9-Month Report 2018/2019

(01 December 2018 to 31 August 2019)

SERVICEWARE SE, Bad Camberg

1 Quarterly Report as of 31 August 2019

1.1 Consolidated Key Performance Indicators

	01 December to 31 August			
IFRS (in kEUR)	2018/2019	2017/2018	Variation	Variation
Sales revenues	47,731	38,429	9,302	24.2 %
thereof Service/SaaS	15,994	10,068	5,926	58.9 %
EBIT (adjusted)*	4,061	3,386	675	19.9 %
EBIT margin (adjusted) *	8.5 %	8.8 %	-0.3 %	
Results for the period after taxes (adjusted) *	2,742	2,656	86	3.2 %

* For the earnings capacity of the Serviceware Group to remain comparable to prior years, the EBIT/EBITDA is adjusted for the expenses in conformity with the strategy, which was announced at the time of the IPO and implemented.

During the first nine months of the fiscal year, Serviceware was able, despite macro-economic interferences, to continue its success story and generate record sales revenues in the amount of EUR 47.7 million (+ 24.2% versus prior year).

With cubus AG in Herrenberg, a second company was acquired within a period of one year and extends our Enterprise Service Management (ESM) platform in not only functional terms, but also offers also cross-selling potentials. After the acquisition, we have been able to secure rather soon another large-scale contract in the field of Serviceware Performance (cubus) and to acquire for the first time a large customer in France for the Serviceware Group. Further large contracts from customers in the retail trade and the automotive industry from the first fiscal half year clearly underline that we are on the right track as far as the acquisition of further key accounts is concerned.

In the international environment, we have been pleased, amongst other things, about contracts from one of the largest online traders in the world and a leading supplier of infrastructure solutions in the capital market industry in Greece in the field of Serviceware Knowledge (SABIO).

During the first nine months, we have delivered many beneficial software solutions to our customers. A highlight of the third quarter was the “New Daily Log” solution put into operation by Deutsche Flugsicherung (Air Traffic Control Authority) based on Serviceware Processes (helpLine).

We have achieved a trendsetting and major strategic step with the conclusion of a far-reaching co-operation agreement in the field of Artificial Intelligence (AI) with the Technical University of Darmstadt. As a result, we are able to implement the most recent research results from the field of AI in our ESM platform and hence offer our customers an even higher cost and quality benefit at the digitization of their service processes.

We are implementing the announcements that we made in connection with the IPO in April 2018 consistently and partly more rapidly than expected and hence see ourselves well positioned for the future.

1.2 Key Events in the Serviceware Group

Highlights from our customer projects: During the third quarter of the current fiscal year, Serviceware was again able to complete a gratifyingly high number of customer projects. In this connection, several large-scale projects for Serviceware Financial (anafee) should be underlined. The first customer acquired in Sweden in 2018 has been working productively with Serviceware Financial (anafee) since June and has planned its entire IT budget 2020 using our solution. In this way, he has been able to leverage significant optimization potentials. For a globally operating engineering services provider a new corporate planning system has been established in a record time of only six months based on Serviceware Performance (cubus), which was used for worldwide 2020 budgeting after its go-live in July.

In the field of process solutions the Enterprise Service strategy is consistently continued in the projects; Serviceware Processes (helpLine) is increasingly used for business-critical company processes beyond IT. At Deutsche Flugsicherung, the “New Daily Log” solution was put into operation on the basis of Serviceware Processes (helpLine) for all air traffic control centers in Germany, after the product had qualified through many years of positive use in the IT service management. The project is an excellent example for the versatility and customizability of the Serviceware solutions to generate the highest possible benefits in business processes. At a big German bank Serviceware Knowledge (SABIO) was put into operation in July; the knowledge management solution supports bank employees in customer support on complex banking products.

The feedback from customers concerning the added value resulting from the higher transparency of (IT) costs as well as the efficiency in process management is highly motivating for us. Another very positive factor for the overall strategy is the growing share of combination projects in which several modules of our platform are used together. The number of ongoing projects of this kind is in the double-digit range.

