2021 Full-Year Results

Transcript

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PRESENTATION

Arthur Carli: Ladies and gentlemen, good evening and welcome to Axway 2021 Full Year Results Analyst Conference. My name is Arthur Carli, and I'm in charge of Investor Relations for the Group.

As usual, I have two reminders to make today. First, I must alert on the fact that this event is live and is being recorded. A replay of the meeting will be available as soon as possible on Axway Investor website.

I would like also to remind you that today's presentation contains forward-looking estimates that are naturally subject to risk and uncertainties. Future activities and results may differ from those described today. As a reminder, actual risk factors are described in the company Universal Registration Document.

And with that, I wish you a very good presentation, and I would like to hand over to our CEO, Patrick Donovan.

Patrick Donovan: Thank you, Arthur, and thank you all for joining us here tonight for our 2021 analyst call. A few minutes ago, we released our 2021 results, and Cécile, Roland and I will give you some additional commentary here tonight to help highlight certain topics within the press release. We'll then wrap up with some Q&A sessions as normal. So let's get started.

At the beginning of 2021, we communicated our vision and mission that Axway enables enterprises to securely open everything. We believe that in order to create the most value for your customers, partners and employees, you need to open everything by securely integrating and moving data across a complex world of old and new.

Nothing about the 2021 results or our forecast for 2022 has changed our vision and mission. This is still valid. And with that, our strategy is to help deliver that vision with our strong Axway portfolio of solutions such as MFT, B2Bi or Digital Finance, which has been serving our customers for at least 20 years or our market-leading Amplify API management platform.

These are the backbone products for which our strategy to deliver this vision is built upon. With this portfolio-based strategy, we're looking to create a long-term and balanced value set for our three constituents.

For our customer, we will deliver brilliant customer experiences, and we look to do this with our solutions over the long term to be with them and to support them in their mission-critical business activities.

For our employees, we want to make Axway the place to be. We want to be a force of the traction that our employees can have a successful and rewarding career in their mission of serving our customers.

And for our shareholders, we want to build a predictable, profitable long-term value. We do not strive to be a short-term flip of value, but to deliver stable, improving financial results over the long term.

Over the coming slides, I'll dive a bit further into each of these constituents and how we have helped them in 2021, and then both Cécile and Roland will come back and go further into details on some of these points.

In 2021, we continued to build on the value we have delivered to our customers over the years. This work and effort continue to be recognised by our customer set. In fact, in 2021, we increased our net promoter score yet again, another 16% over 2022, which represents four years of continuous improvement since we introduced this metric into the Group. Our revenue renewal rate is at 94% for all our recurring business, that includes both maintenance and subscription, a figure that you should continue to see improve year after year.

The continuing renewal of our base is a confirmation of their usage and reliance on our solutions that help them run their business. We increased in 2021 by 7%, our new and cross-sell bookings. These are either brand-new customers for which we added 265 this year or current customers where we are able to cross-sell a new solution to a different part of the business or a different organization within the parent group. This new base of customers provides us the opportunity to grow with them in the future and grow over time.

We continue to strive to make Axway the place to be for our employees. Essentially, software editors like us are in the people business, and we want it to be rewarding to be at Axway for our employees. In 2021, we achieved an employee engagement score of 66%, which was an improvement in the survey results since we started in 2018, which were at 49%. This benchmark survey we utilized uses a standard threshold of 60% as the baseline for which you need to have an engaged workforce to help deliver the results both to the customers and then to the market.

In 2021, we're able to have 204 people join Axway. This is a good level during this interesting time. Obviously, we are not immune to the great resignation we're all hearing about. We are experiencing higher than normal attrition rates as with the others in our industry and within our customers, as I talked about with regards to the Q4 results. We will continue to build the Axway we want to be at, and we'll welcome those who want to come along for this journey.

In 2021, we continued to improve the level of women within our employee base. This is not something that we could change overnight, but we are almost at a third of our workforce. And as a reminder, our workforce is quite technical in nature. So we're looking to make this continuous improvement in this area year after year. And I believe a diverse workforce is a better workforce for all and for our customers as well.

