

**9-Month Financial Report and
Report on the Third Quarter
of 2023**

USU Software AG

USU AT A GLANCE

9-Month Report 2023	2023	2022
<i>in EUR thousand, except earnings per share and number of employees</i>	JAN. 1-SEPT. 30, 2023	JAN. 1-SEPT. 30, 2022
SALES	97,819	92,874
Adjusted EBITDA	8,773	11,695
EBITDA	8,426	11,695
EBIT	4,824	8,155
NET RESULT	3,304	5,776
EARNINGS PER SHARE (EUR)		
Diluted	0.31	0.55
Undiluted	0.33	0.58
CASH FLOW FROM OPERATING ACTIVITIES	3,243	5,943
NUMBER OF EMPLOYEES AS AT JUNE 30	814	755
	SEPT. 30, 2023	Dec. 31, 2022
CASH AND CASH EQUIVALENTS	9,829	15,525
SHAREHOLDERS EQUITY	55,365	56,954
BALANCE SHEET	111,007	112,979
EQUITY RATIO	49.9%	50.4%

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LETTER TO SHAREHOLDERS

Dear Shareholders and Readers,

The USU Group continued to grow in the third quarter of 2023, posting increases internationally again in particular. Business with software-as-a-service (SaaS) business once again posted above-average growth. Although only some of the orders postponed in Q2 could be completed in the reporting quarter, USU is showing that it can grow sustainably even in the current difficult macroeconomic environment thanks to its strategic focus. We are thus also systematically continuing our investment projects in artificial intelligence and the cloud management market, as well as investing substantial funds in the new central USU product platform. This entails reduced margins in the current year, but in view of the medium-term planning we see these future investments as indispensable.

At a time of staff shortages, we have also adopted an employee share purchase program in order to achieve direct employee participation and thereby increase employee satisfaction and retention. This program was implemented at end of the third quarter. Up to 56,250 USU shares from the holdings of treasury shares acquired in the previous year were offered to USU Group employees at a discounted purchase price, with each employee being able to purchase up to a maximum of 75 shares depending on his or her length of service and contractual working hours. The program was taken up by the majority of eligible employees, but has not yet been completely finalized. We are delighted that large numbers of the USU workforce are now also among the USU Group's shareholders. However, it should be noted that a special aspect arises under IFRS in connection with this employee share purchase program, as this resulted in staff costs (share-based compensation) of EUR 347 thousand. Since these are IFRS-specific extraordinary expenses, the Management Board has decided to communicate earnings adjusted for extraordinary effects (adjusted EBITDA) starting from the third quarter of 2023 just passed. This figure is adjusted only for extraordinary effects arising from share-based compensation, restructuring, or acquisitions. As such, USU's guidance will relate to adjusted EBITDA from now on.

The Management Board will report on the adjustments transparently as usual, and is confirming the current guidance of sales growth to between EUR 132 million and EUR 139 million with a targeted further significant expansion of SaaS business and adjusted EBITDA of between EUR 13 million and EUR 15 million for 2023 as a whole. The Management Board is also reiterating the current medium-term planning, which forecasts average organic sales growth of 10% in the next few years and, in view of the continued growth in SaaS business, an increase in the adjusted EBITDA margin to between 17% and 19% by 2026.

Yours,

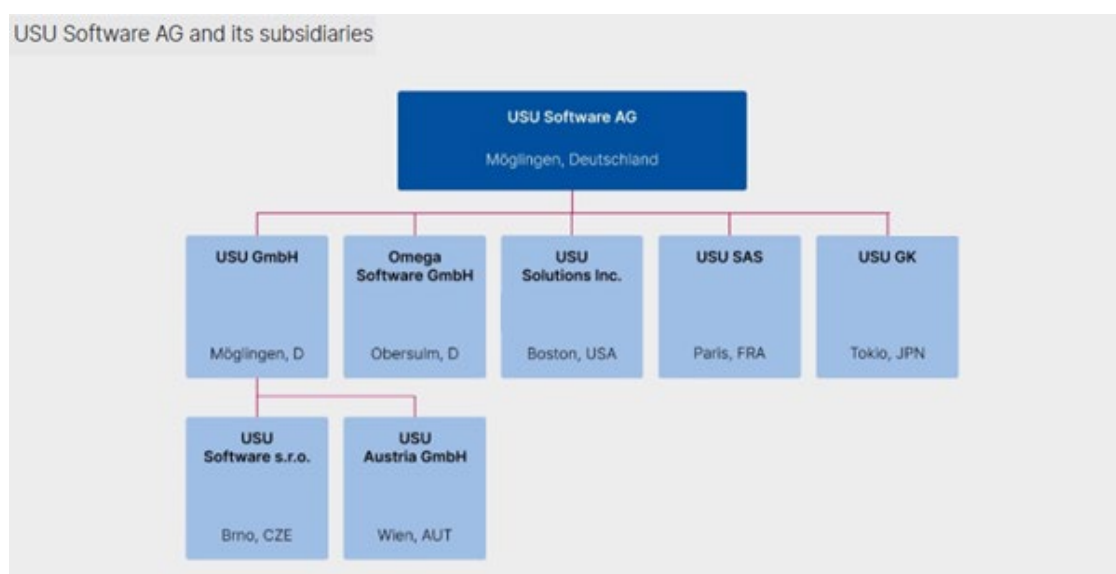
Bernhard Oberschmidt,

CEO of USU Software AG

Basic information on USU Software AG and the Group

As the parent company of the Group, USU Software AG, Möglingen, Germany, has direct or indirect holdings in the following operational companies: USU GmbH, Möglingen, Germany; USU Software s.r.o., Brno, Czech Republic; USU Austria GmbH, Vienna, Austria; Omega Software GmbH, Obersulm, Germany; USU Solutions Inc., Boston, USA; USU SAS, Paris, France and USU GK, Tokio, Japan. In addition, USU Software AG has a shareholding in Openshop Internet Software GmbH, Möglingen, Germany, which is no longer operational.

At the start of the second quarter of 2023, USU Technologies GmbH and USU Solutions GmbH were merged into USU GmbH as part of the “One USU” strategy. The mergers combined the three legally independent entities USU GmbH, USU Solutions GmbH and USU Technologies GmbH within the USU Group as part of the continuing USU GmbH.



