO, I will go through the presentation. Patrick will obviously take care of the financial results of the company, and I will cover the operational results and then give a status check on where we are in the positioning and the strategic work that we initiated a few months ago. I will also tell you a little more about a few things that have been transformed in the recent past and that will be transformed over the next six months in the company.

Slide 5

However, let us focus on what has happened in the first half of the year. So, I will start with a helicopter view of the results. As you can probably see and some of you may have read in the press release, we have had a solid first half. The total growth was over 17% and the organic growth over 4%, with a revenue of €135.1 million. So, as you can see, the growth was extremely solid, and as you will also discover in the following slide, our cost base was extremely stable in the first half, driving the operational profit up to 9.4% of the revenue, with €12.7 million of operational profit. The net profit was stable. This is a very high level summary of the numbers.

Slide 6

If you look at the trends and see the first half in a nutshell, you would see that the French business has performed very strongly, driven by our Axway 5 Suite which was the majority of the deals. This is a sign that we have a solid base on which we can upsell and cross-sell some of our new products.

We had a pretty solid USA performance, as you will see in a minute. It is still a very large market for us, and our market share is still small. So, I will comment on it as part of the strategic orientation that we are taking. Then, in terms of offers, the demand for API as well as for cloud-based offers from our customers lead the growth that we generated, specifically on the licence revenue.

You will also see that our Q2 was better than our Q1, indicating a positive trend for the first half of the year.

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Going more to operational results now, you have here the breakdown of the revenue by region. So, you can see Axway's four regions: France, the rest of Europe, the Americas including the Brazil operation, and Asia-Pac. Underpinning my comment in the introduction, you can see the strong performance of France, with an overall performance of 9.7% in organic growth, which is an extremely solid result, and the Americas with over 2%, so we are coming back to a positive first semester, and of course that builds up to the 4.3% organic growth that I mentioned.

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Looking at the next slide and the type and nature of revenue, as a software company, we traditionally report on licence, maintenance, and services. You can see that our 4.3% overall growth is made of a pretty solid 7.4% of growth in licence with €34.2 million of revenue, which has accelerated, as you will see, in Q2. But, we also had extremely solid maintenance revenue with €68 million in the first half making for 4.7% growth.

The services were flat versus last year. As an explanation, services normally see the impact of licence two quarters afterwards. So, you will see that, although a flat number for the first semester, it means basically growth in Q2.

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Looking at the Q2 result now, so we speak about the last three months, you see that the acceleration of the growth was achieved in the second part of the first half, with 11.4% growth in France. You will also see that our 2% growth in the semester in the US is made up of very fast 2.7% growth in the second quarter of the first half. The overall Q2 number would represent 6% growth, better than the first half average of 4.3%, so you see the acceleration between Q1 and Q2.

Slide 11

Looking now at the second quarter of the year and the revenue breakdown between the different lines of business that we have, you see that same acceleration with an overall 6% in Q2. You have the licence at 10.3%, the maintenance at 3.1%, and the services, growing by 6.7% (versus the 0.7% in the semester),, which basically results from the very good Q4 we had in 2014 and a little bit of the Q1 result for the licence that we had.

Slide 12

Therefore, it is a very solid result. If you take a step back and look at the business from a high level, I would underline here the resilience and the balanced business we have had in the first half of the year. You see that our two major contributors are France and the US, kind of balancing between 35% and 37%, and you see that our breakdown between services, licence and maintenance is showing a strong recurrant 50% of revenue in maintenance. Now, remember that most of the revenue looks like a hockey stick in terms of the licence revenue for a software company., So, second half is where most of the licences are made. Whereas it is the reverse for maintenance, which is pretty backloaded for the first half of the year. So, we will probably have a balanced view of the business, which will indicate 45% maintenance revenue over the year, which is the traditional breakdown we have.

Slide 13

Looking at the next helicopter view on the operational results, we have finished the first half with an average of 1,926 headcount, and a very stable headcount in R&D. You see there our major geographies, the France business with 692 headcount, and you see we have indicated specifically the North America business with 411, which is obviously a growth number versus the first half last year. We wanted to highlight that point because you will see in a minute that this is where we are expecting the major growth with the positioning of the company and the new strategy. So, it is a very well managed headcount - a little below last year - which indicates that we are extremely cautious and not seeing extra headcount increase where we have not specifically decided.