So as I move on to delivering the value to our shareholder set, the third constituency, it is obvious that we engaged – have an engaged employee group, and we're doing the right short- and long-term actions for our customers. We should be able to deliver positive results. Delivering stable, improving results over the long term will give this value back to the shareholders. I set out with this mission back in 2018 and after completing that year of investment as well as some investment in 2019, this is what – exactly what we started to do.

First, we wanted to shift our business model to more of a recurring business model. This type of recurring customer contracts are more predictable and give us a better forecast ability into the upcoming periods, so we can avoid the unexpected quarters like we had in Q4. In Q4, this delay in timing to close deals with a missing employee base at the customer set that I had talked about previously from the great resignation that we saw across all product lines across all regions added about a month to our average closed cycle in the deals. But on the larger deals it added three or more months for the anticipated closing.

So by 2023, we should start seeing the benefits of this shift to subscription and we should be able to have better predictability. And Cécile will go into the details of that in her presentation.

For 2021, we had 93% of our product revenue that was under recurring contracts, which you could think product revenue as license, subscription and maintenance. Notice I was careful to say under recurring contracts because over the past years, we've been signing the first installation of these recurring contracts and we are not yet fully into the renewal of these contracts, which starts in 2023.

So in 2021, of the roughly $51 million of upfront revenue, only $8 million of that was actually renewals of deals we signed in 2018. In 2021, for our principal product lines, MFT, B2B, Amplify and Digital Finance, which we formerly called Accounting Integration Suite, we grew almost 4% organically over 2020. These critical product lines make up almost 85% of the 2021 revenue.

Since our 2019 year, our investment and the conversion to subscription have started to build back to – build so we could start delivering back on profit. We have improved our profit and operating activities by 7% over 2020 and the year 2021, and we increased our net profit by 13%. We expect this continuous improvement to go forward over the next several years.

As we will see later in Cécile's presentation, this move to the subscription business model and more broadly the recurrent model of business, and the investments we have made over the prior years will come back to us in more stability in the renewing contracts, which bring a better base in this subscription line, and as well in our cash flows.

And we have to continue spreading this message into the market. We have to continue to talk about the good things we're doing here in Axway. And on the screen is a couple of examples of what we have done in 2021, such as our Axway Summit, where we had over 900 customers and partners at attend virtually, which got great NPS ratings and pipeline build as well or through our web and social messaging that is pushing the open everything message, which helps drive pipeline, drive traffic to our website and drive other types of engagement with Axway about our product set. Or we will continue in this strengthening our brand and awareness campaigns in the market.

You could see various activities that we're constantly doing, but we're also doing some non-normal, let's say, activities with our Axway catalysts, which are constantly talking with customers and attending virtual events or attending the API talks and sharing our view of the market or various podcasts that we have launched throughout the years and other outbound channels. All of these continue to build the brand of Axway and make an awareness in the marketplace about the great things we're doing.

So in summary, for 2021 on the financial figures, we finished the year at €285.5 million in revenue, which was an organic decline of 2.7%. This also included a strong currency impact of about $3.7 million as we had a weaker US dollar and Brazilian real.

We were able to continue to improve our profit on operating activities to 11.5%, up from the 10.4% last year and also up in absolute value even with the declining revenue. We expect this to continue in 2022 as well. We continue to grow our subscription revenue up almost 19% from 2020, as well as a percentage of our total revenue under recurring contracts. Finally, our ACV growth was 4.2% in 2021 over 2020.

I want to make a final note that's not on the slides in front of you. If you remember several years back, when we started this transition to subscription, I created something I called the signature metric. This was taking the licenses signed and the new subscription contracts and trying to blend them together so we could have a reliable measurement of how the sales was performing year-over-year.

This was a great transitionary metric that we used to full success. But I knew that this metric was going to have a limited life, because once we were under more subscription contracts, this would go flat and we'd have to start introducing the renewals of these contracts. So I have asked Cécile to start tracking a more traditional recurrent revenue metric in 2022, such as ARR.

I'll come back to you later in this presentation with some other 2022 initiatives and our guidance.

So for now, I'll turn it over to Cécile. Cécile?

Cécile Allmacher: Thank you, Patrick. Good day, everyone. So let's now dive into the 2021 financial results that we just announced a couple of minutes ago in our press release.

Going through 2021 income statement. As you can see, total revenue is down 2.7% organic and 3.9% on total, as announced in our last press release as of January '19. Cost of sales decreased around services and subscription costs as part of our plan and in consistency with the trend we started last year.

