

# Q3 2018 Financial Review

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# TeamSystem 9M 2018 performance summary

- **Revenues for 9M 2018** were up **6.3% on a normalized basis** and **up 4.8% on a reported basis** vs. the 9M 2017. Considering only 3Q revenues, were **up 9.1% on a reported basis** vs. 3Q 2017. On a reported basis revenues in 9M 2018 amounted to €M 231.5, up by €M 10.5 compared to the 9M 2017 (€M 221.0)<sup>1</sup>
- **The normalization adjustment** reflects the move from a “Licence + Maintenance” model to a “Subscription” model for the new professional direct customers in “Software solutions” segment in 9M 2018. We expect strong economic benefits from this switch over the next 24 months, but the change in revenue model and the revenue recognition of subscriptions (vs. upfront recognition for licenses) impacts reported revenue in 9M 2018
- We experienced a **strong growth of Cloud software solutions up 67.1%** vs 9M 2017 on a reported basis only part of this benefit reflects in the growth of the first 9M 2018 because of the revenue recognition of cloud subscriptions (nevertheless a good growth trajectory is shown in 3Q revenue growth). This impact has not been included in the normalization, but taken into consideration in the Pro Forma through the Annualized Revenues
- In 2018 we also **outsourced the majority of hardware business** and the **delivery services for direct enterprise customers** in “Software solutions”. We expect a positive EBITDA impact from these operations **but the outsourcing impacted revenue growth in 9M 2018** (i.e. revenues from hardware were down 1.7M, decreasing by 42.2% vs 9M 2017, revenue from service were down 1.1M, decreasing by 6.3% vs 9M 2017). These impacts have not been included in the normalization
- The effect of the move to “Subscription” for professionals, the growth of Cloud Software Solutions and the outsourcing of hardware and delivery services contributed to increasing our share of recurring revenues at **75.8% in September 2018** from 70.8% of 2017
- **Operating costs for 9M 2018** were up by **7.2% on a reported basis**. They amounted to €M 157.2, up by €M 10.6 compared to the result at 9M 2017 (€M 146.6). This difference was mainly due to increase in the cost of services, up by €M 9.7, due to marketing (2.3M increase vs. 9M 2017), outsourcing related costs (that will go down when the outsourcings will be completed in the next 6 months) and cloud infrastructure costs
- **Adjusted EBITDA for 9M 2018** was up **4.6% on a normalized basis** and **almost flat (-0.1%) on a reported basis** vs. 9M 2017. Considering only 3Q Adjusted EBITDA, was **up 9.7% on a reported basis** vs. 3Q 2017. On a reported basis Adjusted EBITDA in 9M 2018 amounted to €M 74.4 almost the same as 9M 2017

