

Softline

Q3 2021 Trading Update

Conference Call Transcript

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Corporate Participants

Sergey Chernovolenko – Chief Executive Officer

Artem Tarakanov – Chief Financial Officer

Steve Salter – Global VP Investor Relations

PRESENTATION

Steve Salter:

Thank you, operator, and good morning, everyone. We hope you've had an opportunity to review a copy of the press release and supporting materials for our Q3 2021 trading update. These are available in the investor relations section of softline.com.

I'm joined on the call today by our chief executive officer, Sergey Chernovolenko, and our chief financial officer, Artem Tarakanov. Sergey will provide an update on the highlights of our third quarter 2021, followed by a business update and review of our 3D growth strategy. Artem will provide an update on our Q3 financials and our business outlook, and we will also have time for Q&A at the end of the presentation.

As a reminder, some of our comments today may contain forward-looking statements that are based on assumptions and therefore subject to risks and uncertainties that could cause the actual results to differ materially from those projected. Our commentary will also include adjusted financial measures, which are non-IFRS measures. These should be considered as a supplement to, and not a substitute for, IFRS financial measures. Over to you, Sergey.

Sergey Chernovolenko:

Thanks Steve, and good morning, everyone. Thank you for joining us today on our Q3 trading update.

I would like to start by thanking our entire team of more than 6,500 Softliners around the world, in addition to warmly welcome more than 1,700 newcomers to our business over the past months as we remain committed to partnering with our customers and continue to help drive the digital transformation. Every day, I am humbled and proud to be leading the best team in the industry.

Since our IPO just a little more than three months ago, we have already made very significant progress as we drive the business at quality speed and at scale. We made a number of commitments, and we are rapidly delivering on those promises.

We have delivered very significant profitability as we grow faster than the market, execution against our 3D strategy, and we're on the target to deliver our adjusted EBITDA outlook for the year.

We announced our industry leading, performance based, long term employee partnership program, as we double down on attracting the best talent, which is critical in this industry, and strengthen our long-term competitive position.

We continue to be recognized as a great place to work in many geographies around the world, with several new external recognitions in this quarter.

We have announced five strategically important acquisitions. These underpin our 3D strategy growth, helping us to scale fast geographically, increase our skills, and expand capabilities that we bring to our customers.

We have expanded our footprint in services, now with around 2,500 software engineers and developers around the world, well on our way to our target of 5,000.

We have expanded our strategic portfolio with the addition of Center of Excellence for financial technology, education technology, CRM solutions AWS, which have been created thanks to acquisitions. All areas where we see significant potential, and we're enhancing our position to capture that growth.

We're thoughtful with capital allocation. We have increased our share buyback program, which is funded by operations and finance investments, and is intended to offset the impact of our share assurances. At the same time, we're optimistic based on our shares currently being significantly undervalued in the market.

And finally, we have already embarked on our journey to reach our Dream 2.0, the next chapter of our growth story.

I would like to remind you that Softline is a story of growth. We have a strong track record of sustainable, profitable growth, driven by geographical expansion, sales channel development, and product portfolio expansion. In the last four years, we have doubled our business, growing at more than twice the undeclined market growth. We're a leading global solutions and services provider in digital transformation and cybersecurity, headquartered in London. Our global business operates in almost 60 markets with more than 8,000 of the best specialists in the information technology industry, serving more than 150,000 customers around the world.

We provide end to end services with software, cloud, hardware, and services covering the entire range of IT needs of our customers. And we have particular focus on software, cloud, and services, the highest growth segments of digital transformation, which together account for nearly 70% of our gross profit.

We go to market with more than 6,000 technology partners. And we have the highest status partnership with our top vendors like Microsoft, AWS, Google, Apple, Cisco, Dell, and others. As the industry has evolved to subscriptions, we have transformed our business and increased our recurrent turnover share to more than 55% year to date, up from a little more than 54% last year, which increases the quality of our turnover.

Today, it's clear that all organizations face a question: to be, or not to be? Whether to transform with the help of digital technologies or tools ground in the market. Organizations have an imperative to invest, to survive, and stay competitive. And they want to trust the global partners who know how to bring the best technologies and to drive the right business benefits and outcomes. We continue to demonstrate this with our deep relationship with Microsoft, which drives nearly 50% of our revenue last year. Looking at their business, you can see the demand remains strong, with cloud continuing to be a strategic imperative that customers are committed to. We are partnering with our customers in delivering Microsoft solutions, which helps them to be more resilient and competitive. And this translates to very strong demand in the market, with our Microsoft Azure growth at [44% corrected] in Q3.

