

# **Investment Opportunity Software AG**

Arnd Zinnhardt, CFO

**3<sup>rd</sup> CAI Cheuvreux German  
Corporate Conference  
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# What makes an attractive investment?

## Financial Strength

- Solid balance sheet
- Long track record of profits
- Strong, recurrent cash flow

## Business Power

- Excellent long-term customer base
- Global presence
- Focused product strategy

## Market Potential

- Stable markets with high barriers for entry  
e.g. mission critical enterprise transaction systems
- Markets with potential for dynamic growth because of innovation  
e.g. XML technology

# Software AG is an attractive investment

## Multiples based on analyst consensus\*

		2003	2004e
EV**/Sales	x	1	1
EV/EBITDA	x	18	5
EV/PbT	x	n/a	8
PE Ratio	x	14	11
(op. EPS pre goodwill)			

**Organic free cash flow yield: 12%**  
**(9 months 2003 annualized in % of EV)**

**Current share price is below fair value**  
**(average price target 21 €)\***

\* 13 sell side analysts

\*\* Enterprise Value (Market Cap ./ net cash balance)

# Financial Strength

# Key Figures – First 9 Months 2003

(in mn. euros)

Stated Figures (German GAAP)	9M 2003	9M 2002	Δ %
<b>License Revenue</b>	<b>68.7</b>	<b>81.5</b>	<b>-8*</b>
<b>Maintenance</b>	<b>143.7</b>	<b>150.7</b>	<b>+5*</b>
<b>Total Revenue</b>	<b>304.4</b>	<b>354.6</b>	<b>-7*</b>
<b>Total Cost**</b>	<b>319.9</b>	<b>369.0</b>	<b>-13</b>
thereof R&D	43.9	49.5	-11
<b>Profit before taxes**</b>	<b>-1.3</b>	<b>30.1***</b>	<b>n/a</b>
Margin (% of revenue)	n/a	8%	
<b>Net Income</b>	<b>-3.5</b>	<b>17.4</b>	<b>n/a</b>
Margin (% of revenue)	n/a	5%	
<b>Earnings per Share (in €)</b>	<b>-0.13</b>	<b>0.64</b>	<b>n/a</b>