Further acquisition of new customers: Serviceware continues to be successful in acquiring new customers. Between 1 December 2018 and 31 August 2019, altogether 74 new customers were acquired for our Enterprise Service Management (ESM) platform, including 25 during the third quarter. During this period in Germany alone, it was possible in the field of Commercial (i.e. ESM, without Serviceware Financial/anafee Strategic) to increase sales revenues from new customers by 50% versus the prior year period and to significantly grow the average deal size by 67%. Moreover, two new customers were gained in cross selling for Serviceware Financial (anafee). Overall, we have been able to convince 115 new customers of our services during the reporting period, who originate primarily from Germany. Seven new customers come from European countries outside Germany.

Acquisition of cubus: Immediately after the takeover of cubus on 5 June 2019, the integration of the new company started with a focus on the leveraging of synergies in the field of sales revenues and costs. In this connection, Serviceware was able to rely on the experience from past acquisitions to apply established processes and templates and implement a quick and effective integration. The focus of the integration lies on the leveraging of synergies on the sales revenues side. In this we take three approaches: the distribution of cubus solutions by the Serviceware sales organization (also outside the DACH region), the positioning of Serviceware products at existing cubus customers as well as the development of combined solutions for potential customers. The cross-selling activities were able to rapidly attract the attention of many customers, and the sales teams have become accordingly active in the sales processes. The development of the combined solutions is advancing, too: the first finished products are presented at the Serviceware Forum in October.

In addition to the sales and product activities, the structures, processes and tools of cubus and Serviceware are aligned. This secures an effective co-operation and at the same time cost synergies are tapped, e.g. through the takeover of services which were provided so far by external suppliers and through the elimination of redundant systems and tools.

The current pace of integration exceeds our already high expectations. It is to be anticipated that the main part of the integration will be completed before the end of 2019 and will hence advance much quicker than was the case for the previous integration. The purchase price of cubus was debt-financed in the amount of EUR 6.0 million.

Co-operation with the Technical University of Darmstadt: During the third quarter, a far-reaching co-operation agreement in the field of Artificial Intelligence (AI) was entered into with the Technical University of Darmstadt. The goal is joint work and research on current issues in the field of Artificial Intelligence. The result of the research is to include possible applications of AI in the digital service processes as a whole, so that customers can operate their digital service processes more cost effectively and efficiently. As a result, Serviceware and the Technical University of Darmstadt intend to conduct joint studies in the field of AI under the leadership of the professor for business systems and AI expert Professor Dr. Peter Buxmann. We expect first results for our Serviceware platform still in the course of 2019.

International activities: On the international level, we continue to work on the extension of our pipeline. During the third quarter one of the highlights was the conclusion of a major contract with a telecommunication infrastructure company in France in the field of Serviceware Performance (cubus). The deal has a volume of more than half a million licenses and an SaaS subscription over the next three years. Moreover, a leading provider of infrastructure solutions in the capital market field in Greece was recruited with an SaaS deal over 24 months in the field of Serviceware Knowledge (SABIO).

Major efforts in the field of extending the partner system were continued. A new international partner program has been established. Because of the acquisition of cubus, new partners in France, the Netherlands, the UK and USA were added.

SABIO integration status: About a year after the acquisition of SABIO GmbH, the company is largely integrated. SABIO has been closely incorporated into Serviceware both in terms of procedures and in terms of organization. In the field of cross selling, success was achieved in both directions. Portfolio customers of Serviceware were convinced by Serviceware Knowledge (SABIO) as a knowledge management solution, also thanks to a seamless integration with Serviceware Processes (helpLine). Moreover, existing SABIO customers decided in favor of additional platform solutions of Serviceware. As a standalone product, Serviceware Knowledge (SABIO) continues to be successful nationally and internationally, too. Apart from a leading provider of infrastructure solutions in the capital market field from Greece, a globally leading online mail order company was gained as a customer during the last quarter. Sales revenues were significantly increased by a double-digit percentage versus prior year.

Brand, brand appearance and marketing: In the field of Marketing, further planned milestones were reached in the revamping of our brand appearance. A new company logo in combination with a completely revised corporate design was presented. The new corporate claim "Serviceware. That's How." expresses the claim of the company to be able to give concrete answers to concrete needs regarding the process digitization of our customers. This English slogan underlines once more our international orientation. Furthermore, for the extensive harmonization started during the second quarter of 2019 for our solution brands "Serviceware Processes" (helpLine), "Serviceware Resources" (Careware), "Serviceware Knowledge" (SABIO), "Serviceware Financial" (anafee) as well as "Serviceware Performance" (cubus) was further advanced during the third quarter of 2019. Against the backdrop of our endeavor to win over customers throughout the world and be perceived uniformly, we started a consolidation of the many corporate websites on a uniform corporate domain: www.serviceware-se.com. Furthermore, we attended the European Shared Services Conference of Deloitte and an analyst conference of Gartner.