I'm especially happy to highlight that Softline efforts to develop Microsoft business are well recognized by Microsoft. In November, Softline became a member of the Microsoft Intelligent Security Association, MISA, strengthening its collaboration with Microsoft and its position as a global IT provider. MISA is an ecosystem of independent software vendors and managed security services that integrate solutions to improve security in the face of emergent cyber threats.

Microsoft also recognized Softline with multiple partner of the year awards, in Bulgaria, Cambodia, Malaysia, Vietnam. In India, Softline proudly received the technology partner of the year award security.

The company was honored among the global field of top Microsoft partners for demonstrating excellence in innovation and implementation of customer solutions based on Microsoft technology.

We have a proven growth strategy, and that continued to serve us well in the third quarter. It is centered around three dimensions; geographical expansion, portfolio expansion, and sales channel strengthening and expansion.

Let me give a couple of examples of our strategy in action, with a spotlight on some work we are doing in India, one of our strategic growth markets. We have been engaged with Theme Pro, one of India's leading SaaS FinTech assistant banks, and BFCs, HFCs, financial institutions, who thrive in their digital transformation journey. Softline has been working closely with Theme Pro technologies for Microsoft Azure services and been catering to various Azure cloud deployment, consulting, and support services.

Another example was iCertis, India's leading contract intelligence software, and India's most value SaaS unicorn for Microsoft Azure, where we're helping with Azure cloud services on subscription management, billing dashboard, cost optimization exercise, with depth security assessments.

And finally, Alkem, India's generic specialty pharmaceutical forerunner, where we're working closely with Alkem for various security services, data protection, and point protection, with their deployment consultant and support services.

We're operating at quality speed and scale. And we continue to deliver on the commitments we made during our IPO. At the same time, I want to connect our 3D strategy to the next chapter of our growth. Bringing the company to the stock market was our dream, which we have fulfilled. And now we're embarking on the next chapter of driving significant growth. We want to solidify our position as a global leader in digital transformation solutions, platforms, and services. We want to be known as the best destination for talent, for talent that strives in partnership with the company. Thanks to this, we will be able to connect talent from the emerging markets to customers around the world, and deliver much needed services that would constitute more than 50% of our gross profit. We will operate in more than 80 countries, and we will work to benefit from the consolidation of the sector. In addition to the business results, we want to further improve our position as a sector leader in compliance and in matters that define modern responsible business, across environment, social, governance.

I now want to give you a deeper insight into our greatest assets and what sets us apart in the market, our people. We operate in an industry where talent is fundamental to business growth and competitive differentiation. We see this as an opportunity for our business, where we have access to talent in both emerging and developed markets. On the ground, where we operate all around the world, our people do business with the people of our customers, creating and developing partnerships, and bringing all of our capabilities to drive and share vision based on the roadmap of our customers.

At Softline, we are very focused on creating an environment where our people can prosper. Being a public, global company makes it easy to build this environment, with international opportunities, more than performance based compensation, and long term incentives aligned to growth and business performance. And this focus spans the whole organization, as we are very aware that we need to retain not only our managers, but all of our people.

As part of our wider employee value proposition, we are keen to encourage a culture of greater employee share ownership across the organization. To this end, we recently announced that we will introduce our long term employee partnership program, as well as offering an all employee share

purchase scheme. This innovative plan represents a very compelling reward structure, with the ability to earn up to 45% of employee compensation. It'll enhance the owner operator mentality in our business, and aligns the goals and objectives of our shareholders and employees based on the challenging performance objectives.

Our goal is to drive long term partnership with all employees who represent our core values and our key assets in the market. And we're targeting a significant reduction in attrition, better than the market. The company that wins in the market is the one that knows how to attract, retain, and motivate the best personnel. We strive to be the best company on the market for employees, creating an environment of shared success where our people can thrive.

We acknowledge that there is strong demand for the talent in the industry, particularly in areas such as cybersecurity, cloud, and digital technologies. Our industry leading program not only makes us more attractive in the market, it's also motivated by our appetite to drive more value for customers and investors, underpinned by the long term commitment of our people as we execute on our three dimensional growth strategy. Softline has a clear strategy and ambition goals in the market. We firmly believe that our team of talented personnel are a key success factor to our competitiveness and achieving strong and durable results.

At the end of Q3, we have more than 6,500 talented people globally, a 37% increase year over year. Though, as we speak, we're close to 8,000 with recently announced acquisitions. Since then, I'm particularly pleased with the rapid growth of our software development team to around 2,500 professionals, and well on our way to our target 5,000.

We're strengthening our base for Microsoft business and expanding our expertise; for example, in AWS and Google; created a center of expertise based on new cloud vendors, and accelerating our services capabilities. We're also focused on developing our own digital products and solutions.