\* currency adjusted

\*\* incl. charges for restructuring

\*\*\* incl. income from investments

# Key Figures – First 9 Months 2003

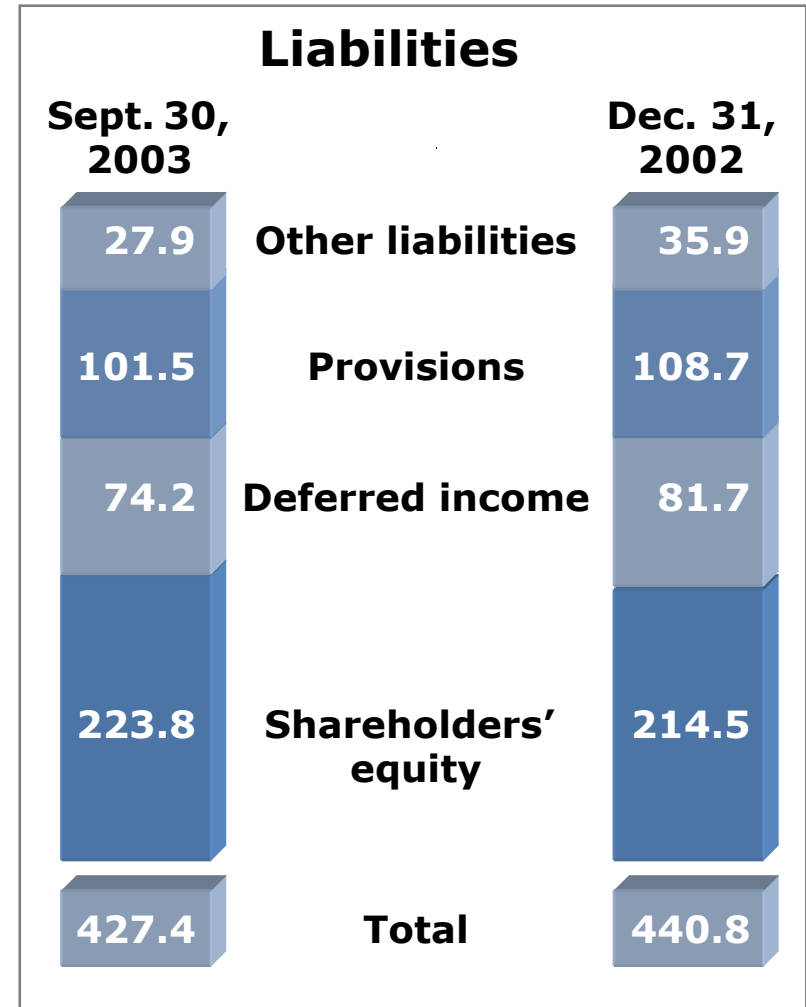
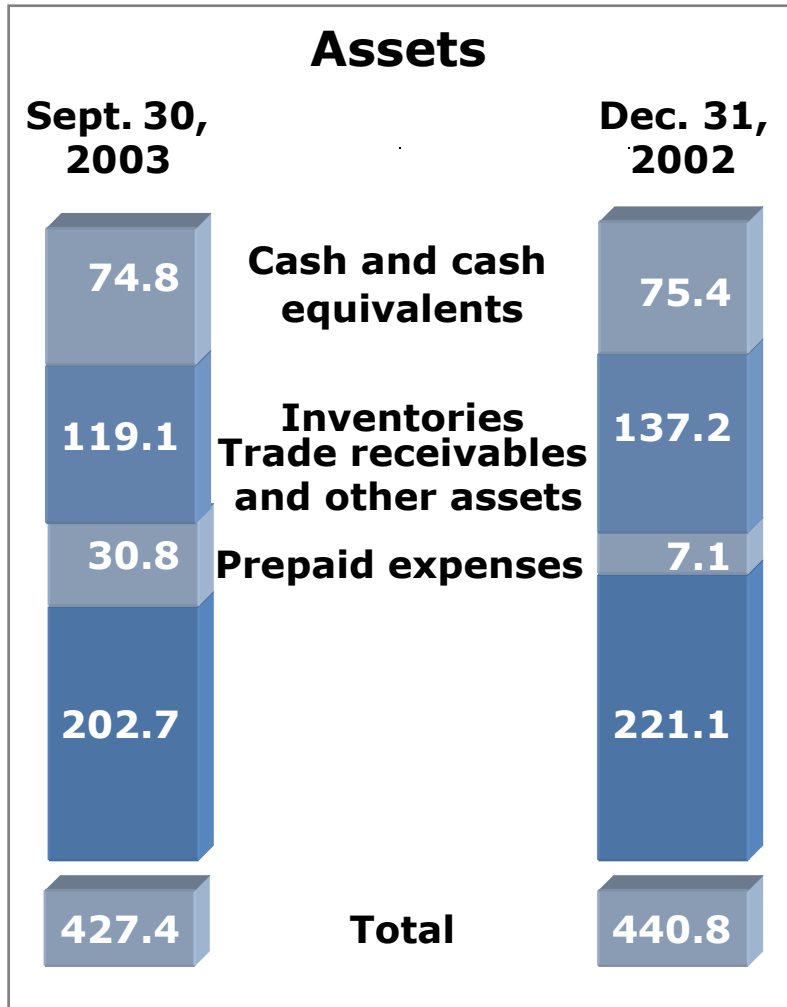
(in mn. euros)

Operating earnings (excl. charges for restructuring and income from investments)	9M 2003	9M 2002	Δ %
<b>EBITDA</b>	<b>42.2</b>	<b>36.6</b>	<b>+15</b>
Margin (% of revenue)	14%	10%	
<b>Goodwill amortization</b>	<b>16.4</b>	<b>16.4</b>	
<b>Operating PbT</b>	<b>22.5</b>	<b>11.6</b>	<b>+94</b>
Margin (% of revenue)	7%	3%	
<b>Effective tax rate</b>	<b>40%</b>	<b>42%</b>	
<b>NOPAT*</b>	<b>6.9</b>	<b>-0.2</b>	<b>n/a</b>
<b>EPS (operating)</b>	<b>0.25</b>	<b>0.00</b>	<b>n/a</b>
<b>EPS (op.) pre Goodwill</b>	<b>0.85</b>	<b>0.60</b>	<b>+42</b>

\* Net operating profit after tax = op. PbT ./ tax rate x (op. PbT + goodwill)

# Balance Sheet

(in mn. euros)