Investor Relations: During the third quarter, the Serviceware CFO had many talks to existing and even more to potential investors from different regions in the world in order to explain the business model and corporate strategy of Serviceware SE and enlarge the group of potential investors. Serviceware participated, amongst other things, in the Investor Conference of Commerzbank AG in Frankfurt on 29 August 2019 and was pleased about a fully booked conference day. Furthermore, three firms of analysts - Commerzbank, Hauck & Aufhäuser and NIBC – cover the Serviceware share. The current vote of all analysts is "Buy".

1.3 Business Development

1.3.1 Further Acceleration of the Growth in Sales Revenues

The sales revenues of Serviceware were significantly improved during the first nine months of fiscal 2018/2019 and continue to range on a record level. Sales revenues rose by 24.2% versus the comparative prior year period to EUR 47.7 million. The highest growth rate was recorded by Service/SaaS with an increase of 58.9% versus the prior year period. Consequently, the trend towards Service/SaaS transactions is stabilizing. As a result, there is a shift in sales revenues away from high one-time license fees towards smaller monthly subscription fees. Nonetheless, sales revenues from licenses were slightly up during the reporting period. Revenues from maintenance rose by a gratifying 20.9% versus the prior year period. Sales revenues break down as follows:

	01 December to 31 August		
In kEUR	**2018/2019**	**2017/2018**	**Variation**
Revenues Service/SaaS	15,994	10,068	58.9%
Revenues Licenses	15,034	14,546	3.4%
Revenues Maintenance	16,703	13,815	20.9%
	47,731	38,429	24.2%

1.3.2 Adjusted Result

To further expedite the growth of the company, Serviceware carried out within the framework of its IPO on 20 April 2018 a capital increase by an amount of approximately EUR 55 million. These funds will be used as planned during the coming three to five years for three growth areas:

- European expansion (around 15% to 25% of the funds)
- Strengthening of key account sales including supporting marketing (around 10% to 20% of the funds)
- Inorganic growth and extension of the ESM platform (around 65% to 75% of the funds)

In all the mentioned areas Serviceware has made significant progress during the past nine months and has consistently implemented its program for accelerated growth. The additional personnel expenses and cost of materials involved in the European expansion, the intensified approaching of large customers as well as inorganic growth, are immediately charged to expense during a reporting period. In the field of inorganic growth, the amortizations carried out within the framework of company acquisitions since the IPO in respect of capitalized intangible assets[1] are likewise recognized as expense during the reporting period. The sum of these expenses under our program for accelerated growth reduces the success for the period on a short-term basis but constitutes the long-term basis for incremental future sales revenues and increases in results and the strengthening of the international market position of Serviceware.

To provide a transparent and comparable picture of the use of the expensed funds during the individual periods and show at the same time the accompanying effects on the result, we report, in addition to the existing reporting, adjusted values. The adjusted values do not represent IFRS-based ratios and are to exclusively increase transparency.

During the first nine months of fiscal 2018/2019, additional expenses were incurred under the program for accelerated growth in the amount of kEUR 4,192 on an EBITDA level and kEUR 4,610 on an EBIT level. They include investments into internationalization (kEUR 2,713), temporary integration costs within the framework of inorganic growth (kEUR 1,151) and the orientation towards the strategic key account business (kEUR 328) as well as kEUR 418 caused by acquisition-related costs and amortisations[1]. In this way, we see ourselves on a very good path to the use of the funds from the IPO in conformity with our strategy.