Slide 14

On the next slide you will see the customer trend, and I specifically wanted to highlight the fact that we still have a lot of our clients buying some MFT and B2B, which is the traditional business of Axway. Specifically, you may have noticed very good performance in Q2 in our rest of Europe business, and that was caused by Spain, where Mercadona made a very big deal with us in Q2. On the other side of the slide you will see the digital business, which is also a recognised trend, and we have a lot of customers focusing on that part of the Axway portfolio, specifically the API business. That would be a new trend where customers would ask Axway to provide some digital capacity as they go through their transformation.

And then, something new which came out of that first half was that we have had clients asking for both sides of the business, both traditional MFT and B2B products as well as the acquisition of some of our operational intelligence offers and some API offers. So, we wanted to highlight the fact that we now have roughly one-third, one-third, one-third of our clients asking for: the traditional business of data exchanges that we have, the digital business that we acquired lately in the past two years, and of course combining both in the same acquisition.

So this was a very high-level view of the operational results, so I will hand over to Patrick Donovan, who will tell us a little more around the financial results.

Accountings and Financial Results

Patrick DONOVAN

Chief Financial Officer, Axway

Thanks, Jean-Marc.

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As Jean-Marc mentioned, first half revenue grew 17.6% to EUR 135.1 million over the first half of 2014, which was EUR 114.9 million. Our total costs grew as a result of two primary activities. First, we picked up in the first half of 2015 an additional quarter of Systar costs. We acquired Systar in April of 2014, which gives us the first quarter of 2015 as additional cost for the first half. The rest of the cost growth is made up of the foreign currency translation adjustment, as we convert our foreign income statements back to Euros. Without these two events, our costs would have been flat for the first half of 2014 versus the first half of 2015. So with our 4.3% organic revenue increase and holding our costs stable, we were able to drop more to profit on operating activities and generate a EUR 12.7 million profit in the first half of 2015, or 9.4% of our revenue, versus 5.4 million, or 4.7% of our revenue for the first half of 2014.

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Our operating profit in the first half of 2015 finished at EUR 1.3 million versus EUR 2 million for the first half of 2014. The first half of 2015 includes a EUR 8.1 million restructuring charge. This charge was related to our rationalisation of our activities following years of M&A activities in the marketplace, and so we rationalised the business by focusing on our distribution, our sales network, and how we approached the market, and we also rationalised our R&D centres. Through this action we were able to take and create a pool of money that will be reinvested in our business and help accelerate our strategic ambitions for the coming future.

Net profit finished at EUR 2.3 million, or 11 centimes per share, for the first half of 2015, versus EUR 3 million or 13 centimes per share for the first half of 2014.

Slide 18

In 2015 our goodwill increased to EUR 248 million, which was all due to the US Dollar currency impact on the translation of the balance sheet back into Euros. Our cash finished strong at EUR 41.7 million, which is a similar number to June of 2014. However, in the first half of 2015, and in March to be precise, we were able to repay our revolving credit facility of about EUR 45 million that came from the Systar acquisition. So, we were able to finish with a strong cash balance and have fully paid back our revolving credit facility to make available to us for future activity.

Slide 19

Our trade receivables finished at EUR 69.3 million, which equates to 80 days' sales outstanding versus 83 days sales outstanding at the end of June 2014. As mentioned, we have no borrowings under our revolving credit facility as of June 2015, and additionally I would like to point out under our other current liabilities that this includes 82 million worth of deferred revenues, mostly on our maintenance deferred revenues that will be recognised over the maintenance contracts, versus EUR 72 million of deferred revenues in our June 2014 balance sheet.

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Our retained earnings at the end of June 2015 finished at EUR 307.6 million, which was impacted by a EUR 12.9 million US Dollar to Euro conversion rate movement on our balance sheet when you translate it back into Euros.

Slide 21

As usual, the first half of the year we generate most of our cash. This is the cyclical effect we see year after year, and you see this again in 2015 in our changes to operating working capital, improving by EUR 27.8 million and EUR 21.1 million in the first half of 2014. In the second semester we are generally flat or little down on our cash flows due to our cyclical business. In 2015 you will also notice that the dividends we have declared of EUR 8.2 million in June will be paid at the beginning of July, and so that benefited our 30 June cash balance. Additionally, you will see our 40 million change in our loan activities as we paid back our revolving credit facility. Our free cash flow for the first half of 2015 was EUR 34.4 million.