# Balance Sheet Analysis – First 9 Months 2003

(in mn. euros)

	Sep 30, 2003	Dec 31, 2002	Δ %
<b>Equity in % of total assets</b>	<b>52.4%</b>	<b>45.5%</b>	<b>+7</b>
<b>Cash balance stated</b>	<b>74.8</b>	<b>75.4</b>	<b>-1</b>
./.. Outstanding Factoring	-22.9	-39.8	-42
+ Other financial assets	16.1	11.3	+42
<b>Net cash balance</b>	<b>68.0</b>	<b>46.9</b>	<b>+45</b>
<b>DSO (days)</b>	<b>96</b>	<b>89</b>	<b>+8</b>



# Cash Flow Analysis – First 9 Months 2003

(in mn. euros)

	9M 2003	9M 2002	Δ %
<b>Operating Cash Flow</b>	<b>6.9</b>	<b>31.9</b>	<b>-78</b>
./ . CapEx	5.1	9.9	-48
<b>Free Cash Flow</b>	<b>1.8</b>	<b>22.0</b>	<b>-92</b>
+ Reversal of Factoring	16.9	12.2	+39
+ Cash-out for restructuring	12.3	6.9	+78
+ Tax payment for previous periods	6.0	0.0	n/a
<b>Organic Free Cash Flow</b>	<b>37.0</b>	<b>41.1</b>	<b>-10</b>
as % of revenue	12.2%	10.2%	

# Forecast FY 2003 as of Dec. 2003







































This forecast was made on the basis of 9 months figures 2003.

- Total revenues 2003: 410-415 mn. €
- Operating profit before tax 10-15% higher than previous year's 32 mn. €
- Positive operating cash flow despite cash out for severance payments due to restructuring
- After tax-results will show a loss  
(due to 41 mn. € one time charges for restructuring)

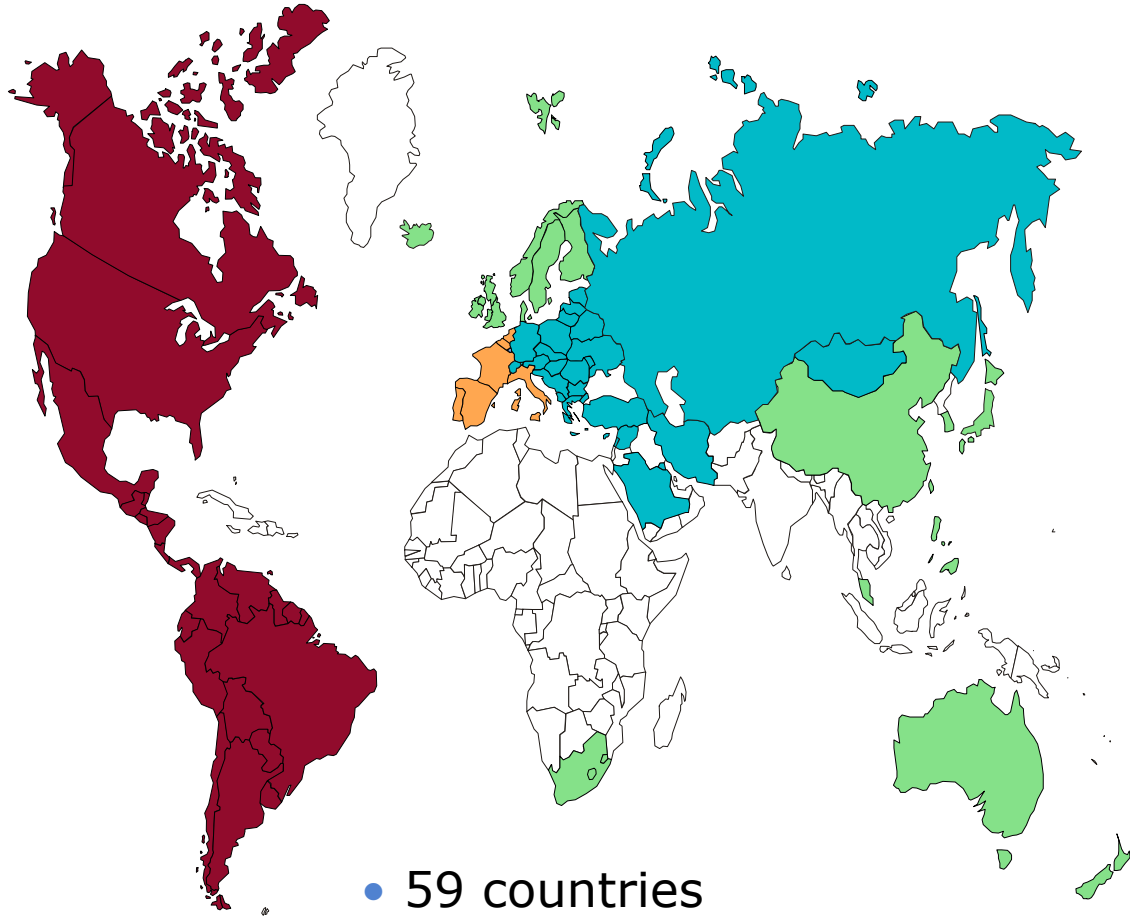
After 12 months, Software AG is confident of meeting or exceeding these targets.