Business model, objectives, strategies and controlling system

As a leading provider of software and service solutions for IT and customer service management, USU Software AG and its subsidiaries (hereinafter also referred to as the “USU Group” or “USU”) sets standards for better service quality. With USU, companies are responding to the changed customer and employee needs in a digital world. Well-known companies use USU solutions to create transparency, become more agile, cut costs, and reduce their risk – by means of smarter services, simpler workflows, and better collaboration. In addition to software asset management, IT service management, and IT service monitoring, the USU service portfolio also covers the areas of knowledge management, self-service management, digital service solutions, and AI services.

More than 1,200 USU customers from all sectors of the global economy benefit from USU solutions. They include Allianz, Atruvia, Bechtle, BITBW, BMW, Deutsche Bahn, Deutsche Telekom, Swiss Post, Jungheinrich, LinkedIn, Novartis, Otto, VW, and W&W. USU Software AG has made it its goal to achieve growth in consolidated sales above the average level for the IT market as a whole in the years ahead while also further increasing its profitability. It will focus on organic growth through innovation and by expanding the Group's international market presence, though growth through acquisitions and equity investments is also a part of the corporate strategy.

The key performance indicators for USU Software AG and the Group are sales and adjusted EBITDA. Due to the increased share of extraordinary one-time effects, USU has started reporting "adjusted EBITDA" with immediate effect. This figure is adjusted for extraordinary effects arising from share-based compensation, restructuring, or acquisitions. In the third quarter, an employee share purchase program was launched for the first time, leading to the recognition of expenses of EUR 347 thousand. An option program is also planned for the management staff. This is covered by shares of the founder and majority shareholder Udo Strehl and therefore will not have any dilutive effect or impact on cash flow for USU. Nonetheless, expenses for share-based compensation will have to be recognized in connection with this in the future under IFRS. The current guidance for 2023 and the medium-term planning are thus based on adjusted EBITDA. Accordingly, adjusted EBITDA serves as an important planning and control parameter for USU Software AG and the Group alongside consolidated sales. According to the current guidance, the Management Board expects sales growth to between EUR 132 million and EUR 139 million and adjusted EBITDA of between EUR 13 million and EUR 15 million in fiscal 2023 thanks to the targeted further expansion of SaaS business.

Thanks to the success of the SaaS transformation, the associated high level of orders on hand, and the consistently strong consulting business, the Management Board is confirming the current medium-term planning, which includes average organic sales growth of 10% in the next few years and, in view of the continued growth in SaaS business, an increase in the adjusted EBITDA margin to between 17% and 19% by 2026.

Research and development

In the recently published analyst report¹ “The Forrester Wave™: Enterprise Service Management, Q4 2023,” USU achieved the best score in the scorecard category of innovation. This evaluation, among other things, reflects the prominent role that research and development (R&D) plays throughout the USU Group. USU has been investing heavily in R&D for many years to expand the existing portfolio with new modules and to develop new and attractive products.

In the first three quarters of 2023, USU invested a total of EUR 16,009 thousand (Q1-Q3 2022: EUR 13,322 thousand) or 16.4% (Q1-Q3 2022: 14.3%) of consolidated sales in research and development. The total number of employees in this segment was 232 as at September 30, 2023 (September 30, 2022: 225). The USU Group’s R&D expenses do not typically meet the criteria for recognition and hence are not capitalized.

The USU-wide R&D strategy centers on gradually creating a holistic SaaS-based platform, which will integrate the entire IT asset management, service management and IT operations management portfolio over the coming years. The individual solutions will be available as modular apps. The associated development work began in 2022 and continued in the first nine months of the year as planned. At the same time, the existing portfolio of the individual divisions was and continues to be continuously enhanced and expanded to include new innovations as it has been in recent years.

The R&D team in USU Service Management worked on a number of enhancements and improvements. For example, an Excel report option was added to the generic interface function and the layout in the USU shop module was improved. The new version of the self-service portal now has a more efficient search function and enhanced chatbot integration. A new version of the service desk app featuring improved identification of the person in question was also completed.

With regard to the USU IT Monitoring solution, work on the new release was continued, such as performance improvements. One focus here was the new server monitoring app, which makes it considerably easier to monitor servers thanks to its improved user guidance. At the same time, the underlying architecture opens up the possibility to offer monitoring functions as cloud services. With the same goal, the development of the end-to-end monitoring app was completed this quarter.

¹ cf. The Forrester Wave™: Enterprise Service Management, Q4 2023 dated November 6, 2023, published at <https://www.forrester.com/report/>

R&D work in USU Software Asset Management (SAM) is currently focusing on two main tasks: In addition to integrating the SaaS management solution in the new USU platform, improvements in SaaS and SAP® software are particularly important. For example, new functions have been introduced to allow for better management and optimization of the authorization-based user metric in SAP. On top of this, there are more detailed analyses and processing options for technical use.

Generative AI was at the heart of R&D activities in USU Knowledge Management. Its core product, the active knowledge database, was enhanced with an AI-based assistant that provides support for users in many situations. Content quality is also becoming increasingly important due to the use of generative AI. USU is taking account of this development with the new “active editor,” which manages knowledge in individual, combinable modules or blocks. In the self-service area, the new chatbot version and the new HelpCenter module were completed, offering much better integration and allowing for additional use cases, for example in sales.

The R&D team in USU AI Services is developing new, AI-based technology components for the existing USU portfolio. For example, it now allows the new AI-based ticket routing for service management to learn tickets incrementally, meaning that training for new tickets can be initiated much more frequently. In addition, visual monitoring of the training process has been integrated to allow for early controlling. Extensive research is also currently in progress to enable USU to operate and train large language models (LLMs) internally too in the future.

In USU Cloud Management, a new cloud cost management service was launched in the reporting period. This provides customer organizations with user-friendly cost reporting for complex multi-cloud environments from AWS, Google Cloud Platform, and Azure. Regular reports, a detailed interpretation of the results, and support in taking the next steps by USU cloud experts help ensure cost transparency and minimize financial risks. Based on experience, the ROI in cloud cost management is only a few months.

Two research projects are currently active: AutoQML and KISS. Both projects use the new AI Wizzard, a tool for automating the creation of data-driven services. Specialist departments can use this to develop successful AI models without the help of data scientists. Its practical suitability is currently being tested in several use cases, for example at KEB, a manufacturer of industrial drives and solutions for process automation.

