Quarterly Report 2021/2022

(01 December 2021 to 28 February 2022)

Serviceware SE, Idstein

Quarterly Release as at 28 February 2022

1.1 Ratios of the Financial Statements as at 28 February 2022

	01 December to 28 February			
In kEUR	**2021/2022**	**2020/2021**	**Variation**	**%[1]**
Sales revenues	21,021	19,365	1,657	8.6
thereof SaaS/Service	10,982	9,176	1,806	19.7
EBITDA	11	804	-793	-98.7
EBIT	-900	21	-921	>-100 %
Financial result	-29	-29	0	-0.5
Earnings before taxes for the period	-929	-8	-921	>-100 %
Income tax	-8	-146	138	94.7
Earnings after taxes for the period	-936	-154	-783	>-100 %

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

Serviceware SE started fiscal 2021/2022 in terms of sales revenues with a record quarter and has continued to grow. Consolidated sales revenues increased during the first quarter by 8.6% to EUR 21.0 million. Sales revenues in the field of SaaS/Service rose in a clearly disproportionately high manner by 19.7% to EUR 11.0 million. During the first three months the share of SaaS/Service sales revenues in total revenues hence amounted to 52.2% after 47.4% during the prior year period. For the EBITDA a black zero was reached. High upfront costs for the expansion of the SaaS/Service business unit had a negative impact on earnings in the reporting period. In the coming quarters Serviceware expects, however, clear positive effects on earnings in this field.

During the reporting period, Serviceware succeeded in leveraging further cross-selling potential with existing and new customers. Many customers have decided in favour of using several modules from the unique ESM platform of Serviceware. The modules Serviceware Processes and Serviceware Knowledge, which enable companies to automate their service processes and make knowledge available centrally to service centre staff, were combined particularly frequently. Within the framework of its international expansion strategy, Serviceware gained additional groups as new customers during the first three months of 2021/2022, including a leading global US mineral oil group. In addition, new orders were initiated that were completed after the end of the reporting period. The corresponding expenses were, however, already recognised during the reporting period.

Artificial Intelligence (AI) plays a central role in the digitalisation of Service Management. It allows companies to revolutionise the efficiency, degree of automation and quality of service processes. The game changer Artificial Intelligence is already being used in numerous applications of the ESM platform of Serviceware. Serviceware positioned itself in this area at an early stage and today occupies one of the world's leading positions in linking Artificial Intelligence to digital service processes. After the end of the reporting period, in March 2022, the ESM platform was expanded to include the AI-supported "solution bot". It can be used to answer queries in chats automatically by means of Intent Recognition. Intent Recognition makes it possible to understand the intention or request of a customer in a chat, regardless of the customer's specific choice of words, and to respond accordingly in a targeted manner. In this way, service costs are reduced and customer

[1] In the event of relative variations of more than 100%, more particularly due to smaller absolute starting figures, the variation is stated in a simplified manner by ">100%".

satisfaction is improved. The automation of service processes is advancing at an increasing pace, not least due to the Covid-19 pandemic. Geopolitical and economic tensions are, moreover, leading to rising manufacturing costs for companies. They need to be even more cost-efficient, engage in a higher automation of service processes and plan more flexibly than in previous years.

With its ESM platform, Serviceware has a strong offering for all services and is perfectly positioned on the market to expand market shares and support customers in the digitalisation of their service processes. Especially large companies and groups with a comparatively high level of digital maturity and IT budgets in the high double digit or triple digit million range have enormous savings potential which can be made transparent and realised with the support of the ESM platform by Serviceware. The trend towards digitalisation and cost transparency in service processes is driving the corporate growth of Serviceware. For fiscal 2021/2022, the company anticipates sales revenue growth of around 10% and a further improvement in EBITDA.

1.2 Key Events in the Serviceware Group

International activities and highlights from customer projects: During the reporting period, Serviceware was able to realise many projects with groups and large companies from many different industries, including finance and raw materials.

A leading global US mineral oil company decided in favour of using the ESM platform module Serviceware Financial. Serviceware was able to prevail against renowned international competitors during the tender. With Serviceware Financial, the company has a single point of truth with numerous tools for end-to-end IT financial management. Implementation at the customer has already started and is proceeding on schedule.