# Business Power

# First Class Customer Base

	<b>Public Administration</b>	 Landeshauptstadt München  European Parliament  California STATE BOARD OF EQUALIZATION  bremen online services  AVDC
	<b>Financial</b>	 Dresdner Kleinwort Benson  CITIBANK  CREDIT SUISSE  FIRST BOSTON  THE BANK OF NEW YORK  CORNHILL Insurance  MARKS & SPENCER Financial Services  MORGAN STANLEY DEAN WITTER  Merrill Lynch  Swiss Re  Insurance products  Oblesure  CHASE
	<b>Media &amp; Telecom</b>	 ZDF  BERTELSMANN media worldwide  AT&T  WORLDWIDE  Telefonica  Sprint  Deutsche Telekom
	<b>Pharma &amp; Chemicals</b>	 Roche  STADA Ciclum Farma  MERCK  Pfizer
	<b>Manufacturing</b>	 SIEMENS  SONY  PHILIPS  National Gypsum COMPANY  Henkel  NABISCO  NISSAN  PEPSI  Nestlé

# Global Presence



## Four Business Regions (revenue 9 months 2003):

- **Americas** (34%)
- **Southern/  
Western Europe**  
(27%)
- **Central/  
Eastern Europe**  
(22%)
- **Northern Europe/  
Asia Pacific** (17%)

- 59 countries
- Global services to global customers
- Well balanced revenue distribution

**In an increasingly complex and networked environment we want to be the global number one partner to our customers by integrating and modernizing existing platforms, applications and data to maximize our customers' ROI.**

# Two Business Lines

## ETS-Modernization

## XML Business Process Integration

Mission-critical Applications



Sarbanes-Oxley

Post-merger integration

Customer multi channel integration

Customer service integration

e-Business solutions

Basel II

...

ERP  
Packages

CRM  
Packages

Document  
Management

Email,  
Collaboration

...