Finally, I am pleased with the continued recognition of Softline as a great place to work. For the fifth time in the last few months we were awarded the prestigious great place to work certification, now in Vietnam, as we continue to attract talent and foster a positive workplace for our employees in our key markets. This adds to recent awards across three continents; one in India, one in Columbia and two in Europe with our daughter company, Softline AG. This is a testament to our team's work in building a collaborative and rewarding workplace for employees, wherever we operate.

Our three-dimensional strategy of growing our geographical presence, our solutions and services portfolio, and strengthen our sales channel is supported by our M & A activity. We promised our new shareholders that we will be investing the large majority of \$400 million dollars capital raised on strategic and targeted M & A using advantageous multipliers. And we are delivering. Acquisitions help us to scale faster in strategic areas, and they complement our organic strategy. We have a strong track record of identifying and acquiring the right companies and since H1, we have announced five acquisitions, all in line with our strategic objectives. And within the range of our target multiples and strong to scale with the first payment total in almost \$34 million USD dollars with further incentives to grow, and entire consideration in line with the guidance. Let me give you more insight to what they bring.

Let me start with Umbrella Infocare. It's a market leading cloud services company based in Delhi with a 200 plus strong team of cloud professions. Umbrella Infocare is AWS premier consulting partner with competences in AWS managed services, migration, and develops. And it also has platinum plus

consulting partnership with Citrix. India is a priority market for Softline and we have established ourselves as a major multi-cloud player there where we have grown 120 X organically since 2014, with revenues of over 230 million in 2020. This deal will significantly grow our presence in the territory while strengthening our cloud services offerings. Together with our existing expertise, this acquisition will form the basis for creating Softline global AWS Center of Excellence for customers in almost 60 countries, giving some access to market leading cloud engineering and development services.

SoftClub is a specialist in the rapidly growing industry of financial technology and the largest developer of integrated solutions for banks, e-commerce and stock exchanges in Central and Eastern Europe. Considered by industry experts to be amongst the top 100 software firms in the world. SoftClub has one of the most verified software engineering teams in Eastern Europe with over 20 years of industry expertise. And this brings nearly 1000 professionals with deep knowledge of sector of supplier. With annual growth of almost 10%, the FinTech industry is set to reach almost \$200 billion in 2023. Help in no small part by the fact that many financial institutions are still faced with the task of overhauling legacy architectures. As such, financial services' sector is steeped to remain one of the largest consumer of information technology in the coming years. The clear potential for growth in this dynamically changing sector was a key driver behind Softline investment in SoftClub. SoftClub's entire team, including the management team and the company's founder will form the basis for a Center of Excellence for FinTech and CRM solutions within Softline. That will be working on complex large scale transformations in the bank sector with which utilized the latest IT solutions in the ever changing world of financial services.

MMTR Technology is a specialist in software development and application engineering employing around 450 software engineers with a focus on business process automation and quality assurance testing. The acquisitions is another important step in Softline, 2022 growth strategy and the company's mission to extend its range of capabilities for next generation application engineering and software development. Softline is now capable of providing customers with comprehensive support during the application development cycle, including hiring and training software engineering personal. The range of training capabilities offered by MMTR Technology compliments source of Academy IT, which we also recently announced.

Academy IT creates, develops and deploys bespoke corporate training solutions and has a strong track records particular in cybersecurity training. The global education technology market is an industry with a focus to grow to \$404 billion by 2025. And this acquisition strengthens our position in this high growth technology sector around the world. It complements our existing technology education and training business and accelerate our growth strategy in emerging markets. This positions us as a market leader in technology training and will help us improve our training capabilities in this booming sector. And ideally positions us to pursue new international business opportunities in areas where we see significant demand.

Finally, with TS Engineer we're broadening our cybersecurity capabilities, extending our portfolio of services with more expertise in compliance, general data protection or legislation regulation and cybersecurity awareness training. TS Engineer brings capabilities across the entire spectrum of cybersecurity consultant services. It's clear that cybersecurity is critically important need for all organizations. And Softline is even better equipped to partner with our customers on the most complex projects.

These acquisitions complement our organic growth and our ambitious plans for the future. They also illustrate our strategy to grow the share of services in turnover, to target more than 5,000 software

engineers to be available to our customers, and to drive more than half of our gross profit from services. With SoftClub and MMTR we strengthen our services capabilities significantly complementing our existing workforce of more than 1,000 software specialists and scaling rapidly to 2,500 software engineers.

When it comes to execution, we have a strong team of professionals and discipline approach to integration. We're current going through multiple integrations, all different in their value creation objectives, pace and depth.