A German direct bank has introduced Serviceware Knowledge at company level. In combination with the AI-controlled Serviceware Contact Deflection Widget, customers are offered solutions to their queries on the company's website and in online banking support. In just about two months, more than 700,000 solutions were suggested to customers via the bank's contact forms. In a high number of queries, customers received a response that they wanted to explore in more depth and found potentially helpful information.

The expansion of the co-operation with one of the world's largest construction groups in the field of IT cost management is another highlight in the first quarter. The Serviceware Financial module, which has already been used at the customer for several years, was expanded to include complementary solutions in the area of transfer pricing.

At a leading international group in the field of recycling the module Serviceware Financial was successfully implemented. The customer now has a standardised Serviceware cost model available. As a result of the standardisation of processes and interfaces, the accuracy and efficiency of calculation was significantly improved and savings were realised through higher transparency in the service composition and allocation key.

Successful acquisition of new customers and cross-selling achievements: In the first quarter, Serviceware was able to gain a total of 13 new customers with an altogether significantly above-average order volume for the ESM platform. Serviceware was also able to achieve further cross-selling potential and leverage synergies. Many customers use several modules of the ESM platform. The modules Serviceware Processes and Serviceware Knowledge were combined and used particularly frequently during the first quarter. The demand for modules for quality improvement has grown significantly, after modules for efficiency improvement and cost optimisation of service processes were increasingly in demand at the beginning of the Covid-19 pandemic.

Serviceware Portfolio – AI-based solution bot launched: With its unique, innovative ESM platform, Serviceware offers one platform for all services. The ESM platform continues to evolve with growing requirements and a high innovation pace and can be adapted to individual needs. As a result of the integration of Artificial Intelligence (AI), service processes can be mapped even faster, more efficiently and more smoothly. The ESM platform was further reinforced by a Solution Bot, which was presented briefly after the end of the reporting period in March 2022. With the AI-supported software solution, service providers can improve the customer experience in self-service. The Solution Bot checks queries already during their input and offers answers from various sources with the support of Intent Recognition; this results in a massive relief for service teams. Serviceware is excellently positioned on the market to support customers at the digitalisation of their service processes and extend market shares.

Market environment – significant pent-up demand in the field of digitalisation: In recent years, the willingness of companies to invest in the digitalisation of service processes has increased significantly. However, especially small and medium-sized enterprises are still at the beginning of their investment cycle. As a result, there are many growth opportunities for the software industry in general and companies like Serviceware. When it comes to the application of digital technologies, Germany is marked by international mediocrity, as KfW stated in a study on digitalisation in an international comparison in October 2021. According to this study, investments in information technologies in relation to the gross domestic product lag in Germany significantly behind those of other large countries which are comparable in terms of economic strength. The annual IT investments in Germany would have to double or treble – from EUR 49 billion to EUR 100 – 150 billion – to at least catch up with countries like France, Japan or the UK. KfW notes that the German small and medium-sized enterprises likewise spend too little on the development and application of digital technologies. To keep up with this development, digitalisation spending in SMEs must increase from EUR 18 billion in 2019 to EUR 35 – 50 billion per year. However, companies are not only lagging behind in the digitalisation of their service processes in Germany. As shown in the Global Customer Experience Benchmarking Report by NTT, only around one-third of companies in Europe (34.6%) mention that their data analysis and visualisation systems within the framework of digital customer service meet current and future requirements. This is 26.3% less than in the rest of the world.

Investor Relations – keen investor interest: During the reporting period, the executive management of Serviceware had numerous individual and group meetings with existing and potential investors, including a steadily increasing proportion of international investors. During these talks, the management provided information about the business model and strategy of Serviceware. The company registered a lively interest from investors and was able to expand the group of potential investors by adding new contacts. After investor meetings and capital market events had been held virtually or by phone in the past two years due to the Covid-19 pandemic, events and meetings with customers and investors are again being held in person against the backdrop of the growing normalisation of the economic situation. Serviceware participated, among other things, in the Call Centre World in Berlin. The business and share development is currently covered by the research firm Quirin Bank. The analysts rate the share of Serviceware share as “Buy” and see a target price of EUR 33.00.