Our gross profit is still – is slightly higher at 70.8% versus the 70.5% we had in 2020. We were also able to pull back some of the operating expenses as planned. So in sales and marketing and G&A, we have the impact of the variable bonus and commissions decrease due to the revenue mix of Q4.

Our R&D decreased in the continuity of the optimization we started last year as part of our strategy to improve margin. We were consequently able to generate a higher margin at €32.9 million or 11.5% of our revenues, up from the 10.4% in the prior year.

Our operating profit is inclusive of about €8.6 million of amortization on intangible assets, share-based payment expense, as well as restructuring costs due to the close of some offices. Overall, our net profit finished at €9.6 million at €0.45 per share versus the €8.5 million or €0.40 per share in the prior year.

Let me now go into details on the revenue by activity. We continue to see the acceleration in the changing business model with the shift away from licenses decreasing 26.6%. Maintenance revenue dropped 12.9%, which was expected with both the decreasing license revenue and the migrations to subscription. Subscription is growing 18.9% organic below what we expected, mainly due to a miss of about €10 million of upfront revenue in Q4.

When added to the maintenance revenue, we reached 82% of our revenue under recurring contracts for 2021 as opposed to the 79% we had back in 2020. Service revenue dropped 4.9%. We are still seeing the impact of COVID in some accounts, which is slowing down the activity.

Overall, our revenue finished at €285.5 million, down from the €297.2 million reported in the prior year. So to focus on the license and maintenance activities, we experienced a 26.6% organic decrease in the license activity with a double-digit drop for three out of the four quarters, which is higher than the budgeted decrease of 0.3%. This trend is consistent across our regions.

On the maintenance side, as forecasted, and in consistency with both the license revenue decrease and the migration to subscription, we have a 12.9% drop. However, we are still seeing a good level of renewal.

Now if we move to the subscription revenue, we have quite a different picture. The revenue grew strongly for the first three quarters in almost every region. We started seeing a softening of the market end of Q3, which was confirmed in Q4, where we dropped 10%. This was mainly due to delayed deals, customer experiencing headcount shortage, or as Patrick was mentioning, the great resignation, mainly in technical staff, which caused an upfront revenue miss of €10 million.

The customer managed on-premise subscription required us to book 5.1 – €51.5 million of upfront revenue this year versus the €44 million in 2020. All of this resulted in a 18.9% organic growth for this year.

Let's now do a focus on the customer managed subscription and renewal structure through to 2026. As a reminder, for customer managed when we are renewing, we are renewing both the upfront part of the revenue and the recurrent one, even if not at the same pace, as the upfront part is taken when upon signature of the contract, whereas the recurrent, as its name indicated, is over the term of the contract.

On this chart, we assume we will be renewing 100% of our existing contract base as of end of 2021. By memory, the first customer managed deals we signed were back in 2018 when the offering was launched and it – they started renewing end of Q3 in last year in 2021. 2022 and 2023 correspond to the renewals of years 2019 and 2020. As you can see on this chart, this upfront part renewal, each three to five years reinforces the move to a more recurring business model.

On this table, you will see the breakdown of the signature metric calculation. As you can see, this aligns with the Q4 miss in closings. Although, we grew slightly the ACV signings for the year by 4%, it did not compensate the drop of license revenue of 26.6%. This resulted in a slight drop of 2.2% organic while we were planning for a double-digit growth.

As Patrick mentioned earlier in the presentation, this will be the final year of using the signature metric to communicate our results. In future presentation, we'll talk more about standard metrics in the recurring revenue space, ARR.

A few words on our balance sheet. Our cash and cash equivalents finished at €25.4 million, with a net debt of €36.5 million. This increase in net debt is mainly due to the shares buyback to serve our free share plans. Our DSO went up to 121 days as we have added more customer managed on-premise subscription contract this year. If we retreat the unbuilt part due to the customer managed contract, our DSO would be down at 57 days for 2021 versus 54 days in 2020, which remains relatively flat. And we didn't have any material issues with our cash collection.

Our current deferred revenues ended at €55.8 million, quite stable with last year. Our assets increase is mainly due to the increased accounts receivable and cash we just mentioned. And our equity includes the dividend payment for €8.6 million and the shares buyback for €9.5 million.