To elaborate on few examples. Let me start with Embee. The company has been with us for over a year now, and it represents one of the largest transactions today. AMS integration planning project is going very well. It has a lot of management team focus, and there is no disruption to gross momentum for both companies.

As you can see from the chart, both Softline and Softline India and Embee are demonstrating strong turnover growth year to date versus last year, and even greater EBITDA growth. We're pursuing quick wins actively. We have our first joint win and we are making sure that none of Embee advanced capabilities or IT such as proprietary human resource management system, Octane are neglected during the integration.

Moving to custom software development business, HTC, Aplana, and Belitsoft here the integration is all about joining up, go to market efforts and centralize support operations. Facilitating collaboration between the acquired companies where lending join wins. Pursuing cross-sale opportunities and continuously working on establishing a state of the art infrastructure to support sales and delivery.

DigiTech, our promising joint venture in Egypt is benefiting from joining Softline's family. We're onboarding DigiTech to Softline global operational platform so it could leverage our mature back office capabilities, regional and global service delivery centers and vendor relationships.

And as a final example, we're all also actively pursuing opportunities arising from the acquisition of Squalio. In Belarus, we are looking to accomplish consolidation of Squalio operations in Q1 2022, whilst in Baltic Republics, we're fueling Squalio with Softline central operational support for Microsoft business and are pursuing no Microsoft expansion opportunities. Similar to Embee, Squalio has got a lot to offer to Softline. For example, a proprietary employee engagement technology Peero - and we are ring fencing such finds with the care.

Overall, we continue to have a very strong pipe for M & A, and we're very well positioned for the future. My management team and I remain extremely focused on executing against our plan and ensuring seamless integration. Acquisitions are a catalyst for growth, and are aligned with our 3D strategy and our ambition plans for 2022 and beyond.

As part of our ESG strategy, our purpose is to ensure environmental sound and stable development of the company. We'll continue to look for ways to reduce our environmental impact. And we have a strong commitment to ethics and compliance in all the markets where we create. We have implemented the right board structure to ensure we advanced our governance process. And we now have four independent board members. We'll continue to advance our diversity across the business. And we also believe that part of the reason why people want to join Softline and stay with Softline is our commitment to ESG despite the complexity of the markets where we operate.

Our team around the world are also making a difference in communities where we operate. For example, in Latin America, our ongoing internship program for refugees and disabled people at Softline Brazil. Our local team at Softline Colombia planted many trees as part of our commitment to protection of the environment. In India, we continue supporting education for orphan girls, as well as girls from disadvantaged families. There are 80 girls whose education and continuously supported by Softline. We're part of the Nanhi Kali initiative set up by Anand Mahindra, Chairman of Mahindra Group 25 years ago. With Annamrita, Food for Life, we continue supporting school breakfast for children from poor families. In Russia, we made sure that many deprived children had a real new year's celebration with something amazing under the Christmas tree. Looking ahead, with our dream 2.0, we're focused on being the sector leader in ESG and compliance.

Now, let me turn the call over to Artem to give an update now on our numbers.

Artem Tarakanov:

Thank you Sergey and good morning to everybody. So turning into our business for Q3. Once again, turnover growth was driven by particular strength in our international business. Part of our promise for advancing diversification of our business. Growth was particularly strong in the EMEA and APAC regions, both organically and due to recent acquisitions.

More importantly, we're pleased with the quality of our turnover. And I would highlight services in particular, which accelerated with around 110% growth and represented 7.5% of our turnover. This is an important driver of our very strong profitability with gross profit of \$102 million with growth of more than 25% year over year. And that turnover based margin of 15.3% for the quarter. And we are very pleased with the conversion of the gross profit, where we generated very strong adjusted to EBITDA growth of 36% over Q3 last year.

Our results for the nine months year to date position us well for the remainder of the financial year, 2021. Turnover for nine months to 31st, December 2021 increased by 20% year over year up to \$1.6 billion dollars. Including the impact of unconsolidated turnover of \$46 million from Belitsoft, DigiTech and Squalio, growth would be 23%.

We increased our recurring turnover to more than 55% of overall turnover. And this is an important metric aligned to our growth strategy. The growth in this metric is another promise that we made and we are delivering.

With our global positioning we delivered growth across the majority of geographical regions, and we continue to see great market potential as we focus particular on expansion in the emerging markets. We are also, particularly pleased with the growth of our services business, which also represents a key driver of our profitability year to date. We're very excited to build on the foundation that we created, where we have a proven track record of profitable growth.