The EBITDA adjusted for these expenses increased versus the prior year period by 21% to kEUR 4,366. When including the expenses from the program for accelerated growth, the EBITDA amounted to kEUR 174 (PY: kEUR 2,432). The adjusted Earnings before Interest and Taxes (EBIT) increased likewise versus the prior year period by 20% to kEUR 4,061. After expenses for acquisition costs, internationalization and orientation towards the strategic key account business, it amounted to kEUR -549 (PY: kEUR 2,201). The financial result of kEUR -192 (PY: kEUR -143) declined by 34%. The adjusted result for the period before taxes rose by 19% to kEUR 3,869. After non-recurring expenses it amounted to kEUR -741 (PY: kEUR 2,057). The adjusted result for the period after taxes amounted to kEUR 2,742. After expenses for the program for accelerated growth, it amounted to kEUR -1,100 (PY: kEUR 1,470). Cash and cash equivalents decreased by 14% to kEUR 46,239 due to investments.

[1] Above all purchase price allocation to customer base and brand which are amortized on a scheduled basis over a period of up to 20 years.

In kEUR	01 December to 31 August 2018/2019	01 December to 31 August 2017/2018
EBITDA (IFRS)	174	2,432
Costs in connection with the internationalization outside DACH	2,713	
Temporary integration costs in connection with inorganic growth	1151	
Costs in connection with key account additions and the related marketing	328	
Adjusted EBITDA	4,366	3,618*

In kEUR	01 December to 31 August 2018/2019	01 December to 31 August 2017/2018
EBIT (IFRS)	-549	2,201
Amortizations of intangible assets capitalized within the framework of company acquisitions	418	
Costs in connection with the internationalization outside DACH	2,713	
Temporary integration costs in connection with inorganic growth	1151	
Costs in connection with key account sales and corresponding marketing	328	
Adjusted EBIT	4,061	3,386*
Financial result	-192	-143
Adjusted result for the period before taxes	3,869	3,243
Income tax	-358	-587
Tax effects referred to adjustments	-769	
Adjusted result for the period after taxes	2,742	2,656

* During prior year kEUR, 1,186 non-recurring costs were adjusted for the IPO of 20 April 2018.

1.3.3 Personnel Expenses and Non-Recurring Effects in Connection with Organic Growth and International Expansion

Because of the planned headcount expansion in conformity with the strategy as a basis for further corporate growth as well as the two successful acquisitions within only one year, personnel expenses have of course been rising. For the first nine months of fiscal 2018/2019, they amounted to EUR 23.0 million. Compared to the first nine months in fiscal 2017/2018 this corresponds to an increase of EUR 8.3 million. Other operating expenses were likewise rising by EUR 1.8 million to EUR 7.6 million. In particular, recruiting, integration and costs of premises resulting from new office spaces needed for more employees have been the main reasons for the rise in these expense items in connection with our headcount growth during the first half year.

The cost of materials rose clearly in a disproportionately low manner compared to the previous year by EUR 1.7 million to EUR 18.0 million.

Development costs are not capitalized in the balance sheet but rather charged directly against income during the period, reducing the result in the profit and loss account. This means that the result figures of Serviceware are only conditionally comparable to companies that capitalize development expenses.

1.3.4 Operating Income

The unadjusted consolidated Earnings before Interest, Taxes, Depreciations and Amortizations (EBITDA) of the first nine months of fiscal 2018/2019 amounted on an IFRS basis to EUR 0.2 million. As a result of the previously explained additional personnel and structural expenses, the EBITDA dropped versus the prior year period (PY: EUR 2.4 million) by EUR 2.2 million.

The unadjusted EBIT dropped as a result of the significantly higher expenses (cf. 1.3.3) and scheduled higher amortization expenses following the SABIO and cubus acquisitions on an IFRS basis to EUR -0.5 million (PY: EUR 2.3 million).

1.3.5 Financial Result

The financial result of the first nine months of fiscal 2018/2019 amounted to EUR -0.19 million and fell by EUR 0.05 million compared to the prior year period. The development is essentially based on currency effects.

1.3.6 Earnings before Taxes (EBT)

The consolidated Earnings before Taxes of the first nine months of fiscal 2018/2019 amounted to EUR -0.7 million. Following the explained additional personnel and other operating expenses in conformity with the strategy under the program defined at the IPO for the acceleration of growth, Earnings before Taxes declined by around EUR 2.8 million versus the prior year period (EUR 2.1 million).