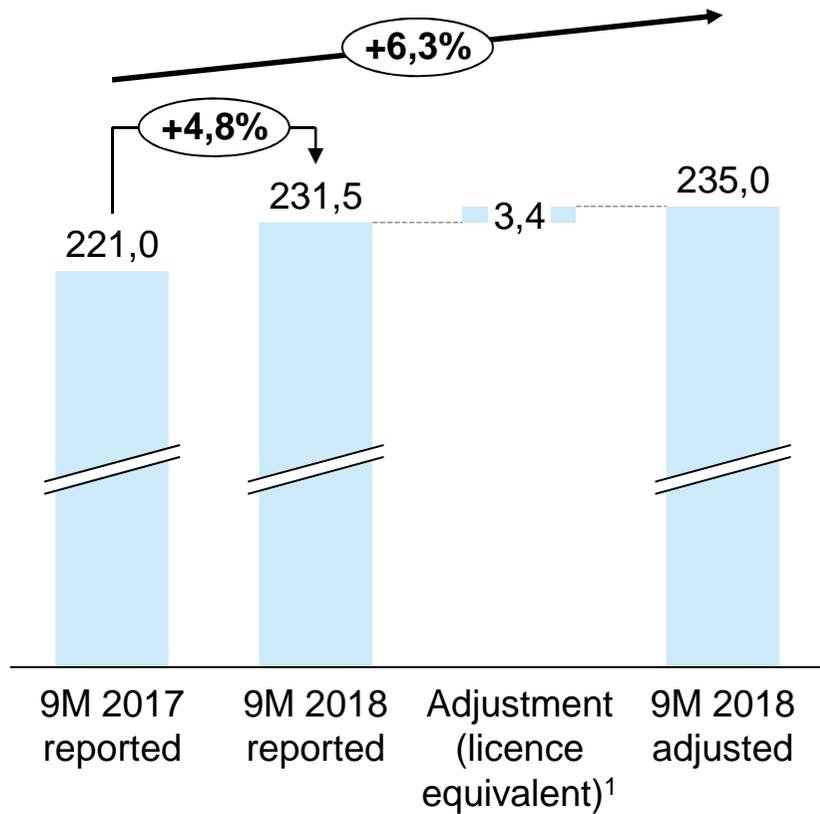
*(1) The increase is mainly attributable to the organic growth experienced by the Group. Nevertheless results in 9M are also affected by the consolidation of the results of the companies acquired in 2017 (and not yet consolidated at 30 Sept 2017), which are: Evols S.r.l., Netlex S.r.l., Cassanova S.r.l., Evolution Fit S.r.l., Software Time S.r.l.(merged by absorption by TeamSystem S.p.A. in December 2017) and MMData S.r.l. (main Var of the Software XP carve-out business)*