1.3 Business Development

1.3.1. Development of Sales Revenues

The sales revenues of Serviceware continued to grow during the first three months of fiscal 2021/2022 versus the comparable prior year period. Sales revenues rose by 8.6% to EUR 21.0 million. The strongest growth was again recorded by SaaS/Service with a rise by 19.7% versus the comparable prior year period. The trend towards SaaS/Service transactions hence continues. This involves a shift in revenue realisation from non-recurring high licence fees to monthly recurring subscription fees. However, in times of economic uncertainty this provides a high degree of planning certainty. Revenues from licences increased slightly during the reporting period (+ 0.6%) and amounted to EUR 5.3 million. Maintenance revenues, on the other hand, declined by 3.6% compared to the same period last year. The development of maintenance revenues follows, with a time lag, the long-term development of licence revenues, which are partially substituted by SaaS/Service business in the long term due to the trend towards SaaS/Service transactions. The breakdown of sales revenues is as follows:

	01 December to 28 February		
In kEUR	**2021/2022**	**2020/2021**	**Variation in %**
Revenues SaaS/Service	10,982	9,176	19.7
Revenues Licences	5,252	5,221	0.6
Revenues Maintenance	4,787	4,968	-3.6
Total	**21,021**	**19,365**	**8.6**

1.3.2. Operating Income (EBITDA/EBIT)

The consolidated earnings before interest, taxes, depreciation and amortisation (EBITDA) for the first three months of fiscal 2021/2022 amounted to kEUR 11 in accordance with IFRS. This means that the EBITDA is kEUR 793 below the figures for the same period of the previous year of kEUR 804. The fact that the sickness rate at Serviceware rose significantly for the first time during the pandemic and was much higher than the long-term average had a particularly negative impact on earnings, driven by a dynamic infection situation with incidences at record levels. The trend towards SaaS/Service transactions, moreover, means that the indirect costs associated with the gaining of SaaS business must in part be fully realised in the current reporting period, whilst the associated revenues are only recognised with a delay and over a period of several years. This effect is particularly significant for Enterprise customers and international projects, several of which Serviceware was able to successfully conclude in the first quarter of fiscal 2021/2022.

The consolidated earnings before interest and taxes (EBIT) amounted during the first quarter to kEUR -900 and were hence kEUR -921 below the earnings of the prior year period of kEUR 21. Depreciations and amortisations rose versus the prior year period by kEUR 128. kEUR 113 were attributable to the shortening of the amortisation period for the “SABIO” and “cubus” brands acquired in 2018 and 2019. The total amount to be amortised over the future period does not increase as a result, but the shortened amortisation period leads to higher annual amortisation amounts during an overall shorter period.

To push the company’s growth, Serviceware launched the accelerated growth programme as part of its IPO in 2018. In the half-year report of fiscal 2017/2018, Serviceware introduced in addition to the IFRS ratios also adjustments and / or adjusted earnings figures (which do not represent IFRS-based ratios) in its reporting. This was supposed to provide, more particularly during the start-up phase of the programme for accelerated growth, a higher transparency as well as a comparable overall picture of the expensed funds during the individual periods and show at the same time the accompanying effects on earnings. In line with the successful sales development of Serviceware in the international environment and the advanced integration of the acquired companies, Serviceware considers the start-up phase of the programme to be completed and consequently ends the separate reporting of the adjusted earnings.

1.3.3. Financial Result

The financial result for the first three months of fiscal 2021/2022 amounted to kEUR -29 and was hence on the level of the previous year of likewise kEUR -29.

1.3.4. Earnings before Taxes

Consolidated earnings before taxes amounted to kEUR -929 (PY: kEUR -8), which corresponds to a decline by kEUR 921 versus prior year.

1.3.5. Tax Expenses

During the first three months of fiscal 2021/2022 total tax expenses of kEUR 8 arose (PY: kEUR 146).

1.3.6. Earnings after Taxes

The consolidated earnings after taxes for the first three months of fiscal 2021/2022 amounted to kEUR -936. Compared to the prior year period (kEUR -154) this corresponds to a minus of kEUR 783.