Slide 22

Our financial structure, our covenants and our bank line remain strong, and as we had no borrowing under our revolving credit facility we easily met all our three metrics in covenants. At 30 June 2015 our net treasury was EUR 31.5 million, versus a net debt of EUR 22.8 million at the end of June 2014, which was impacted by the acquisition of Systar in the debt under the revolving credit facility that we took out to pay for that acquisition.

Slide 23

So overall we had a positive first half in our financials, which will enable us to invest in our future, but I would like to remind everyone that as we generate the cash strong in the first semester, we generate most of our profit in the second semester, and that is due to our strong licence revenue for the second half, and so that work is still ahead of us and still needs to be done for the rest of the year. And with that, I will turn it back over to Jean-Marc.

Strategic Direction

Jean-Marc LAZZARI

Chief Executive Officer, Axway

Thanks a lot, Patrick. My first comment is that, I would confirm, now that you have seen the operational as well as the financial results, that we have had a very strong first half of the year in the results, even though I should confess that I only waited six days on H1, as I was appointed on 22 June, but still the results that the team have provided were solid.

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I will now turn to a more strategic orientation in this presentation, and tell you a little bit both around the few findings that I saw when joining Axway, as well as where we are in the overall thinking and repositioning of the company in terms of the new strategy. I will also touch base on the transformation that we are doing both to align as well as to correct some of the things that we have seen as dysfunctional. First of all, let me re-state that Axway's current project is absolutely unchanged in the sense that we are a software company and want to stay a software company, and that would be characterised by a pretty significant growth of the top line as well as a very strong result on the bottom line. So that is unchanged, and basically we will spend a lot of our time in H2 to provide the same kind of results that we did so far in 2015. So that is one of the activities we are going to engage in, providing solid results quarter to quarter as we did, even though we did not want to give any guidance for this year.

Slide 26

On the rethink and reposition, let me enter the thinking process that we went through and where we are. In 2011, when Axway did its IPO, basically the positioning of the company was extremely clear around data flow management, and something happened on the market which had consequences both for the way we think, position and organise the company.

Slide 27

Digital came in the last two years; it started with a very small trend which did not make a lot of noise. It started with the cloud, obviously, and now it drifts towards more mobile connections to more the Internet of things, which are coming into the picture for our clients.

Slide 28

If you basically look at what are the business requirements behind the digital transformation of the clients, I would summarise that slide by taking all the points that we have noted in customer demand, and say that it does drastically change the relationship between suppliers, customers and partners. All those new relationships are driven by the technology, by digital, and basically, as an answer, clients of ours, clients of those specific B2B or B2C customers, have to increase their digital interaction and provide the services where the demand is. It has compressed all the time for any transaction, and obviously for a company like Axway, which is positioned on the interactions within the company, it has created a lot of new needs and requirements as well as a lot of new opportunities that we had to take into account and that we had to factor into our new positioning.

Slide 29

If you look at that slide, which is obviously too complex to comment on in a web conference because you would not get the right animation so you could get it in one shot, let me try to explain to you what that slide is meant to be. It is firstly an architectural/functional answer that we have decided on in terms of our new positioning in Axway. So, if you look at the top part of the slide, the red icons you see are meant to represent the digital demand from the customer. Now, if you go below the top half of the circle, you see the data centres and what we have called the digital foundation. That is the half circle underneath the median horizontal bar which includes the B2B and the managed file transfer but also identity federation. All those instances, all those offers, are now seen as the digital foundation of a company which is willing to go and transform their business to digital.

That used to be, by the way, the answer that Axway had for the edge of the company at that time. Basically, four or five years ago, the only opening to the back offices were around web connections, and that was mainly in the B2B environment where you had to manage invoices and orders throughout the network and throughout the borders of the company which were furthest from the heart. So that digital foundation, seen as being the historical positioning of Axway, is where the heart of the exchanges are taking place.

Now, lately what we have seen is that the edge of the company got further to the heart, and basically all the new approaches, being big data, analytics or even the Internet of things, the machine to machine connection, represents another layer which comes on top of the digital foundation that we in Axway call the digital engagement layer. Of course, these would contain a lot of products that we have. You would typically see there the API management, and typically you would see there, as a result of the acquisition of Systar, the operational intelligence. But, we consider that layer to be closer to the new edge of the company, to be closer to the digital need, and by design very different from the digital foundation. I will comment on that further in my later slides.

