SERVICEWARE

9-Month Report 2022/2023

(01 December 2022 to 31 August 2023)

Serviceware SE, Idstein

9-Month Report as at 31 August 2023

1.1 Ratios of the Financial Statements as at 31 August 2023

Sales Revenues and Earnings Ratios

	01 December to 31 August			
In kEUR	**2022/2023**	**2021/2022**	**Variation**	**%[1]**
Sales revenues	67,753	61,791	5,962	9.6
thereof SaaS/Service	41,854	35,232	6,622	18.8
EBITDA	-613	-576	-37	-6.4
EBIT	-3,367	-3,451	85	2.5
Financial result	247	-84	331	>+100
Earnings before taxes for the period	-3,120	-3,536	416	11.8
Income tax	-23	471	-494	>-100
Earnings after taxes for the period	-3,143	-3,065	-78	-2.5

Condensed balance sheet

In TEUR	31.08.2023	30.11.2022	Variation	%[1]
Cash and cash equivalents	24,351	29,075	-4,724	-16.2
Equity	46,598	49,867	-3,268	-6.6
Contract liabilities	57,962	32,428	25,534	78.7
Debt capital	86,645	58,913	27,732	47.1
Balance sheet total	133,243	108,779	24,464	22.5

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

Serviceware SE can report about a successful business development during the first nine months of fiscal 2022/2023. Serviceware is making good progress as planned with the transformation of its business model from a licensing to a SaaS business model and has expanded its innovative ESM platform through further releases during the reporting period. A focus is on the further integration of artificial intelligence (AI) in all modules and processes of the ESM platform.

Artificial Intelligence as one of the game changers in service processes has been an integral part of Serviceware's growth strategy for years. The company has been operating an AI competence centre since 2018, in which AI-related developments are driven forward and integrated into the Serviceware ESM platform. In this way, Serviceware was able to establish a leading global position in linking AI with digital service processes at an early stage. AI is already being used in numerous applications of the ESM platform. AI significantly revolutionises the degree of automation, quality and efficiency of service processes and offers companies the opportunity to meet customer needs even better and faster. During the reporting period, ChatGPT was integrated into the ESM platform, among other things. There were also releases of the ESM platform modules Serviceware Financial, Serviceware Performance and Serviceware Resources.

[1] In case of relative changes of more than 100 %, in particular due to small absolute output variables, the change is indicated in simplified form as ">100 %".

Serviceware continued to record a high demand for its software solutions during the third quarter and was able to further expand its customer portfolio accordingly. In view of the current economic environment, there was a particular demand for the IT cost management modules for IT and Shared Services. Among others, a large telecommunications company from Europe as well as another DAX corporation, by now the 18^{th} to use Serviceware software solutions, decided to deploy the Serviceware Financial module.

The first three quarters were again clearly characterised by the transformation to a business model with a SaaS focus. In the SaaS/Service segment, revenues increased at a significantly disproportionate rate of 18.8 percent from EUR 35.2 to 41.9 million. SaaS/Service revenues accounted for around 62 percent of total sales revenues, compared to 57 percent during the same period last year. Total sales revenue rose by 9.6 percent to EUR 67.8 million (prior year: EUR 61.8 million). This means that revenue growth after nine months was at the upper end of the forecast range of 5 to 10 percent for the full year. Serviceware anticipates clearly disproportionate SaaS growth for the coming quarters as well. The significant rise in the order backlog is proof that the transformation of the business model is working and will be reflected in clearly growing sales revenues in the future. It consists primarily of the residual values of current SaaS contracts and is already partially recognised in the balance sheet under contract liabilities. Since the end of the 2021/2022 fiscal year, these have increased by 78.7 percent to EUR 58.0 million.

The EBITDA amounted to EUR -0.61 million, compared to EUR -0.58 million (-6.4 percent) previously. After a negative EBITDA of EUR 1.2 million during the first half of the year, Serviceware achieved a positive EBITDA of EUR 0.54 million during the third quarter. EUR 0.34 million of this amount are accounted for by capitalised development costs which, in accordance with IAS 38 "Intangible Assets", fulfil the criteria for capitalisation and had to be capitalised during the reporting period. Even without these capitalisations, the EBITDA improved substantially during the third quarter. The measures introduced during the first half of the year to increase efficiency and productivity, including streamlining in the administrative area, contributed among other things to the improvement in EBITDA. Serviceware expects an improvement in EBITDA for the full year.