# 9M 2018 TeamSystem results summary

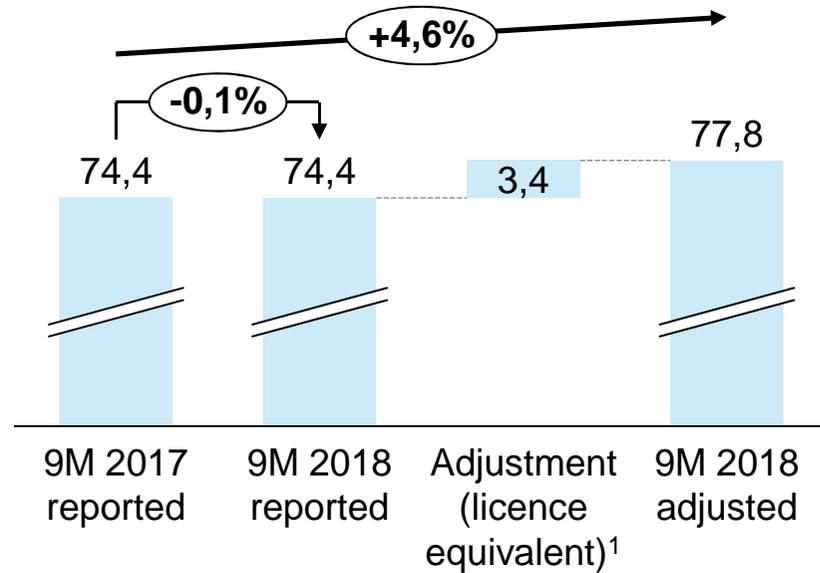
	Reported figures	Normalized growth	Comments															
1	<p><b>Revenues (€M)</b></p> <table border="1"> <tr> <th>Period</th> <th>Value (€M)</th> <th>Change (%)</th> </tr> <tr> <td>3Q 2017</td> <td>67.8</td> <td>-</td> </tr> <tr> <td>3Q 2018</td> <td>74.0</td> <td>9.1%</td> </tr> <tr> <td>9M 2017</td> <td>221.0</td> <td>-</td> </tr> <tr> <td>9M 2018</td> <td>231.5</td> <td>4.8%</td> </tr> </table>	Period	Value (€M)	Change (%)	3Q 2017	67.8	-	3Q 2018	74.0	9.1%	9M 2017	221.0	-	9M 2018	231.5	4.8%	6.3%	<ul style="list-style-type: none"> <li>■ <b>Strong growth</b> in “Cloud Software solutions”</li> <li>■ “Hardware” business declining due to outsourcing</li> <li>■ <b>Recurring revenues</b> increasing to <b>75.8%</b> from 70.8% of 2017</li> <li>■ <b>Normalized growth</b> to adjust the effect of new sales to Professionals done through subscription (<i>detailed next</i>)</li> </ul>
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2	<p><b>Operating costs (€M)</b></p> <table border="1"> <tr> <th>Period</th> <th>Value (€M)</th> <th>Change (%)</th> </tr> <tr> <td>3Q 2017</td> <td>43.9</td> <td>-</td> </tr> <tr> <td>3Q 2018</td> <td>47.8</td> <td>8.8%</td> </tr> <tr> <td>9M 2017</td> <td>146.6</td> <td>-</td> </tr> <tr> <td>9M 2018</td> <td>157.2</td> <td>7.2%</td> </tr> </table>	Period	Value (€M)	Change (%)	3Q 2017	43.9	-	3Q 2018	47.8	8.8%	9M 2017	146.6	-	9M 2018	157.2	7.2%	7.2%	<ul style="list-style-type: none"> <li>■ <b>Decreasing</b> “Cost of raw and other materials” and <b>almost flat</b> “Personnel costs”</li> <li>■ <b>Increase in the cost of services, as expected</b>, mainly due to marketing increase, outsourcing related costs and cloud infrastructure costs</li> </ul>
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	<p><b>Adjusted EBITDA (€M)</b></p> <table border="1"> <tr> <th>Period</th> <th>Value (€M)</th> <th>Change (%)</th> </tr> <tr> <td>3Q 2017</td> <td>23.9</td> <td>-</td> </tr> <tr> <td>3Q 2018</td> <td>26.2</td> <td>9.7%</td> </tr> <tr> <td>9M 2017</td> <td>74.4</td> <td>-</td> </tr> <tr> <td>9M 2018</td> <td>74.4</td> <td>-0.1%</td> </tr> </table>	Period	Value (€M)	Change (%)	3Q 2017	23.9	-	3Q 2018	26.2	9.7%	9M 2017	74.4	-	9M 2018	74.4	-0.1%	4.6%	<ul style="list-style-type: none"> <li>■ <b>Very good Q3 growth</b></li> <li>■ <b>Normalized growth</b> to adjust the effect of new sales to Professionals done through subscription (<i>detailed next</i>)</li> </ul>
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# Bridge between Revenues and Adj. EBITDA reported vs normalized growth

## Revenues (€M)



## Adjusted EBITDA (€M)



(1) Corresponding incremental YTD revenues if TeamSystem had sold license instead of subscription in the new sales to professionals customers. Includes the costumers in TeamSystem S.p.a, DaneaSoft S.p.a., and Teamsystem C&D s.r.l legal entities