Now, if you have digital engagement on top of those two layers representing the digital foundation, it implies getting to a stage where customers will see you as a digital enabler; as providing products and services to help them migrate to that digital stage that they have. So, the governance piece is extremely important. The governance is also the heritage of what we have been doing on the digital foundation. It is everything which brings visibility and security to the dataflow, and of course, as you probably would understand very easily, the digital transformation implies more data, implies more exchanges, implies more flows of data that we have to manage.

Slide 30

If you move now to the new positioning of Axway, it is pretty simple, even though it demonstrates a drastic change to the digital aspect of the whole Axway company. The new vocation of Axway is: Enabling your digital business by connecting people, processes and things while governing data flows throughout your ecosystem. That new positioning implies a very significant change in the way we see the go to market as well as the way we see our current portfolio of products.

Slide 31

If you look back at the two layers that I explained to you two slides ago, you recognise here the digital foundation. You have here the Axway house where the roof would represent the digital demand - the digital need of our customers - and you would construct that house by working out from your digital foundation, where obviously you will find all the traditional products and offers of Axway: the B2B and the file transfer. And, on top of that, you would construct a new engagement layer, a new way to manage the connection to digital things, which is digital engagement, where obviously you would see part of our portfolio being API and operational intelligence.

Now, if you relate this back to the slide I showed you as part of the introduction, customers would buy things in the foundation. You saw that some of the customers are still buying and maturing their foundations. Some customers would buy the digital engagement layer only. We have a very significant trend; I indicated to you that the growth is pulled by some of the cloud and the API deals we did recently. That was for us a confirmation that it was the right positioning that we will now be taking, some people would buy both layers at the same time so they can guarantee perfect synchronisation between the layers.

So, as you see with the turn we are taking to digital in Axway, we are creating a kind of bi-modal approach in the company. Speed is not the same in the offers and in the customer demand and in the need to put things in place for digital engagement as it isin the digital foundation. So that bi-modal approach will help us to manage both ends of what is needed for a digital transformation in the company, where, obviously, when a single mode is used across the same portfolio, it was creating an averaging of everything. A typical example would be that you would release products in the digital engagement layer much faster, -maybe every month - with new features.Whereas, it would be extremely devastating to release new features in what is the heart of file transfer, seeing that some of our customers are getting 5,000 or 6,000 file transfer machines, and delivering versions every month would be extremely difficult for them to cope with in terms of complexity as well as in terms of stability of the offers.

So, you have here the Axway house with clear differentiation between the type of business, between the articulation, and between the way we will go to market to our customers.

Slide 32

Why do we believe that we have strong differentiation? The first one is obviously that our digital foundation has triggered an enormous customer base for years. We have 11,000 clients today which, for the most part, are digital foundation customers, and that is a rock-solid base. Think about what the customer base is telling us. Some studies show that today over 80% of the companies that we are talking to, being large enterprises which are the heart of Axway's target, recognise that they have a strategy or are seriously thinking of a digital transformation. Basically, only 20% of that 80% say they have the right tools, the right products and the right approach to serve that strategy. So think about what the math would do for 11,000 clients. As we speak today, we have between 8,000 and 9,000 clients who are on their way to digitalise, who have probably put in place a chief digital officer and office and who are looking at how to serve their new demand.

Now, we basically have in our heritage a leadership position in the foundation with our current MFT and B2B position, and certainly, since the acquisition we made recently in the past two years, we have a very solid position in API.

Now, if you go to the right hand side of the slide, another extremely solid heritage that we have in our current business at Axway is a proven track record in the capacity of the company to scale in terms of volume, a proven track record of coping with legacy integration, and overall in an extremely solid and secure environment. So, that is the heritage that we have, which will help us build from the digital foundation to get to that area of new digital engagement, and this overall combination will help us get to the digital enablement phase for our clients.