1.2 Significant events in the Serviceware Group

Serviceware continues to drive the transformation of its business model from a licensing to a SaaS model. In line with its strategy, Serviceware is also currently intensifying its international sales activities and is recording a strong increase in demand for its software solutions outside Germany and Europe. This increase in demand is resulting in a growing number of test installations and pre-contractual trials. Artificial Intelligence (AI) is now a key driver in the digitalisation of service processes through Serviceware. AI is currently integrated consistently in the ESM platform and is being continuously expanded.

Highlights from customer projects: The strong upturn in revenue growth during the second quarter continued seamlessly during the third quarter of fiscal 2022/2023. Serviceware was able to further expand its customer portfolio during the reporting period and successfully realise many projects with customers from Germany and abroad. A double-digit number of new customers was acquired in Q3 as well. In the current economic environment, the demand for software solutions to control the costs of IT and Shared Services continues to be particularly strong.

A large European telecommunications company has decided to use the ESM platform module Serviceware Financial. With the software solution for the financial management of IT and Shared Services, the company has a single point of truth that supports companies with numerous functions and analysis tools for TCO analysis, planning, budgeting, reporting and the creation of cost models, among other things. The first implementation phase at the customer is scheduled to be completed in Q1 2024.

The go-live for Serviceware Financial took place at a globally leading US petroleum corporation. With the module, the group can, among other things, consolidate all IT costs in the company and thus obtain full transparency of the entire IT expenditure. Serviceware Financial identifies cost drivers in the group and shows which costs can be reduced where. During the coming weeks, the customer's use of Serviceware Financial will be successively expanded and new functions will be added.

Other highlights during the first three quarters include the expansion of the long-standing cooperation with a leading international manufacturer of drive technology. A new Enterprise Service Management is to be implemented at the company's country subsidiaries. This includes ITSM, HR Service Management and Facility Management. The company will be supported by the Serviceware Knowledge and Serviceware Processes modules with their AI functions. With the ITSM implementation in the offices at the Italian site, a first milestone has already been successfully achieved.

Serviceware portfolio: Serviceware is expanding its unique, cutting-edge ESM platform at a fast pace of innovation. By integrating Artificial Intelligence at all levels of the ESM platform, the efficiency, degree of automation, quality and speed of service processes can be significantly increased, and growing customer requirements can be met even more precisely. Numerous other releases were scheduled for Q3.

In July, ChatGPT was integrated into the ESM platform. Through the seamless integration of ChatGPT, Serviceware combines human service agents as a point of contact for more complex customer enquiries with Artificial Intelligence. ChatGPT is integrated in such a way that only the platform's own knowledge pool is used for service in the case of complex issues, thus ensuring the highest quality standards. With the integration of ChatGPT, the degree of automation of digital service processes is further increased, while at the same time providing a high solution quality and an optimal degree of individualisation of service management. Serviceware's ESM platform now includes seven AI components which support companies in automating their service processes.

Serviceware Resources 8.3 was launched back in June. The latest version of the software module offers numerous extended and simplified options for the documentation of service activities by the service provider, especially for app users from the healthcare sector. Extensive documentation can now be entered and tracked directly in the app without having to use a PC, as was previously the case. In addition, the options for online appointment bookings for service customers or patients have been significantly expanded.

Serviceware Financial 6.5 was likewise launched in June. This release further simplifies Service Portfolio Management in Serviceware Financial. Users receive a comprehensive overview of all services offered in their organisation, including active services, services under development and currently unused services. Service Portfolio Management enables the optimal use of resources, ensuring that all services are aligned with business objectives and can be managed efficiently.

With the release of Serviceware Performance 9.6 in August, the pace of innovation remains high for this module as well. Serviceware Performance 9.6 offers extended analysis options in conjunction with other software solutions from Serviceware's ESM platform.

Brand appearance, marketing and Artificial Intelligence: Artificial Intelligence is one of the game changers in service processes. Serviceware recognised the potential of AI early on and made it a central component of its growth strategy. Serviceware established its AI competence centre five years ago and has been cooperating with the Technical University of Darmstadt, among others, since 2018. Artificial Intelligence is already included in all modules of the ESM platform today - and is being further expanded. Due to the outstanding relevance of AI for Serviceware, the company has adapted its strategy and vision.

During the reporting period, Serviceware participated in the CIO Executive Circle in Cologne and Munich, among other events.