As you can see on this table, our free cash flow is €3.6 million higher than in 2020, mainly due to savings made on recurring investments. These savings absorbed the negative change in net working capital due to the increase in the customer managed contracts. All our banking covenants were met and we have the capacity of our credit lines still available to us.

Let's now do a quick focus and a bit of history on the free cash flow. 2018 is the date we set our new strategy and had heavy investments through to 2019. We also had the technical impact of our customer managed model from 2018 onward, as you can see on the chart highlighted in red.

As you can see, this trend started reversing in 2021. And from 2022 onward, we expect to see operating cash flow improve as the annual billings from the subscription contracts start to layer.

With that, I thank you for your attention. And I hand over to Roland to provide you, focus on customers.

Roland Royer: Thank you, Cécile. Thank you, Cécile, and good evening, everyone, or good morning depending on where you are.

In 2021, our sales and go-to-market teams executed decisively to drive the transformation and the strategic objective forward in a time of uncertainty. This allowed us to maintain the velocity through those first three quarters of the year with 100% attainment of our bookings and revenue target. And these followed all the four quarters of 2020 of a solid attainment of our forecasted bookings.

However, as you know, the fourth quarter of 2021 was not a typical quarter and we ended up with not enough extra pipeline and volume of new business to cover the impact of the great resignation that our customer base experienced in the second half of the year, and especially in the last few months of the year.

However, there are several areas of strength where the team accelerate the overall transformation with exceptional results.

First, the Axway multiyear focus of improving customers' experience and business outcome continued to pay off. Four years ago, our net promoter score was minus 12%. And at the end of 2020, we reached a level of plus 29% when we started the year at 25%. And as a reminder, this score of plus 29% put us in a top quartile of software company in our space.

Second, our current customers continue to trust us with mission-critical part of their business. 92% of the signature we made last year was made on our customer base, and this level of business with our customers helped us to get through the current health crisis with some stability.

And finally, I'm pleased to share that the – we attained this 94% on our renewal success rate. And these rates remain high over the years and its impact, as mentioned, will continue to increase with the growing numbers of renewal and subscription coming to the renewal in 2022, 2023 and forward.

So over the last three years, we have accelerated and completed our plan to transition to a subscription business model. Last year, 84% of our signature booking has been made in this category. License represented only 16% when the ratio was actually almost proposed four years ago when we started with a license at around 70% of the booking.

The customer success organization that we put in place over the last few years is organized to maximize our performance across the different phases of the life cycle of our customers' relationship. While we must continue to drive new customers acquisition, entering fast signed value and maximizing the value of extension and the renewal of the existing contract remains critical in the subscription economy.

So allow me to provide you a few examples of indicators to demonstrate our focus and the performance.

So first, lending with new customers. In 2021, as part of the go-to-market strategy, we ramped up a team, a self-development function. And thanks for this team and the focus, we increased by 6%, the number of new customers that selected us compared to the year before. Actually, 23% of the 2021 transactions were made with new customers. And this not only with our Amplify, but also with other solutions like MFT or Digital Finance product line.

While the business with new customers is characterized with an overall lower ASP average sales price. That's one of the rules with subscription, it starts small and you grow. These new customers have increased our base and will be guided by our customer success managers to a rapid adoption and expansion. As an example of our new logo, Sopheon in the United States is an international software and service provider who chose Axway to renovate its platform to integrate several external services as part of their new solution and the hyper growth strategy.

But another great success that we had last year was on the open banking initiative that we ran in Brazil. We are one of the top API management leader in the Brazilian market. And when the Brazil government came out with the open banking regulation, we clearly recognized the opportunity to address this business problem. We quickly worked with our partners to build a solution and a delivery model to address the demand.

With a full year of focus on these initiatives in the region, creating pipeline, working against local and global providers, and this program has been very, very successful. And we have several new customers that we took into production in just a few months. They are starting to see business outcome and we will see them growing over the next few years, moving from a pure open banking compliance usage to a larger new digital service expansion, like what we've seen over the last few years with the large bank of Brazil, Itaú, and having an exponential growth of their API traffic since we started our partnership.

Thanks to our leadership position and innovation demonstrated with these initiatives, we were also selected recently in January by Bradesco to replace their Layer7 solutions. And I'm proud, very proud to say that we are now the strongest leader in the financial sector in Brazil. We have an important number of customers, and two of the three largest financial institutions.