1.4 Balance Sheet as at 28 February 2022

In kEUR	28.02.2022	30.11.2021	Variation	%
Cash and cash equivalents	38,950	34,323	4,627	13.5
Equity	53,079	53,953	-874	-1.6
Debt capital	60,404	56,827	3,576	6.3
Balance sheet total	113,483	110,780	2,703	2.4

Cash and cash equivalents of Serviceware increased as at 28 February 2022 versus 30 November 2021 (kEUR 34,323) to kEUR 38,950. The equity of kEUR 53,079 decreased compared to the balance sheet date of fiscal 2020/2021 (kEUR 53,953) by kEUR -874 and -1.6%. The amount of debt capital amounts to kEUR 60,404 on 28 February 2022. Compared to 30 November 2021, this corresponds to a rise by kEUR 3,576. An essential driver of the increase in debt capital is the rise in the backlog of orders on the balance sheet date at the end of the reporting period. The order backlog is essentially made up of advance payments received for maintenance and SaaS contracts. A large part of the maintenance and SaaS contracts provides for quarterly advance billing; this is recognised in accounting terms in the contractual liabilities and increases accordingly during the first quarter. In addition, the general trend towards SaaS/Service transactions supports this development. Due to binding contracts, these contractual liabilities represent already fixed future sales revenues of Serviceware. The financial liabilities of Serviceware were further reduced by scheduled repayments.

The balance sheet total amounted on 28 February 2022 to kEUR 113,483 (30 November 2021: kEUR 110,780). The equity ratio amounted on 28 February 2022 to around 47%. The equity ratio dropped by approximately 2% versus 30 November 2021 (around 49%). The reduction is essentially due to the above-mentioned balance sheet stretching effect of higher contractual liabilities and the negative earnings for the period during the first quarter.

1.5 Supplementary Report

At the time of drafting of this quarterly report the infection rate of the Corona virus (SARS-CoV-2) continues to be very high. Even if by now vaccines are not only available but also have been administered several times partly in high numbers, the further mutation of the virus can have negative effects on the economic development in the different countries. Many international supply chains can, moreover, be potentially affected by the current lockdowns in major Chinese business centres. As a result, it cannot yet be excluded for the time being that the rapid spreading of the virus and its mutations will possibly have an adverse effect on the financial, earnings and assets position of Serviceware.

Moreover, there is uncertainty about the further development of the war in Ukraine, more particularly on the extent to which the armed conflict can be regionally restricted. It is possible that the sanctions involved in the conflict could lead to far-reaching rejections for the entire European and / or German business community. In this connection, too, it cannot yet be excluded for the time being that the financial, earnings and assets position of Serviceware will be adversely affected.

1.6 Outlook

Apart from the ongoing Covid-19 pandemic, which could further spread as a result of additional mutations of the virus and vaccination reluctance, an increasing inflation, interrupted supply chains and not least the different conflict situations around the globe lead to economic instability which could curb the economic growth in Germany and Europe as a region whose prosperity is strongly dependent on foreign trade.

Serviceware is looking with great concern at the current armed conflicts in Ukraine. Apart from the direct economic impact caused by interrupted supply chains and the already adopted sanctions, further sanctions are considered, more particularly, in the energy sector which have the potential of bringing about major economic rejections, more particularly, in Europe which could have a negative impact on the financial, earnings and assets position of Serviceware. As a result, we can make forecasts on the business development in 2022 only with a very high degree of uncertainty and because of this currently unclear situation, our forecast for the current fiscal year is associated with a high variance.

Despite the ongoing difficult framework conditions, we are confident that we will increase sales revenues during the current fiscal year by an order of magnitude of 10% versus prior year. This presupposes that it will be possible for us to continue to make significant progress in marketing and customer acquisition also on markets outside our core market and that the Covid-19 pandemic will lose in relevance during the second part of the year as a result of a higher immunisation of the population and declining mutations of the Corona virus (SARS-CoV-2).

If we succeed in doing this, we expect a further dynamic development of our sales revenues and profit.

On the earnings side, we anticipate for the current fiscal year that we can once more moderately improve the positive EBITDA (IFRS). The improvement in EBIT will be lower compared to the EBITDA improvement, since an additional burden is to be expected from the amortisations as a result of the shorter amortisation term of the trademarks “SABIO” and “cubus” acquired in 2018 and 2019.

Idstein, 29 April 2022

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Dirk K. Martin Harald Popp

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Dr. Alexander Becker

Company Description

Serviceware is a leading provider of software solutions for the digitalisation 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 includes the software solutions Serviceware Processes, Serviceware Financial, Serviceware Resources, Serviceware Knowledge and Serviceware Performance. All solutions can be used in an integrated manner, but also independently from one another.

Serviceware partners with customers from strategic consulting through the definition of the service strategy to the implementation of the enterprise service 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 17 DAX companies, as well as 5 of the 7 largest German companies. The head office of Serviceware is in Idstein, Germany.

Serviceware employs more than 500 employees at 14 international sites.

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

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