Economic report

Overall economic development

According to a report from the German Federal Statistical Office (“destatis”) ² dated October 30, 2023, German gross domestic product (GDP) decreased slightly by 0.1% in the third quarter of 2023 – adjusted for inflation, seasonal and calendar effects – after revised destatis figures showed that it had increased slightly in the second quarter of 2023 (revised +0.1%) and stagnated in the first quarter of 2023 (revised 0.0%). Destatis also reported that private household consumer spending saw a particular decline. By contrast, equipment investment delivered positive impetus.

GDP in the third quarter of 2023 was 0.8% lower than in the third quarter of 2022 after adjustment for inflation. The decline was 0.3% lower after adjustment for inflation and calendar effects, as there was one less working day than in the previous year.

According to a provisional flash estimate by the Statistical Office of the European Union (Eurostat) ³, the euro area saw a quarter-on-quarter decline in seasonally adjusted GDP of 0.1% in the third quarter of 2023 after an increase of 0.2% in the second quarter of 2023 and no change in the first quarter of 2023 according to Eurostat figures. According to Eurostat information, seasonally adjusted euro area GDP increased by 0.1% year-on-year in the third quarter of 2023.

Sector development

The digital industry association Bitkom ⁴ found that the business climate in the digital sector worsened overall in September 2023. Its digital index, which shows the business climate in the digital sector based on a monthly ifo economic survey and is calculated as the geometric mean of the values for the current business situation and business expectations, recorded a decrease of 3.2 points to 5.9 points in September. This reflected the fact that ICT companies rated their business expectations more weakly in September 2023 than in the previous month (down 3.9 points at minus 12.4 points), while the business situation was also rated worse than in the previous month at 25.9 points (down 2.3 points) but was still evaluated positively overall.

²cf. Destatis press release no. 420 dated October 30, 2023, published at <https://www.destatis.de>

³ cf. Eurostat press release 123/2023 dated October 31, 2023, published at <http://ec.europa.eu/eurostat>

⁴ cf. Bitkom-ifo digital index: September 2023 published at www.bitkom.org

Business development in the third quarter of 2023

With a recovery in international business and thanks to a significant rise in SaaS sales, USU Software AG and its subsidiaries (hereinafter also referred to as the “USU Group” or “USU”) increased their consolidated sales by 1.0% to EUR 32,921 thousand in the third quarter of 2023 (Q3 2022: EUR 32,579 thousand) despite orders being postponed on account of the economy. This upturn was driven chiefly by the USU Group’s international business, which picked up by 6.1% to EUR 9,121 thousand in the reporting quarter (Q3 2022: EUR 8,599 thousand). Following a dip in sales from international business in the previous quarter, there was a significant recovery last quarter, leading to the increase in sales. Accordingly, the proportion of consolidated sales attributable to international business rose from 26.4% in the same period of the previous year to 27.7% in the third quarter of 2023.

Broken down by sales type, the USU Group once again generated the highest growth with SaaS solutions. USU thus increased its SaaS sales by 15.1% year-on-year to EUR 4,300 thousand in Q3 2023 (Q3 2022: EUR 3,736 thousand). At the same time, however, license revenue was around two-thirds lower than in the previous year at EUR 1,329 thousand (Q3 2022: EUR 3,987 thousand) as a result of the strategic shift from one-time license business to SaaS business. Maintenance sales also decreased slightly by 1.3% to EUR 6,415 thousand (Q3 2022: EUR 6,499 thousand). Thanks to strong SaaS business, total recurring revenue (maintenance sales including SaaS revenue) climbed by 4.7% to EUR 10,715 thousand (Q3 2022: EUR 10,235 thousand). In the same period, USU’s consulting sales also increased by 12.0% year-on-year to EUR 20,608 thousand (Q3 2022: EUR 18,400 thousand). Other income, which essentially comprises sales of third-party hardware and software, amounted to EUR 269 thousand (Q3 2022: EUR -43 thousand).

The USU Group’s cost base increased by a total of 6.7% year-on-year to EUR 31,769 thousand (Q3 2022: EUR 29,766 thousand) as a result of the business growth and the related expansion of the consultant team and the use of additional freelancers and partners, as well as higher R&D investment in artificial intelligence, the market for cloud management and in the new central product platform, higher staff costs as a result of inflation, and one-time expenses resulting from the employee share purchase program. As a result of the decline in high-margin license revenue and a simultaneous rise in costs, earnings before interest, taxes, depreciation and amortization (EBITDA) decreased by 44.3% year-on-year to EUR 2,469 thousand in the reporting quarter (Q3 2022: EUR 4,432 thousand). Adjusted for the one-time expenses from share-based compensation of EUR 347 thousand (Q3 2022: EUR 0 thousand), adjusted EBITDA came to EUR 2,816 thousand (Q3 2022: EUR 4,432 thousand).

At the same time, EBIT amounted to EUR 1,232 thousand (Q3 2022: EUR 3,216 thousand). This corresponds to a year-on-year decline in EBIT of 61.7%. Net finance income amounted to EUR -21 thousand in the third quarter of 2023 (Q3 2022: EUR 138 thousand). The lower earnings caused income taxes to contract from EUR 1,112 thousand in the third quarter of 2022 to EUR 353 thousand in Q3 2023. Overall, USU's consolidated earnings in the third quarter of 2023 came to EUR 858 thousand (Q3 2022: EUR 2,242 thousand), 61.7% lower than in the previous year. With an average of 10,523,770 (Q3 2022: 10,523,770) shares outstanding, this corresponds to diluted earnings per share of EUR 0.08 (Q3 2022: EUR 0.21), while basic earnings per share came to EUR 0.09 (Q3 2022: EUR 0.21) with an average of 10,000,000 (Q3 2022: 10,523,770) shares outstanding.

Business performance in the first nine months of fiscal 2023

Development of sales and costs

Consolidated sales

From a nine-month perspective, USU generated sales growth of 5.3% to EUR 97,819 thousand (Q1-Q3 2022: EUR 92,874 thousand). The USU Group increased its sales in Germany by an above-average 6.5% to EUR 75,439 thousand (Q1-Q3 2022: EUR 70,863 thousand) as a result of strong consulting business in Germany. International business also increased by 1.7% year-on-year to EUR 22,380 thousand in the first nine months of the year (Q1-Q3 2022: EUR 22,011 thousand) thanks to the positive development in the reporting quarter. The proportion of USU's consolidated sales attributable to international business was thus almost at the previous year's level at 22.9% (Q1-Q3 2022: 23.7%).