But, of course, establishing new customers' relationship is just the start. Our customer success and account managers are doing a fantastic job aligning and guiding every new accounts to accelerate adoption of Axway Solution and attainment of business outcome. Last year, 82% of our signature value was made from upsell or migrations from license to subscription that includes upsell. This metric alone is an excellent example of how our customers trust and continue to invest in our solution over the generation of new capabilities and delivery options.

One of the best example of our customers expansion is Engie in France. Engie is an Axway API management customer for a few years with a limited scope. And they had been facing a challenge of having multiple API management system, and they wanted to have a holistic view of all their APIs, whether they are managed by Axway, by AWS gateway or others.

And in December – in last December, Engie selected Axway Amplify Unified Catalogue and Marketplace. And thanks to the Axway Marketplace, Engie is accelerating their digital transformation and are creating new revenue channel based on exposing and selling digital products to their external and internal partners.

And a great example of long-time relationship that we built over the years is with one customer that we had and the third largest bank in the United States, Wells Fargo. Wells Fargo is a customer of us from 20 years. And obviously, their needs continue to evolve – have evolved since, continue to evolve, and over the last year, they performed the vendors evaluation of their MFT solution. Looking for the best aligned – the best solution that will be aligned with their vision where they believe MFT needs to go in the future.

Also, after a tough competition against IBM, Wells Fargo decided to migrate from license to subscription with a four years commitment contract with us to modernize their solution, leveraging all the power of the capabilities of our new MFT solution.

As earlier said, we continue to have a very, very good renewal rates, but we also have a great success in migrating our customers from maintenance of older products to subscription of new solution. These all of them to continue to recognize value from not only what they are using, but invest in a compelling road map on the future.

And the value and innovation that we brought to these customers is certainly validated by the 2.x average migration multiplier of annual maintenance value to subscription ACV that we experienced in 2021.

So looking ahead, and I'm confident to say today that we will quickly be back on the momentum that we had in 2020 and most part of 2021. We still have thousands of customers on maintenance that represent about 70% of the total maintenance value that we had when we started this migration to subscription programme. This represents an important base to convert to our new subscription solution, a value proposition that our team perfected over the last two years.

We started the year with a good visibility on the pipeline. The Amplify pipeline has continuously grown over 2021, and we have entered the year with a 25% higher pipeline on this product line. And the Amplify message continues to resonate well, and I'm confident that it will yield additional pipeline over the course of the year.

And finally, over the last two years, we have seen increasing demand from our large and small customers on B2B or MFT for cloud services, and we are ready to respond and seize this opportunity with new and public private solution. With these building blocks in place and a continuous focus on our portfolio, the customer experience and the highly recurring nature of our revenue stream, I'm confident that we will deliver our '22 targets.

And with that, I thank you all, and I'll hand it back to Patrick.

Patrick Donovan: Thanks, Roland. So let's go through some of the points for 2022 and beyond.

Just as a reminder, we hit on our overall vision and mission and how this is helping our customers and this is unchanging. And now we're really in this strategy period that we have put together for 2021 to 2023 and how we leverage our portfolio to deliver against this vision. And we are fully in the execution phase in trying to deliver the value to the three constituents.

So as we set forth the targets for 2022, I want to set a target for the organic revenue growth of between 1% and 3% and the profit of operating activities between 12% and 14%, which is an improvement over 2021, which was 11.5%.

Additionally, in our strategy, it is key for leveraging our portfolio to deliver this vision to our customer base and we will continue to do so, as you saw with our main product lines that are the backbone of Axway's total revenue and growing at almost 4% in 2021. However, the remaining part of our portfolio has about 5-7% of our total revenue that is unprofitable and declining year after year, and this is going to be addressed this year.

This should allow us to let shine the growth in our core base and become more stable and showing through the revenue growth in our core assets. And this should also allow us to have better profitability at the operating activity level in both percentage and absolute volume.

And with regards to the mid-term guidance, this remains unchanged. From the visibility we have right now and what we experienced in 2021, I would say that, first, we should hit our mid-term ambitions most likely in 2023 of profitability from operating activities of 15%. And by hitting this first ambition, I believe we could come close to the second one, which is earnings per share of greater than €1 per share in 2023 or at least in 2024.