- Optimize, Extend, Manage



# Enhancing the Value of Enterprise Database Applications...

## ■ Mainframe Modernization Suite



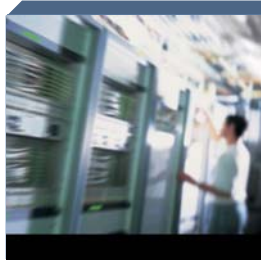
### Optimize

- Database Performance
- Developer Productivity
- Enterprise Security



### Extend

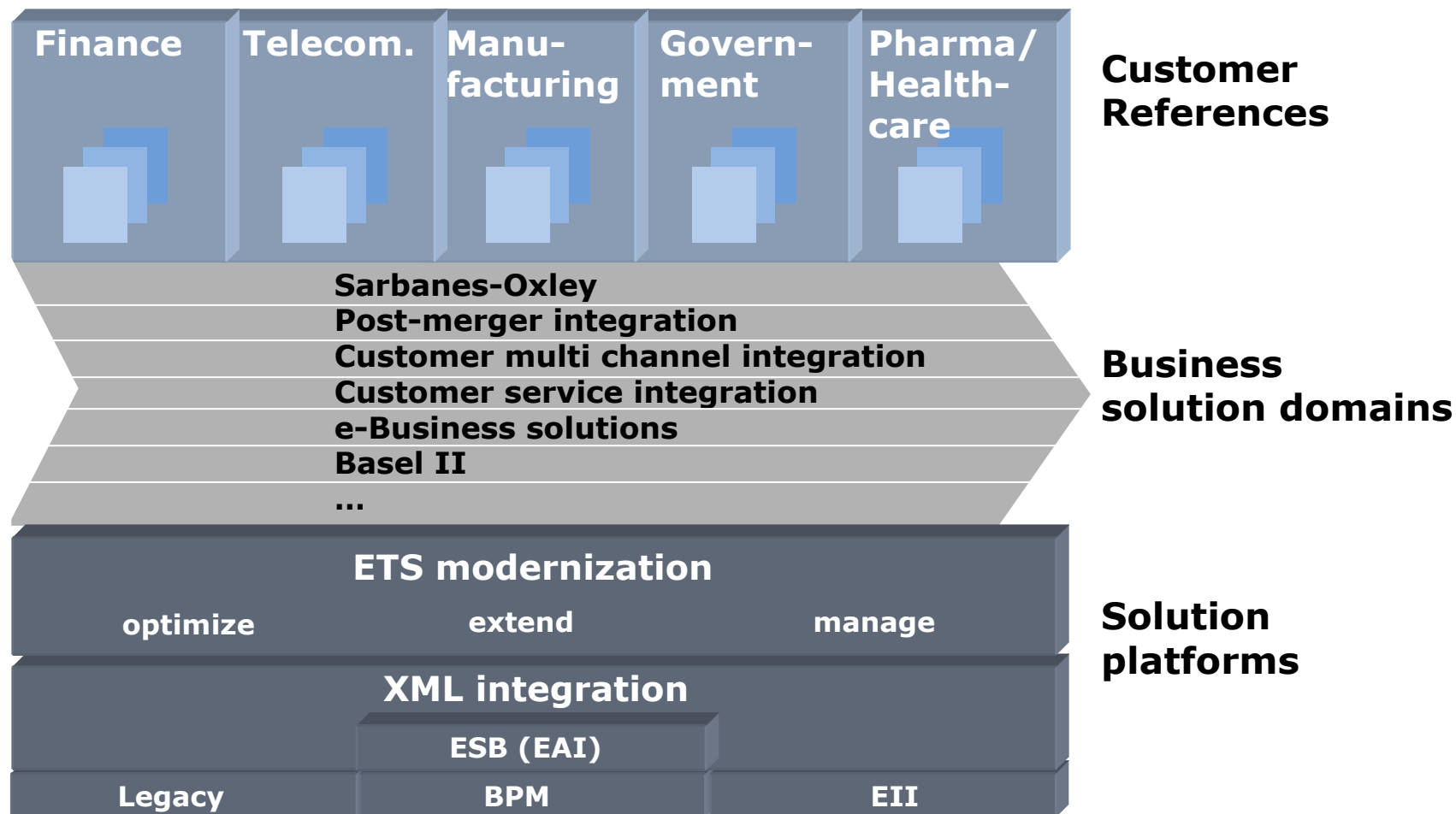
- Web Enablement
- Enterprise Connectivity
- Legacy Integration



### Manage

- Platform Re-Hosting
- System Outsourcing
- Application Re-Engineering

# Comprehensive solutions offering



# Outlook

# Outlook 2004 - Business Opportunities

- Overall economic climate expected to improve
  - ◆ IT investments likely to grow in 2004  
(Europe 3%, Germany 2%)
- Price pressure in project services will continue
  - Strong Euro will support US competitors
- Customers will continue to modernize and integrate installed (mission-critical) IT-systems
  - ▶ Software AG can expand its sales and services to installed customer base (mainframe modernization)
- Customers demand innovative (XML-based) use of enterprise data
  - ▶ Software AG can win new customers with superior XML-based business integration solutions

# Outlook 2004 – Financial Forecast

- Revenues: the decline will be stopped (net of currency effects)
  - ◆ License sales will increase in core business lines and make up for reduction of non strategic business
- Cost: new organization and off-shore services will improve cost structure (lower and more USD based costs)
- Operating result will increase by 25 – 35% vs. 2003e consensus
- Strong organic free cash flow will continue
- Change to IFRS (IAS): amortization of goodwill may no longer be required

# Summary

- Software AG has a focused strategy for profit and growth
  - ◆ ETS (mainframe) modernization
  - ◆ XML business integration
- Software AG is financially strong
  - ◆ Solid balance sheet
  - ◆ Recurrent free cash flow
  - ◆ Growing operating results
- Software AG is an attractive investment opportunity
  - ◆ Trading at PE Ratio of 11 (2004e)
  - ◆ Priced at 1x sales (2004e)
  - ◆ Offering an organic free cash yield of 12% EV (2003)





# Backup Slides

A blue decorative graphic consisting of a horizontal bar with a wavy, layered effect on the right side, extending across the top of the slide.