1.3.7 Tax Expenses

During the first nine months of fiscal 2018/2019 tax expenses amounted to a total of EUR 0.36 million (prior year period: EUR 0.59 million). For some individual Group companies of Serviceware there are tax credits from losses so that deferred income taxes in the amount of EUR 0.4 million were recognized in the profit and loss account. Altogether deferred tax assets in the amount of EUR 1.7 million were reported as at 31 August 2019.

1.3.8 Group Result after Taxes

The Group result after taxes for the first nine months of fiscal 2018/2019 amounted to EUR -1.1 million. Compared to the prior year period (EUR 1.5 million) it dropped by EUR 2.6 million.

1.4 Ratios of the Financial Statements as of 31 August 2019

	01 December to 31 August			
In kEUR	**2018/2019**	**2017/2018**	**Variation**	**in %**
Sales revenues	47,731	38,429	9,302	24.2
thereof Service/SaaS	15,994	10,068	5,926	58.9
EBITDA	174	2,432	-2,258	-92.8
Adjusted EBITDA	4,366	3,618	748	20.7
EBIT	-549	2,201	-2,750	-125.0
Adjusted EBIT	4,061	3,386	675	19.9
Financial result	-192	-143	-49	34.2
Results for the period before taxes	-741	2,057	-2,798	-136.0
Adjusted results before taxes	3,869	3,243	626	19.3
Income tax	-358	-587	229	-39.0
Results for the period after taxes	-1,100	1,470	-2,570	-174.8
Adjusted results after taxes	2,742	2,656	+86	+3.2

1.4.1 Balance Sheet as of 31 August 2019

In kEUR	**31.08.2019**	**30.11.2018**	**Variation**	**in %**
Cash and cash equivalents	46,239	53,695	-7,456	-13.9
Equity	57,154	59,495	-2,341	-3.9
Liabilities	45,573	36,323	9,250	25.5
Balance sheet total	102,727	95,818	6,909	7.2

The cash and cash equivalents of Serviceware SE decreased as of 31 August 2019 versus 30 November 2018 (EUR 53.7 million) to EUR 46.2 million. This difference has been used essentially for the acquisition of cubus, the scheduled growth financing for the further internationalization and the extension of sales for an intensified approaching of large companies.

The equity of EUR 57.2 million declined by 3.9% versus the balance sheet date of fiscal 2017/2018. Liabilities amounted to EUR 45.6 million as of 31.8.2019. Compared to the previous year, this corresponds to an increase by EUR 9.2 million. Approximately 60% of this increase result from the raising of debt capital for the debt financing of part of the cubus acquisition. The largest part of the debt capital of EUR 45.6 million consists of sales from recurring proceeds deferred for the future.

The balance sheet total amounted on 31 August 2019 to around EUR 103 million (30 November 2018: around EUR 96 million). The equity ratio amounted to around 56% on 31 August 2019. The equity ratio dropped by approximately 6% versus 30 November 2018 (around 62%).

1.5 Supplementary Report

After the balance sheet date, there have not been any further events, which have a material impact on the assets, financial and earnings position of Serviceware.

1.6 Outlook

The first nine months of fiscal 2018/2019 of Serviceware show a plus of EUR 9.3 million (+24.2%), which is a positive development of the sales revenue numbers. If there are no major changes in the general economic situation in Germany and Europe, we uphold the forecast in the Annual Report 2017/2018. We expect that our sales revenues will increase during the current fiscal year by at least 15% to 30%. This forecast presupposes that the investments made abroad will materialize during the last quarter. As far as the unadjusted result is concerned, we intend to achieve a moderate increase despite the current expansion phase involving high expenditure on a full-year basis, whereby we expect the decisive impulsions during the last quarter.

Bad Camberg, 25 October 2019

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Dirk K. Martin   Harald Popp

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Dr. Alexander Becker

2 Company Description

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

The unique Serviceware platform consists of the software solutions Serviceware Processes (helpLine), Serviceware Financial (anafee), Serviceware Resources (Careware), Serviceware Knowledge (SABIO) and Serviceware Performance (cubus). All solutions can be integrated or used independently from one another.

Serviceware has more than 800 customers from many different industries around the world, including nine DAX companies as well as four of the seven largest German companies. The headquarters of the company are located in Bad Camberg, Germany. Serviceware employs more than 450 people at 14 international locations.

Further information is available on www.serviceware-se.com.

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