So the big variable in the mid-term guidance I gave last year is a €500 million of revenue. We've been active looking at M&A all through 2021, and we still look to achieve this target in the mid-term, but it will most likely not be in the short term. The availability of any significant revenue consolidation at valuations that make sense are – or are even available at this time is not in the near term.

And I expect this market, this high valuation market to continue for a bit through 2022 until valuations normalise. But once they do, we will look to be a consolidator in the market around our core offerings.

So with that, I want to thank you and open it up, Josh, to Q&A. So Josh, if you have any questions in the queue, please pass them through.

Questions and Answers

Operator: Thank you very much. As a reminder, you can ask questions by the chat or by phone. On the chat, click on the Ask-a-Question button in the bottom right-hand corner of the players. And by phone, please press star one on your key – on your telephone keypad to access the queue. That's star one on your telephone keypad on the phones and on the Ask-a-question button in the bottom right-hand corner of the player. It doesn't look like we have any questions on the phones. So now I will hand over to Arthur Carli for the questions by chat. Thank you.

Arthur Carli: Patrick, can you hear me well?

Patrick Donovan: Yes. Go ahead, Arthur.

Arthur Carli: Okay. So we've got several questions on the chat. And the first one is coming from Jean-Antoine Grau at ID MidCaps. So you explained that you were penalized by delays during Q4 due to hiring problem in your clients. You assume that this problem will continue during 2022? With the two-digit decrease of the maintenance and the decrease in license and the weaker dynamism in ACV, are you really comfortable with the guidance of an organic growth in 2022?

Patrick Donovan: Sure. So there's a few questions hidden in there. The first was the Q4 slip. What we experienced is that, on average, we added about a month to our deal closing cycle. But for the larger deals, we added about three months. And the question there is, do we see this accelerating back to the normal levels in 2022? And at this phase after we did our pipeline and large deal review, it doesn't look like this additional time to close the transactions in the pipeline will come back to us in 2022. So we will have a bit of a normal year with this push on the deal time to close.

But then with regards to the maintenance in the 12.9%, as Cécile presented, we had planned on that level of decrease. What that level of decrease includes is not only the standard attrition but the move of the maintenance contract when they come up from – for renewal. If they move into a subscription contract, that's the migration, then that helps drive down the maintenance revenue as now that revenue is pulled into the subscription contract for which Roland said we were averaging about 2.4 times that conversion under migration.

And so that's – that 12.9% of drop in maintenance was fully planned, and actually, we almost budgeted perfectly at that level. So that was anticipated. So with that – those factors in mind and the review of the pipeline we did and the budgets we built and the quotas we built with both our product line general managers and the general managers of the regions were comfortable with the guidance of 1-3% of revenue growth.

Arthur Carli: Thank you, Patrick. Next question is from Derric Marcon, Société Générale. If you focus only on the deals which were delayed in Q4 '21, how many of those have been signed early 2022?

Patrick Donovan: We've signed a few in early 2022 and we expect others to sign in Q1. But as I was saying, since it just adds time to the deal closure, those deals in Q4 that should have closed, we have deals that were planned to close in Q1 moved into Q2. So it won't give us a growth in Q1.

Arthur Carli: Another question from Derric. What was the level of staff attrition rate in 2021? How do you see it in '22, up or down?

Patrick Donovan: Staff attrition was 20% in 2021, which was on the high end. We were down closer to 14%, 15% on average. And I actually do expect it to go over 20% in 2022. And that's what I'm hearing across the industry as well.

Arthur Carli: The next question is from Frank Joblansky at GHV Capital. If the core grew 4% organically, what did non-core decline and why is the non-core worth continuing to pursue? Or should you divest or harvest cash flows from these non-core businesses?

Patrick Donovan: So if you do the math from 2020, the non-core dropped about just over 30%. And it's made up of a lot of different assets in the portfolio. Some dropped just by timing of orders, but others have been dropping consistently enough, and we've not been able to turn the corner. And so we'll be looking at different ways to handle these different products and our product set and to handle the customers and treat them correctly going forward.

But by the end of 2022 for the ones that we don't have a good strong future to turn around, we'll be looking to exit the product lines either through a sale or through letting it close.