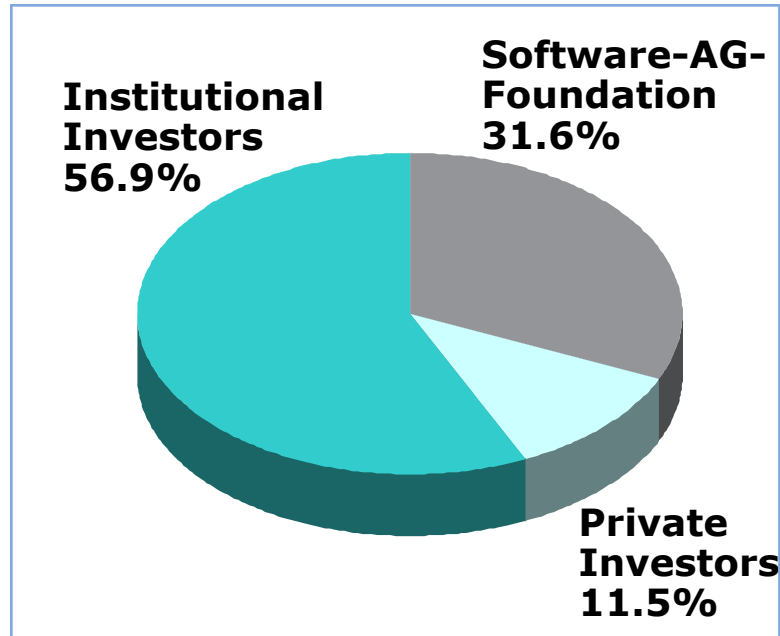
- Stock Information
- Market Potential
- Customer References

# Shareholder Structure

(Number of Shares: 27.3 mn.; Free Float: 68.4%)