Broken down by sales type, USU recorded a particularly high year-on-year increase in SaaS sales of 20.4% to EUR 12,514 thousand (Q1-Q3 2022: EUR 10,397 thousand). USU built up high recurring SaaS orders on hand in past years as a result of the shift from one-time license business to SaaS business and these will continue to grow significantly in the future as SaaS makes up an increasing share of new business. At the same time, USU benefited from license business in previous quarters and related maintenance business. Maintenance sales rose by 3.6% year-on-year to EUR 19,387 thousand (Q1-Q3 2022: EUR 18,706 thousand). USU thus increased its recurring revenue by 9.6% year-on-year to EUR 31,901 thousand in the first nine months of the year (Q1-Q3 2022: EUR 29,103 thousand), meaning that the share of total sales attributable to recurring revenue rose to 32.6% (Q1-Q3 2022: 31.3%). At the same time, however, license revenue was down 64.8% on the previous year at EUR 3,457 thousand in the first nine months of 2023 (Q1-Q3 2022: EUR 9,810 thousand) as a result of the move to SaaS and order postponements by potential new customers in the reporting period.

USU's consulting sales also increased by 16.1% year-on-year to EUR 61,800 thousand in the same period thanks to the sustained digitization trend (Q1-Q3 2022: EUR 53,233 thousand). Other income, which essentially comprises sales of third-party hardware and software, amounted to EUR 661 thousand (Q1-Q3 2022: EUR 728 thousand).

Sales by segment

The product range of the Product Business segment includes all activities relating to USU's product portfolio in the market for IT management solutions, the knowledge management market and USU AI Services, the division for big data analytics that emerged from the research department. The Service Business segment comprises consulting services for IT projects, individual application development and digital strategy consulting, service and UX design and web portals, apps and intranets.

The Product Business segment contributed sales of EUR 65,764 thousand in the first nine months of 2023 (Q1-Q3 2022: EUR 65,991 thousand), down slightly by 0.3% on the previous year. In the same period, USU increased its consulting sales in the Service Business segment by 19.7% year-on-year to EUR 32,055 thousand (Q1-Q3 2022: EUR 26,782 thousand). The sales not assigned to the segments amounted to EUR 0 thousand in the first nine months of 2023 (Q1-Q3 2022: EUR 101 thousand).

Operating costs

The USU Group's operating cost base increased by 9.7% year-on-year to EUR 93,650 thousand in the first nine months of fiscal 2023 (Q1-Q3 2022: EUR 85,398 thousand). This firstly reflects the higher costs resulting from the increased use of employed consultants, freelancers and partners in connection with the business growth. Secondly, wage and salary increases for staff on account of inflation and the extraordinary staff costs associated with the employee share purchase program (share-based compensation) also had an impact, as did USU's increased return to trade fairs and conferences after the pandemic.

In particular, the cost of sales reflect business growth in consulting in the first nine months of 2023 and rose by 7.8% year-on-year to EUR 50,862 thousand (Q1-Q3 2022: EUR 47,173 thousand) as a result of higher fees paid to the additional freelancers employed and increased staff costs due to expanding the consultant team, as well as the share-based compensation. Accordingly, the cost of sales as a percentage of consolidated sales increased from 50.8% in the previous year to 52.0% at the reporting date. At the same time, gross income rose from EUR 45,701 thousand in the first nine months of 2022 to EUR 46,957 thousand, an increase of 2.8%. The gross margin in the Q1-Q3 2023 reporting period was 48.0% (Q1-Q3 2022: 49.2%).

Marketing and selling expenses increased by 13.3% year-on-year to EUR 18,296 thousand in the first half of the year (Q1-Q3 2022: EUR 16,143 thousand). Among other things, this reflects the USU Group's increased return to trade fairs, conferences and other sales events after the pandemic, wage and salary increases for staff on account of inflation, and the extraordinary staff costs associated with the employee share purchase program (share-based compensation). As a result, marketing and selling expenses as a share of sales rose from 17.4% in the first three quarters of 2022 to 18.7%.

Despite the share-based compensation, general and administrative expenses were down 3.2% year-on-year at EUR 8,483 thousand in the reporting period (Q1-Q3 2022: EUR 8,760 thousand) thanks to reduced non-staff operating costs. The ratio of administrative expenses to consolidated sales accordingly decreased to 8.7% in the reporting period (Q1-Q3 2022: 9.4%).

Research and development expenses also rose by 20.2% year-on-year to EUR 16,009 thousand in the first nine months of fiscal 2023 (Q1-Q3 2022: EUR 13,322 thousand) due to expanding the team of developers to accelerate the application development relating to artificial intelligence, cloud management and a central Group product platform as part of the "One USU" strategy and higher staff costs as a result of this, as well as wage and salary increases required for R&D staff on account of inflation and the extraordinary staff costs associated with the employee share purchase program (share-based compensation). The ratio of research and development expenses to consolidated sales therefore increased from 14.3% in the previous year to currently 16.4%. USU is constantly investing in the development of its product portfolio and is always working on innovative, market-driven software solutions. In the medium term, USU is planning to increase its R&D expenditure in absolute terms while reducing the ratio of research and development expenses to consolidated sales on account of strong sales growth.

Net other operating income and expenses totaled EUR 655 thousand in the first nine months of 2023 (Q1-Q3 2022: EUR 679 thousand).

Results of operations

Regardless of the above-average rise in SaaS sales, operating profitability declined in the first nine months of 2023 as a result of modest license business, leading to a year-on-year decrease in USU's EBITDA of 28.0% to EUR 8,426 thousand (Q1-Q3 2022: EUR 11,695 thousand). Adjusted for the one-time expenses from share-based compensation of EUR 347 thousand (Q3 2022: EUR 0 thousand), adjusted EBITDA came to EUR 8,773 thousand (Q1-Q3 2022: EUR 11,695 thousand). The adjusted EBITDA margin declined accordingly from 12.6% in the previous year to 9.0%. At the same time, USU generated EBIT of EUR 4,824 thousand in the first nine months of 2023 (Q1-Q3 2022: EUR 8,155 thousand).