Arthur Carli: Thank you, Patrick. Next question is from Derric again. So if 85% of your revenue relying on four products grew 4% in 2021, it means that the remaining 15% revenue decreased 40%. Is my calculation right? What are the product collapsing the most? Can you divest those products to accelerate the repositioning of the company?

Patrick Donovan: So the calculation is actually not right. The four products make up 85% of the 2021 revenue, which is post the drop. So those four products were about 78% in 2020, and they grew 4%, and then the other 22% dropped about just over 30%.

I'm not going to go through all the products that make up that basket because we have well over – probably over 60 products in total. We group them in certain types of offerings to our customers that we offer, and we'll be evaluating the portfolio and trying to make the rational decisions on each one of those one by one. And I actually forgot the last question, Arthur, if you want to repeat it, maybe I covered all the points.

Arthur Carli: Yeah, I think you've covered it all.

Patrick Donovan: Okay.

Arthur Carli: Next question is coming from Antoine Lensel at Kepler Cheuvreux. At what pace are you expecting the maintenance to drop in the coming years?

Patrick Donovan: Cécile, do you want to handle that?

Cécile Allmacher: Yeah, I'll take this one. So we – as Patrick said a couple of minutes ago, we expect the maintenance drop to be at the same level as the one we saw in 2021, so around 10-12%. This is what we considered in our 2022 budget.

Patrick Donovan: I think I'll add on to that. Roland had mentioned in his presentation that we have about 70% of the customer base on maintenance from when we started the transition to subscription. And so you could see that we're not just running through the maintenance space and forcing everybody into subscription, but we're going back to them when they have a need for additional product or capabilities where we can add value through the product set we've built over the years and then propose to them and move to subscription contract.

But it's not a forced push on our side out of the gate. So this level of 12% is a nice steady level that hopefully it doesn't accelerate too fast.

Arthur Carli: Next question is coming from Jason Kraft at Highcliff Capital. So for illustrative purpose, what level of lift would we see on the 12-14% margin target if the 5%, 7% unprofitable non-core revenue is exchanged from the portfolio?

Patrick Donovan: Yeah, that should help me give confidence that we hit at or above the 15% in 2023. The range in the guidance I'm giving is taking into account a little bit of the movement in the middle of this year. But as we go into 2023, that should be able to add – to secure the 15 and maybe add a point or 2 on top of that.

Arthur Carli: Thank you. Next question is from Karen Josh at Kepler. What is behind the solid top line in services in Q4? What is your strategy for this activity going forward? Can you detail the MFT and B2B services you mentioned?

Patrick Donovan: I'll maybe ask Roland to take that one.

Roland Royer: Yeah. The – on the top line of services, it depends on – the attachment of service is different from the product line, as you said. and we have different strategies offering of services by product line. We had some – we've seen some decrease as we were moving also to use more partners for some of the product lines. So now we have reached, I believe, the model in a different region and different product line to have the level of services that we will maintain at that level.

Part of the services activity, and we said that during the few years as well, that we see moving as part of the subscription when the customers are actually on cloud services and managed services. That is part of this activity. So MFT remains stable. And we mentioned that Digital Finance, for example, which is a higher service product. B2B is a higher service product, but we are much more now seeing the full activities as managed services for the customers.

Patrick Donovan: And if we're not in the managed service push and the customer still wants a traditional license or a customer managed subscription. For products that do have new installations like Digital Finance or B2B that have a lot of service attachment, we're really looking at a good way to help bring in partners to help us fulfil these needs because we realize clearly that partners and our partner strategy is another way we could continue to grow our business.

Arthur Carli: The second question from Karen Josh at Kepler. What is the weight of Amplify in the product mix at end 2021?

Patrick Donovan: Yeah. At the end of 2021, we were at about just over one-sixth of our total revenue in Amplify.

Arthur Carli: Next question is from Eric Blain at Finance Connect. How do you see the evolution of number of employees in 2022 and 2023? How is the inflation in wages in 2021? And what do you see for 2022?

Patrick Donovan: So for 2022 to be quite direct on this answer, somewhat recruiting is going to be hard for all the industry. There's a talent we're out there and to attract a high level to your company is going to be a challenging time in 2022. So I'd like to say that the headcount stabilizes here or maybe grows in a few key areas.