Slide 33

If you look at one of the cornerstones of Axway's positioning, which will remain a cornerstone in the new approach we are taking to digital, data flow governance has never been more crucial in the way we deploy our products. The more interaction you have, the more data flows you have in the company, and of course, digital migration provides more data, more exchanges, more flows of data coming from millions of connected objects, from millions of mobile connections in the company. So, data flow governance is needed as a prerequisite, so that you get the full visibility of what is happening and the full security of your environment from the edge of the company to the heart of the foundation.Of course, that has been a very strong differentiation for Axway in the past years, and it remains and will be even further empowered in terms of differentiation as we go forward.

Slide 34

On the next slide, we are positioning the competition as well as some of the market players. Some of the generalists, which you see on the top part of the slide, are the large international players which obviously would spend more time trying to see what they will do with the large portfolios that they have. You see that in the foundation as well as in the engagement, very few companies we have seen have taken a position which is in between both of the layers. That is where Axway will be. We will be one of the first companies in the software industry to sit in between those two layers of contribution to digital enablement.

We obviously have a strong history and position in the digital foundation, but we also gain, via the API or the operational intelligence, a strong position We strongly believe that unless you can have one foot in each of those areas, it will be very hard to properly serve the digital needs of our clients. So, you need to be both ways, because, as you saw, some customers will engage their digital transformation by modifying their current foundations. That would typically be the case for companies who are merging and where the markets are consolidated, but they would not only be served by a digital approach, because they would have to reconnect in a coherent way their digital approach to the backbone of the interchange or the exchanges in the company. S, we believe that positioning is extremely strong, and we want to be in both on that.

Slide 35

Now, of course that is going to require a lot of the transformation that I mentioned prior to that. We will need both to align the company to the strategy, which starts for example by aligning to a bi--modal portfolio, a portfolio which is managed differently, adapted to the speed of the market demand, and adapted to the resilience of the market demand. So a lot of the transformations I will highlight now are driven by the new positioning of the company, and the majority of them we want to achieve in the second half of the year, but you can probably expect in 2016 that we will still transform the business.

Slide 36

Now, another driver for the transformation we have started is to correct some of the things which were not as efficient as they should have been in the company, and basically this has taken us to correction mode. Another translation of that new positioning is what it gives in terms of addressable market. As you can see down below, that small green circle was the addressable market of Axway prior to that specific focus on digital. We have taken an approach which would translate roughly to an additional two billion dollars of addressable market for Axway. As I mentioned, as a software company, growth will be important, but growth is also driven by the capacity to address markets where you do not fulfil too much of the demand and become the undisputed leader in a small market. So, there we have a very large increase in market that we can now address with the combination of our digital engagement and digital foundation.

Slide 37

It needs some specific focus in terms of go-to-market strategy. I look at the three geographic categories that we have designed in the current footprint of Axway (remember that we are in 22 countries as a company). Basically, it will help us to go from underpenetrated markets on the left hand side, if you mix US, UK, and Germany, that is 75% of the current addressable market. Of course, we are still underpenetrated there versus the size of those markets, and that is where we will invest massively in our go-to-market.

France, as you understood from the numbers 37% and 35% between North America and France, is an extremely important pillar of our foundation as we go forward. There, the strategy is to expand, to cross-sell and upsell our current existing base, knowing that this is exactly what is happening now. We benefit from our customers being very digital foundation oriented, and we will benefit from their movement to digital when they acquire the Suite, as I said, and as the API result demonstrates, they are really piling up some more offers from Axway.

On the rest of the world, actually we are going to take a “maintain” position, which will translate to a very optimistic approach - opportunistic by geography, by product and even by deal. We need to focus our go-to-market and focus our investment in geographies where the capacity for growth is absolutely relevant.

Slide 38

When I mention that some of the transformations were ongoing, I see the second half of the year as being an acceleration of some of the transformation. As I said, in the long list here, which are examples of some of the things we are doing, there are two drivers. One is alignment with the strategy, and the other is solving some of the efficiency issues that we recognised when I came into the company. So, typically we are rebuilding a product management organisation which will cope with the bi-modal needs. The same product management will have to deal with products which will be fast-gain, fast-money, extremely reactive on the market, and basically always listening to where the demand is moving, so that you can adapt rapidly to the demand.

On the opposite side, we will still manage very efficiently the foundation of our business, where the security, the solidity and the overall scalability of our customers would be impacted if we were to release rapidly and try to follow. Now, the worst thing would be to say that all the different products, whether serving the engagement layer or the foundation layer, would be average in terms of the same gearbox. That would be terrible. So, we have made that product management evolution to enable it to manage a bi-modal approach - two sets of product lines, one oriented to the digital which most likely would be served by more cloud-tinted offers, and one which would focus on the foundation.