This corresponds to a year-on-year decline in EBIT of 40.8%. Net finance costs amounted to EUR -94 thousand in the first nine months of 2023 (Q1-Q3 2022: EUR 209 thousand), while income taxes decreased to EUR 1,426 thousand (Q1-Q3 2022: EUR 2,588 thousand) as a result of the year-on-year decline in earnings. All in all, USU's consolidated earnings fell by 42.8% year-on-year to EUR 3,304 thousand in the first nine months of 2023 (Q1-Q3 2022: EUR 5,776 thousand). With an average of 10,523,770 (Q1-Q3 2022: 10,523,770) shares outstanding, this corresponds to diluted earnings per share of EUR 0.31 (Q1-Q3 2022: EUR 0.54), while basic earnings per share came to EUR 0.33 (Q1-Q3 2022: EUR 0.58) with an average of 10,000,000 (Q1-Q3 2022: 10,523,770) shares outstanding.

Net assets and financial position

On the assets side of the statement of financial position, the USU Group's non-current assets as of September 30, 2023, were down slightly on the figure as of December 31, 2022, at EUR 64,740 thousand (December 31, 2022: EUR 64,791 thousand), while current assets decreased from EUR 48,188 thousand as of December 31, 2022, to EUR 46,267 thousand. This decrease was chiefly due to the dividend-related decline in Group liquidity, which amounted to EUR 9,829 thousand as of September 30, 2023 (December 31, 2022: EUR 15,525 thousand). On June 20, 2023, the Annual General Meeting resolved to distribute a dividend of EUR 0.55 per dividend-bearing share (total of EUR 5,500 thousand), which is reflected in the lower cash and cash equivalents as of September 30, 2023.

On the equity and liabilities side of the statement of financial position, the equity of the USU Group fell from EUR 56,954 thousand as of December 31, 2022, to EUR 55,365 thousand as of September 30, 2023, as a result of the dividend distribution to USU shareholders. At the same time, debt in the form of the USU Group's current and non-current liabilities decreased to EUR 55,642 thousand as at September 30, 2023 (December 31, 2022: EUR 56,025 thousand). This decrease mainly resulted from the reduction of staff and social security liabilities to EUR 6,862 thousand (December 31, 2022: EUR 10,070 thousand).

With total assets of EUR 111,007 thousand (December 31, 2022: EUR 112,979 thousand), the equity ratio was 49.9% as at September 30, 2023 (December 31, 2022: 50.4%). With this equity ratio, extensive Group liquidity, and no liabilities to banks, the USU Group still has extremely sound and secure financing.

Cash flows and capital expenditure

The USU Group had cash and cash equivalents of EUR 9,829 thousand as at September 30, 2023 (September 30, 2022: EUR 22,363 thousand). This represents a year-on-year decrease of EUR 12,534 thousand or 56.0%, due mainly to the share buyback at the end of 2022 and the dividend payment to USU shareholders in the reporting year.

USU's cash flow from operating activities decreased by EUR 2,700 thousand or 45.4% year-on-year to EUR 3,243 thousand in the first nine months of 2023 (Q1-Q3 2022: EUR 5,943 thousand), essentially due to changes in working capital as of the reporting date.

Net cash used in investing activities of EUR -1,178 thousand (Q1-Q3 2022: EUR -725 thousand) essentially includes investments in property, plant and equipment.

The cash flow from financing activities of EUR -7,778 thousand (Q1-Q3 2022: EUR -7,433 thousand) results from payments for the profit distribution to USU's shareholders of EUR 5,500 thousand (Q1-Q3 2022: EUR 5,262 thousand) and repayments of lease liabilities of EUR 2,278 thousand (Q1-Q3 2022: EUR 2,171 thousand).

Orders on hand

Thanks to several new and follow-up orders and despite the continuing postponement of orders in product business, the USU Group increased its Group-wide orders on hand by EUR 11,876 thousand year-on-year to EUR 85,639 thousand as of September 30, 2023 (September 30, 2022: EUR 73,763 thousand). This corresponds to a year-on-year increase of 16.1%. This development primarily resulted from the USU Group's higher SaaS, maintenance and consulting orders. USU increased its orders on hand by 3.2% as against the end of the previous year (December 31, 2022: EUR 82,991 thousand). In contrast, postponed investments by potential new customers compared to the end of the previous quarter (June 30, 2023: EUR 89,066 thousand) had an impact, resulting in a decrease in orders on hand of 3.8% or EUR 3,427 thousand compared to the previous quarter, mainly in relation to consulting business.

Orders on hand at the end of the quarter show the USU Group's fixed future sales based on binding contracts for the next 12 months. These primarily consist of project-related orders and maintenance and SaaS agreements.

Employees

The USU Group expanded its workforce by 7.8% or 59 employees year-on-year to 814 employees as of September 30, 2023 (September 30, 2022: 755), thus remaining above the 800 target as planned. Broken down by functional unit, USU employed a total of 369 people in consulting and services as at the end of the third quarter of 2023 (September 30, 2022: 318), 232 in research and development (September 30, 2022: 225), 119 in sales and marketing (September 30, 2022: 106) and 94 in administration (September 30, 2022: 106). Broken down by segment, USU employed 588 (September 30, 2022: 528) people in the Product Business segment, 132 (September 30, 2022: 121) in the Service Business segment and 94 (September 30, 2022: 106) in USU Group central functions. USU therefore expanded its Group workforce in line with its medium-term planning.

Forecast, report on risks and opportunities

Forecast

General economy

According to the latest Kiel Economic Report⁵ by the Kiel Institute for the World Economy (ifw Kiel) dated September 5, 2023, the German economy is gradually overcoming stagnation. Although various factors are currently weighing on economic activity – such as weak global investment, which is negatively affecting industrial export business – these are countered by the continued higher level of orders on hand, which is supporting industrial activity, especially since ifw Kiel predicts that shortages of materials and increased sick leave taken by workers are likely to have less and less of an impact on production in the future. ifw Kiel anticipates a growing improvement in the international environment, driving international business to pick up again gradually. With regard to the domestic economy, too, significant increases in purchasing power among large swathes of consumers are expected to boost consumer business little by little. This is largely attributable to redistributive domestic economic processes, particularly substantial wage rises and increased government transfers. However, the economic recovery is not expected to get going until the end of the year, so ifw Kiel anticipates a general economic decline in GDP of 0.5% for 2023 as a whole due to the weak first nine months of the year. In 2024, the brightening economy is expected to lead to GDP growth of 1.3% in Germany, chiefly due to increasing private consumer spending.