# 1 Key drivers of 9M 2018 TeamSystem reported revenues

Reported revenues				
Euro Millions				
OPERATING SEGMENTS	30 Sep 2018	30 Sep 2017	Change	% Change
Assistance and Maintenance	48,3	46,4	1,9	4,1%
Licences	10,9	16,3	-5,4	-33,4%
Services and Other	15,9	16,9	-1,1	-6,3%
<b>Direct Channel</b>	<b>75,0</b>	<b>79,6</b>	<b>-4,6</b>	<b>-5,8%</b>
Assistance and Maintenance and Licences	66,5	65,6	0,9	1,4%
Services and Other	2,0	2,0	0,1	4,4%
<b>Indirect Channel</b>	<b>68,5</b>	<b>67,5</b>	<b>1,0</b>	<b>1,5%</b>
<b>A ERP AND BUSINESS MANAGEMENT SW</b>	<b>143,5</b>	<b>147,2</b>	<b>-3,6</b>	<b>-2,5%</b>
Assistance and Maintenance	21,8	19,3	2,4	12,6%
Licences	11,9	11,2	0,7	6,2%
Services and Other	23,7	21,7	1,9	8,9%
<b>B VERTICAL SOLUTIONS</b>	<b>57,3</b>	<b>52,2</b>	<b>5,1</b>	<b>9,7%</b>
<b>SW SOLUTION RECONCILIATION</b>	<b>-4,9</b>	<b>-2,3</b>	<b>-2,5</b>	<b>109,4%</b>
<b>SOFTWARE SOLUTIONS</b>	<b>196,0</b>	<b>197,1</b>	<b>-1,1</b>	<b>-0,6%</b>
<b>C CLOUD SOFTWARE SOLUTIONS</b>	<b>33,2</b>	<b>19,9</b>	<b>13,3</b>	<b>67,1%</b>
<b>D HARDWARE</b>	<b>2,3</b>	<b>4,0</b>	<b>-1,7</b>	<b>-42,2%</b>
<b>TOTAL REVENUE</b>	<b>231,5</b>	<b>221,0</b>	<b>10,5</b>	<b>4,8%</b>

## Comments

- A Software Solutions - ERP and Professionals SW**
- **Reduction in Licences and Services and Other for direct channel** mainly due to:
    - Move from “Licence + Maintenance” I to “Subscription” for professionals
    - Outsourcing of delivery services for enterprise customers
- B Software Solutions - Vertical solutions**
- **Vertical solutions increased by 9,7%** mainly due to very good performances of CAD/CAM, construction and education products
- C Cloud software solutions**
- **Strong performance of cloud software solutions** (increased by 67,1%)
- D Hardware**
- **Hardware decreased by 42,2%** due to the outsourcing of hardware business done beginning of 2018

## 2 Key drivers of 9M 2018 TeamSystem reported costs

### Reported operating costs

Euro Millions

	30 Sept 2018	30 Sept 2017	Change	% Change
<b>A</b> Cost of raw and other materials	-19,0	-20,4	1,4	-7,0%
<b>B</b> Cost of services	-54,5	-44,8	-9,7	21,6%
<b>C</b> Personnel costs	-78,1	-77,6	-0,4	0,5%
<b>D</b> Other operating costs	-5,6	-3,7	-1,9	50,7%
<b>TOTAL OPERATING COSTS</b>	<b>-157,2</b>	<b>-146,6</b>	<b>-10,6</b>	<b>7,2%</b>

### Comments

#### **A** Cost of raw and other materials

- **Cost of raw and other material decreased by 7,0%**, mainly due to the outsourcing of the business segment that handles hardware and systems

#### **B** Cost of services

- **Cost of services increased by 21,6%**, mainly due to marketing (2,3M increase vs 9M 2017)<sup>1</sup>, cloud infrastructure costs and outsourcing related costs, (that will go down when the outsourcings will be completed in the next months)

#### **C** Personnel costs

- **Personnel costs increased only by 0,5%** due to efficiency initiatives

#### **D** Other operating costs

- **Other operating costs increased by 50,7%** mainly due to the increase costs for rents of the new offices inaugurated during 2017