But really, that's going to be on market demand on the available capacity and what we could attract to Axway. And that may continue into 2023. We'll have to see what the macroeconomic factors bring to calm down the hiring and the job mobility that we're seeing.

The second part of the question, maybe I didn't write down and forgot.

Arthur Carli: It was about the inflation in wages.

Patrick Donovan: Yes. The inflation in wages is definitely something that's coming down, and it's factored into the cost base and budgets for 2022. It's just a reality we have to deal with as with everyone in the industry.

Arthur Carli: The next question is from Johannes Ries at Apus Capital. Given the high migration multiple of maintenance at 2.4, why your subscription didn't show a higher growth?

Patrick Donovan: The subscription is two parts. There's the upfront part and then there's the recurrent part. So if we sign a deal in December of 2021, we get no revenue increase from the recurring part. So that starts building the base stability of the recurring part year-over-year. And as most of our deals get signed later in the year, it doesn't show the strong growth until the future years.

Arthur Carli: So another question from Derric Marcon at Société Générale. So you have launched a complete review of the pipeline after Q4 '21 shortfall. What's the outcome of this work? Is the size of the pipeline much smaller after that?

Patrick Donovan: I'll let Roland take that question.

Roland Royer: I mentioned it during the presentation. I think that the pipeline and we review the pipeline by all the product lines. The one that was growing the most during the year was the Amplify pipeline, and we entered the year with a pipeline higher by 25% compared to January 2021. The pipeline for MFT and B2B for the other core solution has also increased with – across the world.

So we have a higher pipeline about 5-7% total with the biggest growth in product line like Amplify and Digital Finance, where there is several initiatives in Europe that are really pushing this solution as well.

Arthur Carli: Another question from Derric Marcon. Have you changed the compensation scheme of your sales people in the light of what happened in 2021? Will you further specialize your sales force on Amplify?

Roland Royer: We did actually adapt – and that's something that – we did actually adjust the sales plan every year based on the objectives, based on the result and what we see on the market. And the specialization on Amplify is one of the components that we put in place as well, yes.

Arthur Carli: A new question from Antoine Lensel at Kepler Cheuvreux. Why the income taxes were that high in 2021? What should we expect in terms of normative tax rate going forward?

Patrick Donovan: I'll hand that over to Cécile.

Cécile Allmacher: Okay. So when at full production, our tax rate should be in the low 20s as an effective tax rate. This year, we had the share buyback program, which increased this tax rate because of a non-deductibility of those taxes in the – on the US side. But when we will be back to, what I call, normal course of business, we should be hitting that 20% target.

Patrick Donovan: As we – I'll add on to that. As we continue to add on to our profitability, that allows us to have more income to spread across the regions and take advantage of the tax assets we have. When we drop the – when we made the investments and drop the income, it really tied to tax team's hands on being able to utilize all the assets we have in the Group. So as we continue to drop more to the bottom line, that should improve and bring the effective tax rate down to the rates that Cécile covered.

Arthur Carli: A new question from Frank Joblansky at GHGV Capital. Why not run the whole business at even higher operating margin, given that even exiting non-core, the overall business is still quite mature? Does the Rule of 40 makes sense here? If so, what is the right balance of organic growth and margins?

Patrick Donovan: Yes. The Rule of 40 applies certainly. It can apply to any software company. We have – it was clear. I tried to make that point if – that we are trying to deliver value to our customers, shareholders and employees, not just one of those. And so whenever you're looking to exit a business line, you're impacting employees and you're impacting customers. And so we'll look to do it gradually and treat those sides correctly in the process, and we'll evaluate if we could keep it and grow the business or if it makes sense for us not to be in the business anymore. And if it does, that should allow us to continue to grow the margin and to let some of the organic growth shine through.

But on the Rule of 40, it's too early to predict. But obviously, if I'm predicting, what I'm predicting for next year will probably target around, what, 15%, 16%. And I hope to target that improvement year after year over the coming years.

Arthur Carli: No more question in the chat. Thank you.

Patrick Donovan: Okay. With that, we'll wrap up. And I thank you all for joining us here a little bit later in the day. And hopefully, we get to see you all throughout the years. It looks like things are opening back up country by country. So thank you and have a good 2022.

Operator: Thank you very much for joining today's call. You may now disconnect your handsets. Goodbye.

[END OF TRANSCRIPT]