⁵ cf. Kiel Economic Reports, No. 107 (2023 | Q3) dated September 05, 2023, published at <https://www.ifw-kiel.de>

Turning to the euro area, ifw Kiel⁶ expects the economy to pick up again after its recent weak phase in view of energy prices that are largely back to normal, rising real incomes, and increasing support from the global economy. Nevertheless, economic momentum will likely remain subdued according to ifw Kiel, as monetary policy will probably be eased only cautiously. Accordingly, ifw Kiel puts predicted eurozone GDP growth at 0.6% for 2023 as a whole and 1.4% in the following year.

Sector

According to the latest Bitkom⁷ information, the digital industry is stable and set to enjoy further growth. According to a new outlook, the digital industry association Bitkom thus expects companies in the IT and telecommunications industries to record year-on-year sales growth of 2.1% in 2023 (2022: 6.3%) to EUR 213.2 billion (2022: EUR 208.8 billion). "Companies in the Bitkom industry are proving stable in a challenging environment and are optimistic about the future," said Bitkom President Dr. Ralf Wintergerst.

According to Bitkom, the IT market will again enjoy the highest growth in 2023, with sales set to increase to EUR 143.6 billion (2022: EUR 139.4 billion). This represents a year-on-year upturn of 3.0% (2022: 8.4%). Bitkom expects software sales to see the most pronounced rise of 9.6% (2022: 15.0%) to EUR 41.5 billion (2022: EUR 37.9 billion), with artificial intelligence playing an increasingly vital role within this segment with extremely dynamic growth of 40.8% to EUR 1 billion. Business with IT services, including IT consulting, also saw further growth of 5.3% (2022: 8.5%) to EUR 49.4 billion (2022: EUR 47.0 billion), according to the revised Bitkom figures.

In terms of the global IT market, the IT Spending Forecast published by the market research company Gartner⁸ on October 18, 2023 anticipates a year-on-year increase in IT expenditure of 3.5% (2022: 2.9%) to USD 4,694 billion in 2023 (2022: USD 4,533 billion).

According to Gartner, the market segments of software and IT services are expected to record above-average global growth rates of 12.9% (2022: 10.7%) to USD 916 billion (2022: USD 811 billion) and 7.3% (2022: 7.5%) to USD 1,401 billion (2022: USD 1,306 billion), respectively. Gartner revised all data as compared to its previous forecast. "Faced with a new wave of pragmatism, capital restrictions or margin concerns, CIOs are delaying some IT spending," says John-David Lovelock, Vice President at Gartner. "Organizations are shifting the emphasis of IT projects towards cost control, efficiencies and automation, while curtailing IT initiatives that will take longer to deliver returns."

⁶ cf. Kiel Economic Reports, No. 106 (2023 | Q3) dated September 06, 2023, published at <https://www.ifw-kiel.de>

⁷cf. Bitkom press release dated July 5, 2023, published at www.bitkom.org

⁸cf. Gartner press release dated October 18, 2023, published at www.gartner.com

Outlook

Thanks to the success of the SaaS transformation, the associated high level of orders on hand, and the consistently strong consulting business as a result of larger digitalization orders, the Management Board anticipates positive business development in Q4 2023 – with the final quarter of the year traditionally also being the strongest – even taking account of the negative macroeconomic environment and the associated postponement of orders by potential new customers. As such, the Management Board is confirming the current guidance of sales growth to between EUR 132 million and EUR 139 million with a targeted further expansion of SaaS business and adjusted EBITDA of between EUR 13 million and EUR 15 million for 2023 as a whole.

The Management Board is also reiterating the current medium-term planning, which forecasts average organic sales growth of 10% in the next few years and, in view of the continued growth in SaaS business, an increase in the adjusted EBITDA margin to between 17% and 19% by 2026.

Strategic planning focuses on the three established growth pillars of the USU Group: increased internationalization, the development and launch of new product innovations and growth through acquisitions.

Based on the above assumptions, the Management Board is in turn planning to enable the shareholders of USU Software AG to participate significantly in the company's operating success in fiscal 2023, as in previous years, and to continue the shareholder-friendly dividend policy with the distribution of a dividend that is never lower than in the previous year and that amounts to around half of the profit generated.

Report on risks and opportunities

There were no changes to the opportunities and risks of USU Software AG or of the Group as a whole as against the reporting date December 31, 2022. For more information please see the report on risks and opportunities in the 2022 annual report.

USU shares (ISIN DE000A0BVU28).

The shares of USU Software AG are listed in the Prime Standard of the Frankfurt stock exchange under the German Securities Code (WKN) A0BVU2 and International Securities Identification Number (ISIN) DE000A0BVU28, and are admitted to trading on the regulated market of this stock exchange.

After their positive performance in the first half of the year, stock markets developed negatively on the whole during the third quarter as a result of fading hopes of interest rate cuts, persistently high inflation, the ongoing war in Ukraine, and the generally poor economic

outlook. The more illiquid technology stocks performed particularly weakly. On September 30, 2023, the DAX therefore closed down 4.7% on the previous quarter on the XETRA electronic trading platform at 15,386.58 points (June 30, 2023: 16,147.90 points), while the Technology All Share index fell by 5.5% to 3,675.96 points on XETRA compared to the previous quarter (June 30, 2023: 3,891.71 points). Following the publication of the figures for the first half of 2023, USU shares recorded a bigger than average decline with a quarterly performance of -25.4% and closed trading on XETRA at EUR 17.15 on September 30, 2023 (June 30, 2023: EUR 23.0).

The DAX still increased by a substantial 10.5% compared with the end of the previous year (December 31, 2022: 13,923.59 points), whereas the Technology All Share index lost 0.6% over the same period (December 31, 2022: 3,696.97 points). As a result of its weak performance in the past quarter, USU's share price fell by 15.9% in the first nine months of the year (December 31, 2022: EUR 20.4).

Compared to September 30, 2022, however, the stock market development was thoroughly positive. For example, the DAX (September 30, 2022: 12,114.36 points) climbed by a significant 27.0% year-on-year, while the Technology All Share index (September 30, 2022: 3,419.80 points) increased by 7.5%. Thanks to their positive development in the previous quarters, USU shares (September 30, 2022: EUR 16.5) also posted a positive year-on-year performance, rising by 3.9%. Even if the current year does not yield the expected success, the Management Board believes that the enormous price potential from the USU Group's recurring sales is nowhere near fully reflected in the current valuation of the USU share price.