Now turning to our business outlook. For financial year 2021, we now expect to deliver turnover based gross profit margin of at least 13.5% versus our prior range of 13% to 14%. We expect adjusted EBITDA gross profit base to be at least 26%. And we expect to be in the range of \$2.3 billion to \$2.4 billion dollars in turnover.

Over the medium term, we're targeting turnover based gross profit in the range of at least 13.5% margin versus the outlook of 13% to 14% outlined in our prospectus. All other medium-term metrics remain the same with increasing adjusted EBITDA margin, gross profit based reaching the low 30's range. Turnover in the high teens CAGR with additional turnover contribution from M & A which our recent transactions give us confident to support margin objectives for 2022 financial year.

So, we're pleased with the composition of our results to date, and we remain focused on delivering on Q4 and the full financial year.

Let me turn it back to Sergey to provide closing thoughts.

Sergey Chernovolenko:

Thanks, Artem. Looking ahead, we feel great about our business and we're even better positioned to seize a massive opportunity in the market. We continue to deliver strong financial results, outperforming the market. We have the best team in the industry and this is further enhanced by our industry leading long term employee partnership program. We're delivering on our commitments to drive M & A with five important strategic acquisitions closed since H1. We have a proven track record and we're taking advantage of the growing consolidation opportunities. We're addressing a large and fast growing underlying market with a focus on the most attractive segments. Further evidence of this is the strength we see in our services business and our commitment to grow to 5,000 professionals as we partner with our clients on their digital transformation.

And finally, we're very excited about the next chapter of the growth and our journey to reach our dream 2.0.

With that, I will turn the call over to the operator who will provide instructions for our Q & A.

QUESTIONS AND ANSWERS

Operator:

If you would like to ask a question, please signal by pressing star 1 on your telephone key pad. As a reminder, participants can also submit questions through the web cloud page using the ask a question button. We will pause for a moment to assemble the key.

The first question is coming from Vladimir Bepalov from VTB Capital. Please go ahead.

Vladimir Bepalov:

Hello. Thank you for the presentation and thank you for taking my question. My question will be on your first performance in the third quarter, in particular, I would like to ask about the reasons for the relatively slow growth that we see in software and cloud and hardware, which is like, well below what you expect for the full year. What were the reasons, especially given that this is like the strong quarter? And why would you expect based on your guidance that the true turnover will accelerate significantly in the fourth quarter of this financial year? Just based on my estimates the growth should be something like from 50% to 70% plus and during the quarter and how confident are you in that? Thank you.

Sergey Chernovolenko:

Vladimir, thank you very much for your question. It's Sergey answering the question. I would just like to first highlight that I'm very pleased with the quality of turnover in our Q3, which was accelerated by improved gross profit margin, driven by services expansion.

Talking about software cloud and hardware, we delivered in Q3 in line with our expectations and hardware based on the current demand coming from the customers and existing delay of products to be delivered due to some constraints overall, but it was expected for us. And as I mentioned in Q3, we delivered in line with expectations, taken into account backlog we face by end of Q3 on hardware taken into account the pipe and my feeling, I would say based on customer demand, I feel comfortable that the range of growth will be there.

As for the cloud business, it's still growing very well. And we continue strengthen in our Q3. About software, we see in Q3 some, I would say not a favorable comparison with the base because last year we delivered quite strong performance and mainly driven by V 18 introduction in Russia geography. And we believe with steel models growth this year but again, as I mentioned, the comparison was not favorable because the base for growth comparison last year was quite, quite strong.

Vladimir Bespalov:

Okay. Thank very much, but again, what should accelerate your growth to that significantly in the fourth quarter? Where do you see the key points of growth? And based on your guidance again, you would expect some lower margins, gross margins in the fourth quarter; so would it be like the growth in hardware, the growth in software and cloud where do you see that?

And the second question is if we look at the guidance, the different... Like we have just six weeks remaining through the end of the quarter, but the guidance provides a pretty big range, like about 100 million USD in turnover difference. So what could be the reason let's say for the lower bound of your guidance, for the upper bound of your guidance, what are the upside and downside risks to that guidance? Thank you.

Sergey Chernovolenko:

Thank you for picking up important areas for us. Artem will pick up about the guidance range as for to know in the business. Let me answer, while I'm confident that Q4 will rebound with the growth. I'm confident because it's in line with our plan based on our pipe and based on our contracts in hand. And I believe that the growth will be in range which we achieved year to date based on nine months performance, it's above 20%.

And it will come from all geographies. I anticipate a good rebound in Russia territory. And growth will come from other Latin America APAC and Eastern Europe. And it'll come from all our lines of the business. I anticipate that services will continue growth trend and hardware cloud and software will be at average growth speed achieved year to date nine. And Artem can you please highlight about our guidance for the turnover for the year?