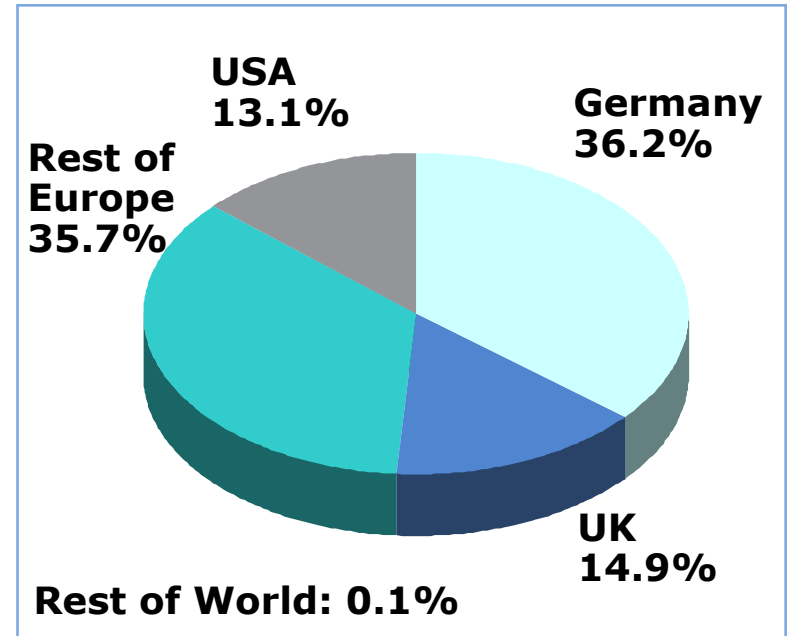
## Shareholder Structure

as of June 30, 2003



## Free Float by Region

as of June 30, 2003



## Major Funds (Source: Thomson Financial):

Classic Global Equity Fund, Switzerland

Dekafonds, Germany

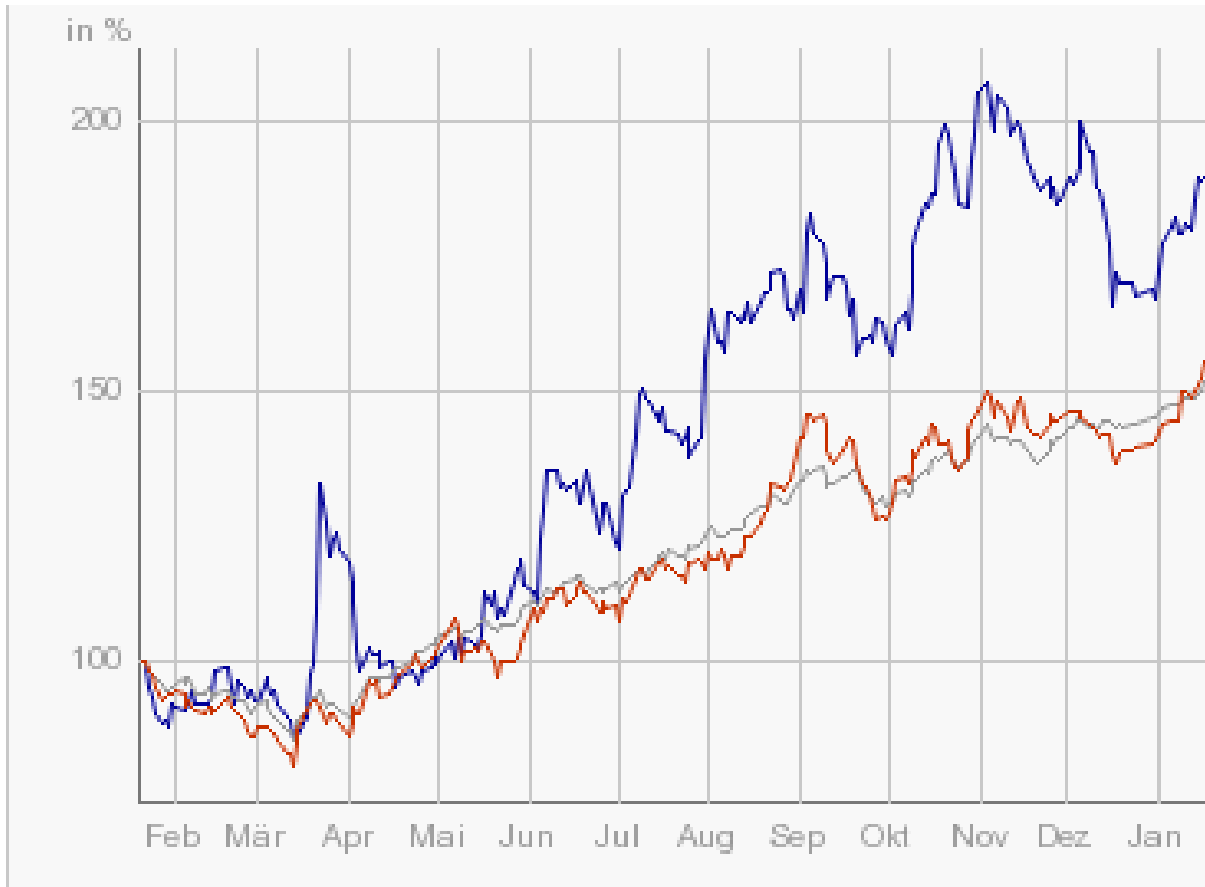
Fidelity Investment Funds, UK

Julius Bär Multistock – German Stock Fund, Switzerland

Investors European Growth Fund, Ireland

# Share Price

12 months rolling



Quelle: Deutsche Börse

SAG share price:  
12/31/02: 9.01 €  
12/31/03: 16.30 €

# Market Potential

# Renewed Interest in Enterprise Systems and the Mainframe

**“Today, mainframes deliver tremendous value for the money. Organizations are well advised to preserve their investment in this critical technology which has been the lynchpin for many enterprises.”**

Carl Olofson, IDC Research

**“Enterprises can increase their flexibility and reduce their risk by restructuring established mission-critical systems.”**