We created a new product management structure and hired a new executive leader of product management, in the person of Jeanine Banks. And, as you can see another example of our deliberate move to digital, we are putting in place a digital office that we will use to digitalise Axway. We believe we will have a much better explanation for a customer willing to go to digital if you have done it yourself. We will also focus on getting the right level of solution selling to our customers who are currently looking at solving business issues. That is a very strong orientation for demonstrating that we are moving to digital in Axway.

Now, obviously we will continue to do some of our portfolio rationalisation. You saw that we hired a new R&D head a few quarters ago. Joel is actually putting in place an extremely solid portfolio rationalisation programme, which will put our different product lines in different categories. It is very hard when you have a large portfolio like we have, specifically after external growth, to rationalise where you put your investment.If you base your investment on the full portfolio, you never get the right levers to focus. So, by doing the product portfolio rationalisation, as well as the lab locations with rationalisation of the people in R&D, we are giving the capacity to invest massively in one or the other orientation.

Slide 39

So you have here a few examples. I will not name or comment on all of the things we are doing to transform the company. Now, the important points, if you want to keep the important messages from what I just said, are first that, between now and the end of the year, we will try to maximise the transformation and the positioning of what we are doing. The current decisions that we have taken in terms of the strategy will be worked to a business plan/business case that we will present in the full-year results presentation in February. We will present the business plan for the next years to the board, which is a translation of that positioning, a translation of that new strategy for Axway. Meanwhile, we will still deliver extremely strong results, as we did in the first half of the year, and then we will transform the company so that it better serves the new positioning and the strategy, but also kind of resolves some of the efficiency issues that I saw when joining the company.

So, we will do that simultaneously over the next six to 12 months, and I hope that now in the question and answer session you are going to try and get more details on one or the other of those areas. So, I suggest we, now, move on to the Q&A session, and maybe go back to the operator and see if we already have questions online or on the web.

Questions and Answers

Operator

First, let us see the questions through the web chat.

Jean-Marc LAZZARI

The first question is always the most difficult.

Participant

We do have a first question, actually. The first question is: How will you plan to develop your business after several disappointing years?

Jean-Marc LAZZARI

Yes, that is obviously a good question, and Patrick, I will take that one, and use my 39 days to give you some of the findings that I realised by looking at what we did in the business. Actually, Axway was extremely strong and smart in terms of leveraging the acquisitions we have been doing in the US. We did not start from scratch in the US operation. We started by acquiring some very solid customer base and some broken businesses for which, firstly, we have been very good at turning positive in terms of the profits we generate, and secondly, leveraging the customer base to cross-sell. The company has been extremely good over the past three years at, firstly, not losing any clients, which is always a risk, but secondly, leveraging that customer base by selling additional things that we had in portfolio, so that was a success on that side.

Obviously, regarding the sales force, we could have done a better job in integrating the sales forces of the different organisations that we had and turning them more rapidly toward being able to sell Axway's full portfolio more rapidly. That is something where better results could have been expected, to a point where Christophe Fabre, my predecessor, decided 18 months ago to change the management of the sales organisation, both in North America as well as globally, and a very profound working structure has been put in place to reshuffle, one might say, the North America sales force.

We have equipped the sales force with tools. We are now fully aligned with one single very sophisticated CRM system. We now have the right discipline and hygiene for what is traditionally in the company an area in sales where people would not consider that as important. In addition, we have basically changed, I would say, between 80% and 85% of the current sales force in North America. So we are totally ready now.

Another extremely strong movement we did in North America was to move to a solution selling approach from a product point of sale, where are salespeople are now really trying to touch the pain point of the customer, which obviously, in the case of digital engagement, is absolutely key. Unless you can answer a pain point, which is a business pain point, for a client, it is very hard to push product.

So, I do feel very confident now that we will do more of the same, and most likely, though I did not mention it, we will see in the next few years both the combination of organic growth that you saw in H1 and also probably external growth. So we will continue doing what we do extremely well, acquiring both technology and customer base.We will try to leverage that, but also get some new logos out of the current sales force and the current go-to-market by: continuing the good approach that we have had in restructuring the salesforce, training them on digital, and basically putting a very strong focus on it. You may have seen on one of the slides that I want to accelerate our digital footprint in North America, and it will probably happen via hiring dedicated salespeople for digital. It is harder to train a lot of salespeople than to hire some of them just to bootstrap the new approach that we will have on digital.