Artem Tarakanov:

Yes. Well, anyway, I think it's important to consider our guidance on turnover together with our updated guidance on gross profit margin. I think you can see now that our prior range between 13% and 14%, we now stick to the profit margin of at least certain 13.5%, right. And so this is combination of a mixture of our products, right. Increasing share of services in our portfolio, and well, the factors which Sergey just mentioned for Q4. So different factors, different variables, right. That's why we're giving wide range for our turnover for the full year 2021. But at the same time, we are confident that we'll deliver at least 13.5% in our gross profit margin. So this together, I think makes our guidance very strong and achievable.

Vladimir Beshpalov:

Okay. Thank you very much.

Operator:

The next question is coming from Toby Ogg from Credit Suisse. Please go ahead.

Toby Ogg:

Yeah. Hey, good morning. Three questions from my side. So just firstly, just on the turnover guidance for 2021, could you just walk us through the delta and the guidance for the full year. Clearly before you were talking about mid 20% growth now I think the implied growth is at the mid-point closer to 19%. So can you just help us bridge that gap?

Then secondly, just on the organic growth, I think the first half you said organic growth had been in the 18% to 19% range and you've pointed to tougher comp because of the work from home booster. How did the growth for turnover trend into the third quarter?

And then lastly, just on the situation, the macro situation between Russia and Ukraine, can you just give us a sense as to what you're actually seeing on the ground here in terms of activity and business impact, if any? And I guess, how have you accounted for any expectation for potential changes in demand as a result of any sort of developments in the situation with Russia and Ukraine. Thank you.

Artem Tarakanov:

Okay. Let us start with organic growth, right. For Q3 in particular and for nine months right. So organic growth may vary from quarter to quarter and for nine months this year to date, our organic growth was 9%. So again, this depends on different factors and Sergey mentioned them in the presentation and in the answers. But just to repeat, for example, for Russia, we saw modest organic growth due to high base of the last quarter of the last year, right. And that was due to introduction of VAT for import software from the 1st of January 2021. And that's why we see very strong demand in the last year.

Second, certain deals were transferred to Q4 our Q4. And well, the last reason was some backlog in hardware. So we expect that our organic growth will be strong in Q4. And talking now overall about our guidance. So, I mean, if we deliver the upper range of our turnover guidance, we will be in line with our promise during IPO right. So we were targeting \$2.4 billion more or less. If we have \$2.3 billion then slightly behind. But again, this should be considered together with our gross profit margin guidance,

which is now better than we expected. And now we confirm 13.5% at least, right, but targeting of course higher for this metric. And now I'm turning to Sergey and he will talk about Ukrainian macro situation.

Sergey Chernovolenko:

And Toby, I just would like to put aside, there are a lot of discussions going on. Some of them are close to speculation, some of some strong statements. But I just would like to highlight the fundamentals we are facing in our business. First of all, I would like to highlight that Softline is international business with headquarters in London and we're registered in Cypress. We are operating in 60 countries in different continents; Asia, Latin America, Eastern Europe, Africa, and we have diversified product portfolio. And our international business constitutes about 50% within our, turnover, and quite stable. Also, we have established very strong processes around particular focusing on market challenges, including potential sanctions or sanctions which are applied. And we live in this condition for some time in some countries where sanctions are applied and we deliver our results constantly for last years. And we're confident that we can deliver our commitment this year.

At this moment, what I can say that I'm coordinating with my team monitor customer behavior. It didn't change. And there is a customer demand, customers focusing on upgrade infrastructure. They focus on digital transformation. Also, some customers looking for alternatives and trying to diversify their dependency of their architecture solutions. And we are very pleased that we can provide to any customer any alternatives which the customer require, because we have very diversified portfolio, very wide portfolio from different vendors, including local producers like in Russia, for software, hardware, digital transformation solutions and different applications.

At this moment, what I say... What we know at this moment as a fact based on macroeconomic developments, we embark into our commitment. But I can't say what will happen moving forward, but I just would like to highlight that we have a very strong base to respond any changes in the market.

Toby Ogg:

Understood, thank you.

Moderator:

The next one is coming from Anna Kupriyanova from Gazprombank. Please, go ahead.

Anna Kupriyanova:

Yeah, good morning and thank you very much for presentation and opportunity to ask a question. My question will be on your M & A. So these five new names, could you please give us understanding how each of them or maybe them together will impact to your margins, giving you prospects, and also share of Russian, non-Russian operations and things like that? Thank you.