Dale Vecchio, Gartner Group

**“IT Managers are recognizing that maintaining and updating legacy systems is vital to corporate success.”**

Michael Bucken, Editor AD Trends

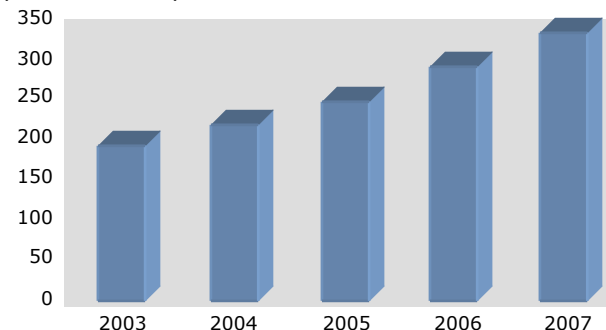
# Market potential

## Total Modernization Market

- **2004 = \$500M**
- **2005 = \$560M**
- **2006 = \$620M**

## 2004 Legacy Integration = \$210M

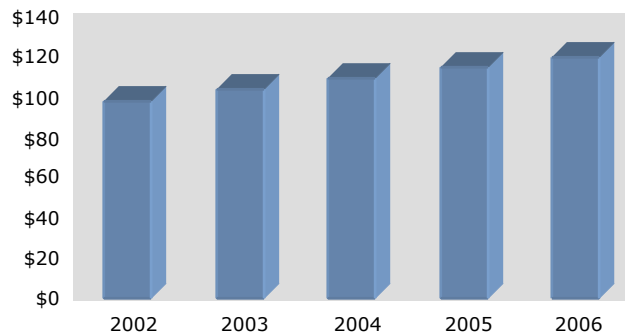
(Dollars in Millions)



Source: Gartner Research (December 2003)

## 2004 Screen Scraper = \$105M

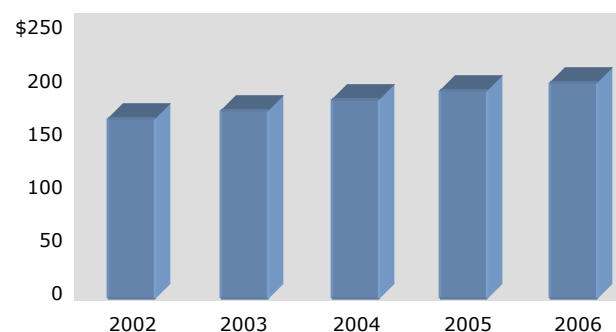
Dollars in Millions



Source: Gartner Research (March 2003)

## 2004 Code Re-engineering = \$185M

(Dollars in Millions)



Source: Gartner Research

# Why focus on XML Integration

## Analyst quotes

Integration is still #1 issue for the CIO

- Ranked in Morgan Stanley CIO survey as the #1 problem
- According to Gartner, 90% of business applications involve integration
- Integration market is expected to grow 9.8% CAGR

Gartner, August 2003

Imperative need to provide a single view of information

- "Developing an enterprise view of the customer is one of the primary requirements of a CRM-based sales and service strategy."

TowerGroup Research, March 2003

Abundance of monolithic, mission-specific, silo systems

- "More than 90% of enterprise applications in production are monolithic. Their business logic is not externally accessible in a modular form that allows easy reuse in other applications."

Gartner, The Agile Enterprise, October 2003

Inability to effectively aggregate data

- "I feel like we are missing a major opportunity because our systems aren't integrated. We have to do a ton of custom coding right now, and unfortunately no one has shown us a solution that doesn't ask us to change our business model to fit the package."

Insurance Company, Forrester Research



# Customer References

## ■ Challenge

Improve the efficiency for accessing the 900,000 building codes, occupancy and safety information, so engineers and architects can save days and weeks on their building projects

## ■ Solution

The Building Department used EntireX to put a „wrapper“ around the data and applications, allowing the mainframe data to be passed forward to web system

## ■ Benefits

“It’s remarkable how easy and cheap it was.”

Matti Friedman – Director, DOB NYC



**Two Developers Built Site, with over 135,000 daily hits, in Less Than 6 Months**

# Supply Chain Integration

## ■ Technology

- ◆ EntireX XML Mediator and Tamino (Required)
- ◆ EntireX Communicator (Optional)

## ■ Domain Implementation Components

- ◆ Architecture based on Mediator, Tamino and Communicator

## ■ Services

- ◆ Variable service offerings for integration

## ■ Sales Pattern

- ◆ Motor Manufacturers that need to shorten time from customer requirement (customized vehicle) to delivery while efficiently managing stock holding

## ■ Ownership

- ◆ -

## ■ Reference

- ◆ Nissan



Windows 2000

IBM OS/390