Investor Relations: The management of Serviceware informed existing and potential investors from Germany and abroad in numerous meetings about the business model, market developments and operational developments as well as the company's strategy, in particular the transformation from a licensing to a SaaS business model. The number of potential investors was significantly increased.

The Serviceware share is currently covered by the research houses Montega and Quirin Bank. The price targets are EUR 18.00 and EUR 18.50, respectively. Both research houses are recommending the share. Both research houses recommend buying the share. Based on the price level of mid-October 2023, Montega and Quirin Bank see a price potential for the Serviceware share of around 120 percent.

1.3 Business Development

1.3.1. Development of sales revenues

During the first nine months of the current fiscal year, Serviceware's sales revenues continued to grow and, with EUR 67.8 million, were 9.6 percent higher than in the same period of the previous year. After 2.3 percent during the past fiscal year and 8.3 percent during the first half of 2022/2023, this represents a further increase in revenue growth. The growth is again driven by the SaaS/Service segment, which rose by 18.8 percent versus the same prior-year period. This means that SaaS/Service revenues now account for around 62 percent of Serviceware's total sales revenues (prior year: around 57 percent). Sales revenues from licences fell slightly by 0.3 percent during the reporting period. Maintenance revenues were 4.6 percent below the prior-year figures. The trend towards SaaS/Service business is thus continuing at an accelerated pace. Compared to the licensing business, this results, among other things, in a shift of sales revenues into the future, which, however, goes hand in hand with greater planning security and annually recurring revenues. The sales revenues are broken down as follows:

	01 December to 31 August		
In kEUR	**2022/2023**	**2021/2022**	**Variation in %**
Revenues SaaS/Service	41,854	35,232	18.8
Revenues licences	12,921	12,954	-0.3
Revenues maintenance	12,978	13,605	-4.6
Total	**67,753**	**61,791**	**9.6**

1.3.2. Operating income (EBITDA/EBIT)

The consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) for the first nine months of fiscal 2022/2023 amounted to kEUR -613. Thus, the EBITDA is kEUR 37 below the value of the prior-year period of kEUR -576. After the EBITDA was at kEUR -1,155 during the first half of the year, a positive EBITDA of kEUR 542 was generated during the third quarter of the fiscal year. kEUR 341 of this amount are attributable to the relief of the result through capitalised development costs, which fulfil the capitalisation criteria according to IAS 38 "Intangible Assets" and must be capitalised accordingly. Capitalised development costs are amortised over their expected useful economic life (3 years). Amortisation begins after the completion of the development phase at the time when the asset can be used. Development costs that do not meet the capitalisation criteria of IAS 38 continue to be expensed in the period during which they are incurred. Capitalised development costs of a more comparable amount are expected for subsequent periods.

The consolidated earnings before interest and taxes (EBIT) amounted to kEUR -3,367 during the first nine months and were thus kEUR 85 higher than the result of kEUR -3,451 during the same period of the previous year. High investments in the transformation of the business model from one-time licence payments to a SaaS business model with monthly recurring revenues continue to have a negative effect on earnings. The trend towards SaaS/service business is associated with the fact that sales revenues are only recognised with a delay and over a period of several years, while sales expenses for the identification and processing of leads in particular are recognised in full in the current reporting period. However, the development of results shows that the progress made in the transformation of the business model is increasingly reflected in the business figures. In addition, Serviceware took a number of measures during the first half of the fiscal year to increase profitability, which are now beginning to have an effect.

1.3.3. Financial result and earnings before taxes

The financial result for the first nine months of fiscal 2022/2023 improved from kEUR -84 in the previous year to kEUR 247, in particular due to scheduled repayments and effects from the interest rate turnaround.

The earnings before taxes (EBT) for the period amounted to kEUR -3,120 (prior year: kEUR -3,536), which corresponds to an improvement of kEUR 416 versus the previous year.

1.3.4. Tax expenses and earnings after taxes

For the first nine months of the fiscal year 2022/2023, a total tax burden of kEUR 23 was incurred (prior year: tax income of kEUR 471).

The consolidated earnings after taxes for the first nine months of fiscal 2022/2023 amounted to kEUR -3,143. Compared to the same period of the previous year (kEUR -3,065), this corresponds to a minus of kEUR 78.

1.4 Balance Sheet as at 31 August 2023

The cash and cash equivalents of Serviceware have decreased to kEUR 24,351 as at 31 August 2023 versus 30 November 2022 (kEUR 29,075). The outflow of cash and cash equivalents mainly reflects the loss for the period (earnings before taxes of kEUR -3,120) and the repayment of non-current financial liabilities (kEUR 804).