Sergey Chernovolenko:

Anna, I will start to answer your question and Artem will help me with overall numbers, which can positively impact our P&L lines. First of all, I would like to highlight that we do the surveys in line with

our well defined 3D strategy to expand geographically, to increase our product portfolio and to increase our channel and footprint in the territories we operate. And all these five nicely fit to this.

And what is extremely important, all these five acquisitions are based on engineering skills. What is more importantly to highlight that we managed to brought to our group around 2,000 well developed engineers and professionals, including software developers, application developers with great equipment of knowledge in financial technology, in education technology, with cloud expertise like Umbrella Infocare in India for AWS performance. And what is extremely important to highlight that the specialties of these guys and professionals are required much beyond the geographies where they operate from.

And I would say that our acquisition of Umbrella Infocare in India is going to give us a great opportunity to leverage opportunities with AWS Business across several continents where we started this business sometimes ago. And they're going to provide the cloud services offshore business beyond India.

When we talk about, for example, as a company in Belarussia, it's a leading company, a SoftClub with almost 1,000 engineers with fantastic expertise in financial technology, which is booming worldwide. I just would like to highlight what I said in my statement that financial technology is leading demand in the IT market. And we brought fantastic equipment of knowledge within this industry, which count more than 20 years. And definitely, this knowledge will be required and appreciated by many countries. And I would say we acquired fantastic talent, expertise, which can be utilized across all our geographies. And we have a clear plan. Before acquisition, we developed a clear synergy plan how to expand globally. And Artem, can we give a highlight on numbers?

Artem Tarakanov:

Yes Anna. So, we acquired these companies in January and February, right? So, the impact for 2021 is not material for these companies. So, we are not including this impact into our guidance for 2021. But when we'll be giving trading update for Q4 and the full year, 2021, and then later we'll be providing guidance for 2022, of course we'll include the impact of these five companies and provide full details. But for the time being, 2021 does not include that.

Anna Kupriyanova:

Can you approximately disclose the amount you spent on these acquisitions?

Artem Tarakanov:

Yes, Anna we can. So, it was around \$33 million as a start. And then depending on the performance of the companies, so additional payments can be made in the future.

Anna Kupriyanova:

Yeah. If I correctly understand that all these acquisitions were done on your targeted five times EV/EIBITDA, multiple around it.

Artem Tarakanov:

That's correct understanding Anna, absolutely.

Anna Kupriyanova:

Okay. Thank you very much. And a couple of short questions. Could you please disclose Q3 recurring revenue share for the third quarter?

Artem Tarakanov:

Yes, definitely. Definitely. So, it's around 50% just for-

Anna Kupriyanova:

50?

Artem Tarakanov:

This is for Q3 in isolation, but for nine months, it is 55%.

Anna Kupriyanova:

Okay. And regarding Microsoft operations in Russia, have you seen any slow down following discussions of specific legislation in Russian restrictions of foreign software, or you see the same rates of sales improvement as it used to be before, or as you expected? So do you see any impact on your operations, specifically with Microsoft from these discussions?

Sergey Chernovolenko:

Anna, let me answer the question based on our guidelines and what we see at this moment. It's not impacted too much and we operate within a government sphere, of not more than 10%. And overall, we see quite good demand from our customers. And based on my view on commitment for the year, there is no impact.

Anna Kupriyanova:

If I correctly understand that you had so low negative impact on your Microsoft sales in Russia, or they were immaterial?

Sergey Chernovolenko:

I say, when we look at general business growth and customer demand, I do not see major impact. There are some instances, customer by customer, but by the day within overall my consensus for the year and current performance, I didn't see a big impact.

Anna Kupriyanova:

Mm-hmm (affirmative). Okay, I understand. Thank you very much for your answers.

Sergey Chernovolenko:

Thank you, Anna.

Moderator:

The next question is coming from Anna Kurbatova from Alfa bank. Please go ahead.

Anna Kurbatova:

Yes. Good morning. Thank you for presentation and for the results. I have some follow ups also on recent M&A deals and turnover dynamics from the geographic angle. So I will start with the turnover dynamics. I wonder, what are your observations in relation to CIS or rest of Eurasia IT demand because this is a kind of underperforming geography, yes, in your portfolio? And I'm concerned, taking into account the recent situation in Kazakhstan. So, if you have any observations, whether the demand there was somehow touched or not, and what's your expectation for the calendar year 2022? I mean, in terms of improving dynamics more or less flat, or worsening in some kind of quality comments. And then I will ask my second question on M&A. Thank you,

Sergey Chernovolenko:

Anna, thank you very much. And to answer your question about rest of Eurasia and you highlighted some challenges which occurred in the political landscape in Kazakhstan, for example. But I just would like to highlight, we didn't see a big impact to our overall business and customer demand. When you see that there is a little bit slow down of turnover in Q3 for rest of Eurasia, it's mainly due to shift of timing for big contracts, if you compare year over year.