# LTM PF EBITDA as of Sept 2018

Pro-Forma EBITDA, €m	Description	Status
<b>LTM Adj EBITDA</b> // 113.0		
Software XP and its main VAR acquisitions	<ul style="list-style-type: none"> <li>EBITDA from <b>Software XP</b> and its main VAR acquisitions</li> </ul>	 Acquisition done, 9M impact reflected in the P&L
2017 Personnel savings - run rate	<ul style="list-style-type: none"> <li>Run rate 2018 effect of <b>personnel savings</b> already achieved in 2017</li> </ul>	 Initiative done, YTD impact reflected in the P&L
2018 savings on personnel costs	<ul style="list-style-type: none"> <li>Personnel savings generated by <b>initiatives</b> of operating model <b>optimization</b> related to <b>R&amp;D, Customer Service, support functions</b></li> </ul>	 Rationalization in progress aligned with the plan
External non-personnel cost	<ul style="list-style-type: none"> <li>Renegotiation of <b>external non-personnel costs</b></li> <li>Include <b>marketing investments</b> to capture mandatory B2B e-invoicing revenues in Q4 (marketing costs incurred YTD with revenues expected in Q4)</li> </ul>	 Renegotiations done, YTD impact of the initiatives reflected in the P&L
BPO Savings	<ul style="list-style-type: none"> <li>BPO on hardware done in 2017</li> <li>BPO on delivery</li> </ul>	 HW: YTD impact in the P&L Delivery: launched mid June
Price increase 2018	<ul style="list-style-type: none"> <li>Initiative of price increase <b>targeting customers from direct channel</b> and <b>vertical</b></li> </ul>	 Initiative done, 9M impact reflected in the P&L
Regulatory LTA	<ul style="list-style-type: none"> <li>Introduction of <b>2018 LTA</b> (cd. "GDPR")</li> </ul>	 Very good orders intake with higher penetration vs expected
Annualized revenues	<ul style="list-style-type: none"> <li>Annualized revenues of certain key cloud products and for professional new sales</li> </ul>	
<b>Pro Forma LTM Adj EBITDA</b> // 130.4		

# Net financial Position – Q3 2018

 Detailed next

Eur Millions	Maturity	Sept 30, 2018	June 30, 2018	Apr. 04, 2018 Refinancing***	Dec. 31, 2017
Cash and Bank balances*		15.3 M€	17.4 M€	27.4 M€	16.2 M€
Financial Assets		0.3 M€	0.9 M€	0.9 M€	0.9 M€
SFRN Notes (Old Bond)	2023	0 M€	0 M€	0 M€	-150 M€
SSFRN Notes (Old Bond)	2022	0 M€	0 M€	0 M€	-570 M€
SSFRN Notes (New Bond)**	2023/2025	-751.2M€	-751.3M€	-750 M€	0 M€
RCF		0 M€	0 M€	0 M€	0 M€
Other financial liabilities		-0.5 M€	-1 M€	-0.8 M€	-0.8 M€
<b>Net Financial Position</b>		<b>-736.1 M€</b>	<b>-734 M€</b>	<b>-722.5 M€</b>	<b>-703.7 M€</b>
		<b>5,6x</b>			

\*Cash Balance Sept. 18: equal to 23.5 M€ after +8.2 M€ of WE Effect Riba Normalization (PFN -727.9 M€ after normalization)

\*\* Accrued interests included

\*\*\*Refinancing: 750 M€ After Refinancing closing dated 04.04.2018. (550M€ maturity 2023, 200 M€ maturity 2025)

# Cash flow Bridge – Q3 2018

Pro-Forma EBITDA, €m	Description
Cash Balance Dec17 // 16.2	20M€ considering end Dec'17 week-end effect: as Dec'17 ended in a week-end, bank orders due end 2017 were shifted to Jan'18 (3.8M €).
Adj. Ebitda 74.4	
Bad debt -3.8	
Change of Net Working Capital 15.7	20M€ considering end Dec'17 and Sept'18 week-end effect.
Capex -21.4	Tangible and intangible assets (-11.4M€); Capitalized development costs (-10.0M€).
Non operating costs -9.1	Mainly due to consultancies and redundancy costs related to strategic projects
Change in Provision -6.6	Include 5.5M€ cost item accrued end 2017.
M&A Contingent Liabilities to Non-Contr. Shareholder of Subs -14.9	Software XP and other equity interest acquisitions from minorities.
Other financial items -32.8	Interest, bond issuance and redemption fees net of new debt raised
Income tax -2.4	
Cash Balance Sept18 // 15.3	23.5 M€ considering Sept'18 week-end effect: 8.2 M€ bank orders shifted to Oct'2018.

# Q&A