Möglingen, November 22, 2023

USU Software AG

Bernhard Oberschmidt

Chairman of the Management Board

Dr. Benjamin Strehl

Management Board

ASSETS <i>EUR thousand</i>	9-month report Sept. 30, 2023	Annual report Dec. 31, 2022
Non-current assets		
Intangible assets	2,468	2,598
Goodwill	40,092	40,092
Tangible assets	3,054	3,045
Right-of-use assets	16,091	15,697
Financial assets	772	775
Prepaid expenses	522	168
Deferred tax assets	1,741	2,416
Non-current assets	64,740	64,791
Current assets		
Inventories	557	478
Contract assets	9,924	6,013
Trade receivables	22,304	22,274
Income tax receivables	58	1
Financial assets	898	669
Other assets	236	890
Prepaid expenses	2,461	2,338
Cash on hand and bank	9,829	15,525
Current assets	46,267	48,188
Total assets	111,007	112,979
EQUITY AND LIABILITIES <i>EUR thousand</i>	9-month report Sept. 30, 2023	Annual report Dec. 31, 2022
Equity		
Issued capital	10,524	10,524
Treasury shares	-490	-524
Capital reserves	44,066	43,465
Other retained earnings	953	3,149
Other comprehensive income	312	340
Equity	55,365	56,954
Non-current liabilities		
Pension provisions	1,025	991
Lease liabilities	13,441	13,287
Deferred income	1,166	1,325
Deferred taxes	1,125	1,197
Non-current liabilities	16,757	16,800
Current liabilities		
Income tax liabilities	547	1,084
Financial liabilities	0	132
Lease liabilities	3,011	2,696
Personnel-related liabilities	6,862	10,070
Other provisions and liabilities	2,984	3,708
Liabilities from advance payments	3,062	3,941
Trade payables	6,858	6,997
Deferred income	15,561	10,597
Current liabilities	38,885	39,225
Total equity and liabilities	111,007	112,979

STATEMENT OF COMPREHENSIVE INCOME	Quarterly report	Quarterly report	9-month report	9-month report
<i>EUR thousand</i>	Q3 2023	Q3 2022		
	July 1, 2023	July 1, 2022	Jan. 1, 2023	Jan. 1, 2022
	Sept. 30, 2023	Sept. 30, 2022	Sept. 30, 2023	Sept. 30, 2022
Sales	32,921	32,579	97,819	92,874
Cost of sales	-16,942	-16,385	-50,862	-47,173
Gross profit	15,979	16,194	46,957	45,701
Selling and marketing expenses	-6,643	-5,755	-18,296	-16,143
General and administrative exp.	-2,694	-3,121	-8,483	-8,760
Research and development exp.	-5,489	-4,505	-16,009	-13,322
Other operating income	192	828	1,020	1,485
Other operating expenses	-113	-425	-365	-806
Profit from ordinary activities (EBIT)	1,232	3,216	4,824	8,155
Finance income	44	175	75	334
Finance expenses	-65	-37	-169	-125
Earnings before taxes (EBT)	1,211	3,354	4,730	8,364
Income taxes	-353	-1,112	-1,426	-2,588
Consolidated net earnings	858	2,242	3,304	5,776
<i>Items that can be reclassified to profit or loss in future periods:</i>				
Currency translation difference	-7	-35	-28	-110
Other comprehensive income	-7	-35	-28	-110
Total comprehensive income	851	2,207	3,276	5,666
Earnings per share (in EUR) diluted	0,08	0,21	0,31	0,54
Earnings per share (in EUR) undiluted	0,09	0,21	0,33	0,54
Number of underlying shares:				
diluted	10,523,770	10,523,770	10,523,770	10,523,770
undiluted	10,000,000	10,523,770	10,000,000	10,523,770

Consolidated statement of cash flows <i>EUR thousand</i>	9-month report Jan. 1, 2023 - Sept. 30, 2023	9-month report Jan. 1, 2022 - Sept. 30, 2022
NET CASH FROM OPERATING ACTIVITIES		
Consolidated net profit	3,304	5,776
+/- depreciation, amortization and write-downs of non-current assets and reversals of	1,267	1,346
+/- depreciation, amortization and write-downs of right-of-use assets under IFRS 16 Leases and reversals of write-downs of right-of-use assets under IFRS 16 Leases	2,335	2,194
+/- other non-cash expenses/income	584	-379
-/+ increase/decrease in inventories, trade receivables and other assets not related to investing or financing activities	-4,069	-9,141
+/- increase/decrease in trade payables and other liabilities not related to investing or financing activities	-243	4,756
-/+ interest expenses/income	94	-209
+/- income taxes received/paid	-1,392	-912
-/+ interest paid/received	-63	-58
-/+ income tax expenses/income	1,426	2,588
NET CASH FROM OPERATING ACTIVITIES	3,243	5,943
CASH FLOWS FROM INVESTING ACTIVITIES:		
- purchase of intangible assets	-263	-3
+ proceeds from disposals of property, plant and equipment	36	23
- purchase of property, plant and equipment	-951	-745
NET CASH USED IN INVESTING ACTIVITIES:	-1,178	-725
NET CASH USED IN FINANCING ACTIVITIES:		
- dividends paid to shareholders of the parent company	-5,500	-5,262
- repayments of lease liabilities	-2,278	-2,171
NET CASH USED IN FINANCING ACTIVITIES:	-7,778	-7,433
Change in cash and cash equivalents	-5,713	-2,215
+/- effect on cash and cash equivalents of exchange rate movements and remeasurement	17	292
+ cash and cash equivalents at the start of the period	15,525	24,286
Cash and cash equivalents at the end of the period	9,829	22,363
Cash and cash equivalents		
Cash and cash equivalents	9,829	22,363

Changes in consolidated equity	Issued capital		Treasury shares	Capital reserves	Retained earnings	Other comprehensive income		Equity
						Pension plans	Currency translation	
	Number	EUR thousand		EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Consolidated equity as of January 1, 2022	10,523,770	10,524	0	52,792	829	-116	414	64,443
Consolidated net profit					5,776			5,776
Other comprehensive income after taxes							-110	-110
Total	0	0	0	0	5,776	0	-110	5,666
Dividend payment					-5,262			-5,262
Consolidated equity as of Sept. 30, 2022	10,523,770	10,524	0	52,792	1,343	-116	304	64,847
Consolidated equity as of January 1, 2023	10,523,770	10,524	-524	43,465	3,149	56	284	56,954
Consolidated net					3,304			3,304
Share sales ESP			34	601				635
Other comprehensive income after taxes							-28	-28
Total	0	0	34	601	3,304	0	-28	2,426
Dividend payment					-5,500			-5,500
Consolidated equity as of Sept. 30, 2023	10,523,770	10,524	-490	44,066	953	56	256	55,365

Accounting principles

USU Software AG is a stock corporation under the law of the Federal Republic of Germany. The company is domiciled at Spitalhof, 71696 Möglingen, Germany, and is entered in the commercial register of the Stuttgart Local Court, Dept. B., under No. 206442.