When I talk about overall consensus for the year, the performance is in line with our expectations and plan, and I do expect growth within a year. And as for impact to our business based on political challenges, we see that customers continue to operate. There is a customer demand; the pipe is healthy. I would say overall, market may be not growing at big speed, but at the same time, it's a growth and we perform better than the market. If I answer your question-

Anna Kurbatova:

Thank you very much. Yes, it was very important to understand these negative dynamics in the third quarter year on year. This is the impact of, as you said, the shift of the signing of contracts. Okay.

Anna Kurbatova:

And then, can I ask some clarifications on the status of your recent five M & A deals? Because when you announce those deals, you normally disclose it... Like signing the binding agreement. So, I wonder whether you have closed those acquisitions in January/February, or your process is still ongoing; you are expecting closing those deals some somewhere later? And from what quarter you will start consolidating those companies? And also I see from your disclosure in the presentation that in aggregate, these five companies generate a very good EBITDA does. So, this translates a 22% on the turnover base, which is much more than your organic portfolio or existing portfolio. And could you

highlight what companies that are particularly strong in terms of EBITDA generation? So, if you have some so strong average number. Thank you.

Artem Tarakanov:

Okay, Anna. Let me start answering the question. So, we will start consolidating these companies from our Q4, right? So this is coming quarter, and all the formalities will be finalized in this quarter and all five deals will be finalized this quarter, right? So, you will see it in our annual financials, the disclosure for this company's pre-acquisition and post-acquisition results. So everything which is required by IFRS standard. This is, I think, answering your first question on these M & As.

Answering your second question, yes, the impact of these companies both on turnover's side and EBITDA side is quite good. And I think your question was what company delivers the most from this perspective? I would say that out of five, SoftClub is the biggest company in Belarussia, but this company has operations in other countries of the region. So it delivers the most of this EBITDA and turnover. And then, Umbrella in India and Anter, and et cetera. So hopefully Anna, this covers your questions, right? If not, please tell us.

Anna Kurbatova:

Yes, this is exactly what I wanted to understand, who is the champion among the five, yes. Thank you very much.

Moderator:

The next question is coming from Fedor Kornachev from SBER bank. Please go ahead.

Fedor Kornachev:

Yes, hello. One question left from my side, which relates to your buyback program. So, could you please provide us some comments regarding the rationale for you to increase the buyback substantially? So, do see some substantial cost inflation on the side of personnel expenses, which will... Pushes you forward to revise upwards the overall size of the buyback to provide your employees with higher share based compensation? Is it the main rationale or maybe there is something else behind that? Thank you.

Artem Tarakanov:

Yeah. No, thank you for this question. So, what was that rationale behind this buyback? I think we believe that fundamentally, the level of share price of Softline is very low at the moment, right? So, that's why we announced this buyback program. We also announced very clearly and transparently that it is a source for our long-term incentive program, which we also announced just recently. So, we are absolutely sure that we encourage a culture of great employee share ownership across the organization. And we believe that this brings the benefits of a more comprehensive owner-operator mentality. So, why we announced \$100 million recently? We just wanted to strengthen the buyback program. And we saw positive impact on the market from that announcement. Yes Sergey, please make some comments as well.

Sergey Chernovolenko:

Yeah, it's just important to highlight that we are talent-lead business and we strongly believe that the motivation of the talent and tenure in the company, and engagement of new talent to the company is absolutely a cornerstone of our success. And we've taken this in account; we recently announced our long term partnership program with our employees. And it's quite a sizable scale in order to ensure that we have the best motivational program in the industry. It means that we have best tenure, best attrition and best motivation of the team, and the best quality team with us, yeah. This is behind of what we do of this buyback program.

Fedor Kornachev:

Yeah. Just if I look at the historical numbers, if I see it correctly right now, so basically your buyback program is more or less comparable in terms of the overall allocation in US dollars to the personnel costs recorded last year.

Artem Tarakanov:

Yeah, it's up to \$100 million and up to 10% of share capital. Not necessarily this amount, but up to \$100 million.

Fedor Kornachev:

Okay, understood. Thank you.

Moderator:

Thank you. I will now hand back over to Sergey Chernovolenko for closing remarks.

Sergey Chernovolenko:

Thanks everyone for joining today's call. We are pleased with our positioning and excited about the opportunities for our business, and we look forward very positively. I will close by thanking our customers, our shareholders, and our ecosystem partners for their trust and support to us, and all of our talented people around the world who are driving value with our customers every day, thank you. Thank you very much.