The equity of kEUR 46,598 decreased by kEUR -3,268 or 6.6 percent versus the balance sheet date of the fiscal year 2021/2022 (kEUR 49,867). The amount of debt capital as at 31 August 2023 is kEUR 86,645, an increase of kEUR 27,732 compared to 30 November 2022. The main driver for the higher debt capital is the growth in the order backlog as at the reporting date, which is recognised in the balance sheet under contract liabilities. The order backlog is essentially made up of advance payments received for SaaS and maintenance contracts and has increased by kEUR 25,534 to kEUR 57,962 as at 31 August 2023 versus 30 November 2022, in particular due to the accelerated expansion of the SaaS business. This corresponds to an increase of 78.7 percent (prior year: 24.0 percent). Due to binding agreements, these contract liabilities represent already fixed future sales revenues of Serviceware. The financial liabilities of Serviceware were further reduced through scheduled repayments.

Total assets amounted to kEUR 133,243 on 31 August 2023 (30 November 2022: kEUR 108,779). The equity ratio reached 35.0 percent. The equity ratio decreased by 10.8 percentage points versus 30 November 2022 (45.8 percent). The reduction is essentially due to the balance sheet stretching effect of the increased contract liabilities described above and the negative result for the period.

1.5 Supplementary Report

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

1.6 Outlook

The Serviceware business model is currently in the midst of a transformation from relatively high one-off revenues to lower, but recurring revenues that are more profitable in the long term. In addition, such a transformation phase is characterised by the fact that contracted revenues cannot be recognised in profit or loss in the current fiscal year for the most part but will find their way into the income statement or consolidated statement of comprehensive income in subsequent years. In addition, high one-off expenses are usually incurred at the beginning of these multiannual SaaS contracts, which initially place an additional burden on the earnings situation. In the long term, this business model with a high proportion of recurring revenues and a low churn rate should lead to higher profitability and a more sustainable business development, which will make the business model of Serviceware more resilient in the economic cycle.

Furthermore, the armed conflicts, particularly in Ukraine, and the associated economic upheavals are causing a very high degree of uncertainty with regard to forecasts on business development. Therefore, the following statements for the current fiscal year, but also the assessments of the medium-term business development, are accompanied by a high degree of variance.

The results of the reporting period are within the scope of the planning. The forecast business development and the measures taken, which began to take full effect in the second half of the year, allow us to adhere to the forecast made in the 2021/2022 Annual Report of being able to increase sales revenues by between 5 and 10 percent in the current fiscal year compared to the previous year, despite the partly still difficult general conditions. This presupposes that we will continue to make significant progress in marketing and customer acquisition in markets outside our core market and that there will be no further exogenous shocks in fiscal 2022/2023 that will have a negative impact on the business activities of Serviceware. We are also confident that we will continue to push sales revenue and profit growth in the coming years.

On the earnings side, we expect a moderate improvement in the earnings situation at EBITDA level in the current fiscal year compared to the previous year. The operational improvement in EBITDA will be strengthened by the relief effects from the capitalisation of development costs described in 1.3.2. However, even without this relief effect, we expect the earnings situation at the EBITDA level to improve at least moderately compared to the previous year. At the EBIT level, we expect the improvement to be slightly lower than at the EBITDA level, as a higher amortisation of the acquired and capitalised trademarks is to be expected. As a result, the burdens from the brand amortisation will end earlier and thus the EBIT will be able to develop more positively again sooner than expected.

Idstein, 27 October 2023

....	....
Dirk K. Martin	Harald Popp

....

Dr. Alexander Becker

Company Description

About Serviceware

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

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

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

Serviceware has more than 1,000 customers worldwide from various business sectors, including 18 DAX companies, as well as 5 of the 7 largest German companies. The head office of Serviceware is in Idstein, Germany. Serviceware employs 500 people at 14 international locations.

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

Contact

Serviceware SE
Serviceware-Kreisel 1
65510 Idstein
Germany

serviceware@edicto.de
www.serviceware-se.com

Managing Directors
Dirk K. Martin (CEO)
Harald Popp (CFO)
Dr. Alexander Becker (COO)

Administrative Board
Christoph Debus (Chairman)
Harald Popp
Ingo Bollhöfer

Registered office of the company:
Idstein court of registration
Local Court Wiesbaden,
Register number: HRB 33658