These interim financial statements of USU Software AG are consistent with the International Financial Reporting Standards (IFRS) as applicable in the European Union. The interim financial statements were prepared in accordance with IAS 34 (Interim Financial Reporting).

The same accounting policies were applied as in the preparation of the consolidated financial statements for the fiscal year ended December 31, 2022. This unaudited nine-month report for 2023 should therefore be read in conjunction with the audited consolidated financial statements for 2022.

This consolidated interim report contains all the necessary deferrals and, in the opinion of the management, provides a true and fair view of the financial position and financial performance. All deferrals performed are in line with the standard accrual concept.

In preparing interim financial statements in line with IFRS, estimates and opinions relating to the assets and liabilities recognized at the reporting date and the income and expenses for the reporting period are required to a certain extent. Actual results may differ from those estimates.

Income taxes are recognized in the interim period based on the best estimate of the weighted average annual income tax rate expected for the year as a whole. This tax rate is applied to the pre-tax profit of the consolidated companies.

It is not necessarily possible to deduce the annual net profit from the profit of the interim periods.

Sales

Sales break down as follows:

	Jan. 1 – Sept. 30, 2023 EUR thousand	Jan. 1 – Sept. 30, 2022 EUR thousand
Consulting	61,800	53,233
Licenses/products	3,457	9,810
Maintenance	19,387	18,706
Software-as-a-Service / SaaS	12,514	10,397
Other	661	937
	97,819	92,874

Segment reporting

For the purpose of segment reporting in accordance with IFRS 8, USU operates in the "Product Business" and "Service Business" segments, both of which significantly influence the Group's risks and return on equity. The breakdown of various key performance indicators by segment in line with IFRS 8 is shown in the table below:

	Product Business		Service Business		Total Segments		Unallocated		Group	
	Jan.1-Sept. 30, 2023	Jan.1-Sept. 30, 2022	Jan.1-Sept. 30, 2023	Jan.1-Sept. 30, 2022	Jan. 1-June 30, 2023	Jan.1-Sept. 30, 2022	Jan.1-Sept. 30, 2023	Jan.1-Sept. 30, 2022	Jan.1-Sept. 30, 2023	Jan.1-Sept. 30, 2022
	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand	EUR thousand
Sales	65,764	65,991	32,055	26,782	97,819	92,773	0	101	97,819	92,874
EBITDA	4,052	9,505	6,078	4,019	10,130	13,524	-1,704	-1,829	8,426	11,695
EBIT	1,365	7,010	5,229	3,109	6,594	10,119	-1,770	-1,964	4,824	8,155
Net finance	-81	-	-17	-	-98	-	4	209	-94	209
Taxes	-387	-2,338	-1,571	-250	-1,958	-2,558	532	-	-1,426	-2,558
Consolidated net earnings	978	4,672	3,641	2,859	4,538	7,531	-1,234	-1,755	3,304	5,776
No. of employees	588	528	132	121	720	649	94	106	814	755

The USU Group generated a total of 22.9% (Q1-Q3 2022: 23.7%) or EUR 22,380 thousand (Q1-Q3 2022: EUR 22,011 thousand) of its consolidated sales outside Germany in the first nine months of the 2023 fiscal year. These figures are based on customers' registered offices. For reasons of materiality, further details of the geographical data have not been provided.

Shares held by members of executive bodies at USU Software AG

The following shares in USU Software AG were held by members of the company's executive bodies as of September 30, 2023:

Stock declarations by members of	Shares September 30, 2023	Shares September 30, 2022
Management Board		
Bernhard Oberschmidt	162,518	162,518
Dr. Benjamin Strehl	0	0
Supervisory Board		
Udo Strehl*	5,000	5,000
Erwin Staudt	100,000	100,000
Gabriele Walker-Rudolf	1,000	1,000
* An additional 5,388,000 (2022: 5,364,888) voting rights in USU Software AG are allocated to Udo Strehl, the majority shareholder of this company, through AUSUM GmbH in accordance with section 34(1) sentence 1 no. 1 of the German Securities Trading Act (WpHG). A further 32,000 (2022: 32,000) voting rights in USU Software AG are allocated to Udo Strehl through the "Knowledge is the Future" Foundation, of which he is the director, in accordance with section 34(1) sentence 1 no. 1 WpHG.		

On August 25, 2023, AUSUM GmbH, whose majority shareholder is the Chairman of the Supervisory Board of USU Software AG, Udo Strehl, purchased a total of 1,250 shares in USU Software AG via the Tradegate Exchange stock exchange ("Tradegate"). On August 29, 2023, AUSUM GmbH purchased a further 1,900 shares in USU Software AG via Tradegate. AUSUM GmbH also purchased a total of 15,000 shares in USU Software AG via Tradegate on September 4, 2023. In addition, AUSUM GmbH purchased a further 945 shares in USU Software AG via Tradegate on September 6, 2023. Finally, AUSUM GmbH purchased a further 2,017 shares in USU Software AG via Tradegate on September 12, 2023. AUSUM GmbH immediately notified USU Software AG of the corresponding securities transactions in each case. In turn, the company published the listed notifications regarding securities transactions as required.

The members of the executive bodies do not hold any stock options or convertible bonds issued by USU Software AG.

Möglingen, November 22, 2023

USU Software AG

Bernhard Oberschmidt
Chairman of the Management Board

Dr. Benjamin Strehl
Management Board

November 27-29

Analyst and investor conference
at the German Equity Forum, Frankfurt am Main