Participant

We have our second question coming from the web. Could you please provide us with more details about the eight million re-structure?

Patrick DONOVAN

Sure, I could go into a few more details on the EUR 8.1 million first half restructuring charge. As we looked at the business, we wanted to rationalise the history of acquisitions and how they impacted their business model. So we took the decision at the beginning of the year to restructure the business and move out some of the costs that were in low-growth or no-growth areas, and to create a pool of money that could allow us to reinvest in our new strategy.

And so, of the 8.1 million, about a million, just over a million was related to facility charges, and the rest of the charge was related to people: to severance and related compensation elements. At June 2015 there remains about five and a half million of the 8.1 million that is in our accrual, so it is still accrued to be settled and paid in the second half of 2015.

Participant

Thank you.

Jean-Marc LAZZARI

Are there any other questions?

Participant

We do. We have a third question coming from the web. Do you plan to move Axway portfolio products into cloud-ready mode?

Jean-Marc LAZZARI

In essence, when we made that decision to differentiate the different portfolio that we have, one being the digital foundation and the other one being the digital engagement, so that we could mix both approaches and serve the digital enablement of our clients, obviously, it has strong implications in terms of where we run the product that we sell to a customer. I would say that, first of all, digital engagement would carry a much bigger portion of the business run under the cloud, whether it is a private cloud or a hybrid, and we have very few but still some customers who would go to a totally public cloud. So, as of today, the portfolio of digital engagement, by definition, would trigger more cloud activity in our business versus the digital foundation, which will be slower to adopt the cloud.

One of the realities that we do have in front of us is that we did move to cloud-ready products, as opposed to moving up products to the cloud, which makes a big difference. We used to start answering the cloud demand of our clients by just taking the products that we had in the portfolio and running them under the cloud. Demand has matured now, and most of our customers are not satisfied with that alone. They want the full benefit of the cloud, which would mean elasticity. Typically, software as a service requires that customers pay for usage, so when they have a lot of usage they are ready to pay, but when they have lower activity they are not ready to pay. So, for that it has taken a lot of investment from Axway, and we are still doing that for some of the products, in order to go from products which can run under the cloud to truly cloud-ready products, and we are doing that.

I think we have done a large portion of it, and we will keep doing cloud-readiness improvement in our products in 2016, but we consider that today, to serve digital engagement, we have enough products that are truly cloud-ready to serve the demand.

Participant

Thank you. And the final question coming from the web is this. Indirect business is not visible in your presentation. What is your plan to develop that?

Jean-Marc LAZZARI

Yes. I did not speak about two important decisions that we have taken in the strategic thinking. The first one is around verticalisation, and the second one is on the question of partnership. Today, we recognise that we have been extremely different from most of the other software vendors, in that the percentage of the business that we do with indirect channels, being the partners, is small compared to the traditional industry ratio. It was not intentional; it was just that we did not put enough focus on trying to find the right partners in the right geographies, because partnership may look global, but it is not. So we will have an approach which will open our capacity to engage with partners. It is an absolute must in the US, where coverage can also be compensated for by partners.

So, we are going to deploy a new approach which is much more focused on getting the right partner, whether they are system integration type companies or they are advising or consulting type companies. We have areas where we can basically get that relationship straight up. The fact that we were doing a significant portion of our revenue in services – you saw that it was roughly 25% - was also an encumbrance in creating partnerships with integrators. They would see us taking the biggest piece of the cake when deploying our offers. Obviously, as part of the transformation we are going to review our current positioning of the type of service we are going to deliver, allowing some room for system integrators to deploy and implement our solutions.

So yes, partnership is a strong focus starting in H2 and in 2016.

Operator

We will now go to phone questions.

[No questions]

Jean-Marc LAZZARI

So, it either means that Patrick and I have been extremely clear, or that for some of you guys it is pretty late in the day, so I would say we will close the session. I want to thank you for attending the conference. We, of course, we have regular meetings, and most likely we will speak to you in February for the full-year results. Thanks a lot.