

A photograph of four business professionals in an office setting. A man with glasses stands in the background, smiling and pointing at a tablet held by a woman in the foreground. Two other women are looking at the tablet. The scene is lit with soft, blue-toned office lighting.

**SOFTLINE AG**

**CONSOLIDATED NINE-MONTH REPORT 2021**

**1 January 2021 – 30 September 2021**

## GROUP KEY FIGURES (HGB)

		01/01/2021 – 30/09/2021	01/01/2020 – 30/09/2020
<b>Result</b>			
Revenue	TEUR	21,192	19,058
Earnings before depreciation and amortisation (EBITDA)	TEUR	-435	199
Operating result (EBIT)	TEUR	-598	51
Consolidated earnings after taxes (EAT)	TEUR	-650	-39
Consolidated earnings (EAT) per share	EUR	-0.38	-0.02
Per-capita revenue	TEUR	93	95
<b>Other</b>			
Volume of orders (as at 30 September) (approx.)	in EUR million	34.8	41.7
Employees of the Softline Group	Number	227	201

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## 1 CONSOLIDATED MANAGEMENT REPORT

### 1.1 Preliminary remarks

The Consolidated Income Statement and Consolidated Management Report for the first nine months of financial year 2021 (01 January to 30 September) have been prepared by Softline AG on a voluntary basis.

### 1.2 Overall macroeconomic performance and market performance

The Management Board's fundamental assessments of the overall economic and market development in the Management Report for 2020 financial year (Section 3.1 of the Management Report) also applied in principle to the first nine months of 2021, but, as in the previous year, were influenced by the advancing global Corona pandemic.

Although economic research institutes do not yet seem to foresee a clear direction for economic development in 2021 and 2022, the forecasts of the leading IT service providers polled by Lünendonk in its annual survey indicate that spending on digitalisation and the transformation of business models to digital and platform-based solutions is likely to remain high. Ninety-eight per cent of IT service providers surveyed expect revenues to increase in 2021.

Forecasts for revenue growth in 2021 averaging 11.2% indicate that the surveyed IT service providers are more optimistic about 2021 and the following years than they were in the pre-Corona period. In fact, all IT service providers surveyed expect to increase their revenues during the period 2022 to 2025.

In Lünendonk's view, the optimistic assessment is related to the fact that IT service companies expect a significantly higher shift of applications to outsourcing or managed service contracts beginning in 2022.

The main issues for 2022 concern cyber security, modernisation of the IT landscape, data analytics and customer experience. For example, 86% of the user companies surveyed said they will increase their budgets for IT security in 2022, and 70% will increase their cloud budgets. As in the previous year, the biggest challenge is the shortage of skilled workers. The general wave of digitisation has placed a great strain on the IT labour market: one in five positions cannot be filled and there is an enormously large gap between demand for and supply of applicants on the market.<sup>1</sup>

### 1.3 Performance of the Softline Group

In the third quarter of financial year 2021, the Softline Group was again able to generate revenue growth in its core business areas of IT and Software Asset Management, Cloud and Future Datacentre, Information and IT Security and Digital Workplace. Under the banner of **“Achieving Compliance, Control and Cost savings for your IT”** the Softline Group

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<sup>1</sup> Lünendonk Study 2021 – “The market for IT consulting and services in Germany”

generated total revenue of EUR 21.2 million (previous year: EUR 19.1 million) and total revenue and operating income of EUR 21.2 million (previous year: EUR 19.3 million).

Total revenue thus amounts to approximately EUR 2.1 million above the revenue for the same period in the previous year. The volume of orders decreased from the previous year's level of EUR 41.7 million to EUR 34.8 million, while the number of employees increased to 227 from 201 in the previous year.

While the trend in revenue and results was still on track in the first half of the year, revenue targets were not met in the third quarter, in particular due to lack and postponement of hardware and software projects. Capacity utilisation in the consulting-intensive areas was good across the board, but their revenue was also below target, as planned hirings had not yet taken place or were delayed by several months.

Developments in the sales pipeline and order book were only satisfactory in the third quarter. Corona restrictions in recent months have made it much more challenging to reach our customers and partners than in the first half of the year. As in the previous year, the effects of the Corona pandemic were clearly felt in the third quarter of 2021, causing projects to be postponed or put on hold and sales and marketing activities to be reduced.

Nevertheless, we managed to increase DACH-region revenue in the consulting-intensive areas of IT and Software Asset Management, IT Consulting and Managed Services, raising it from EUR 11.2 million in the previous year's period to EUR 13.4 million (target: EUR 16.5 million).

The Northern Europe region achieved a significant increase in revenue of EUR 0.3 million to EUR 5.4 million in the first nine months of 2021, continuing the trend from the first half of the year (target: EUR 5.3 million).

Consolidated revenue of EUR 21.2 million is more than ten per cent higher than in the same period of the previous year (EUR 19.1 million) and thus about EUR 3.3 million below target.

The operating result (EBITDA) for the first nine months of the year was EUR -0.4 million, approximately EUR 0.7 million below target, and thus approximately EUR 0.6 million below the previous year's level of EUR 0.2 million, due in particular to intensive investments in new employees for IT asset management, IT consulting and sales.

We are now entering the fourth quarter with a well-filled pipeline, an adequate volume of orders and a highly motivated team. Overall growth in revenue and contribution margin is expected to continue in these business areas. We therefore expect a balanced quarterly result due to further planned and necessary investments, especially in the consulting-intensive areas, and the resulting further increase in personnel expenses.

## **1.4 Financial position and results of the Softline Group**

### **1.4.1 Financial position**

The volume of orders at the end of the third quarter remains at a very high level of EUR 34.8 million, of which EUR 10.8 million shall be filled during the fourth quarter of 2021. Nevertheless, this volume has decreased over the past 12 months from the record level of the previous year (EUR 41.7 million) to a greater extent than the volume of new orders being generated. We are already working intensively on the expansion of the order book and the pipeline for the coming months through corresponding sales and marketing activities as well as the build-up of

additional staff in these areas. Based on the current volume of orders and the existing pipeline for all group companies, the Management Board expects continued high capacity utilisation and thus balanced liquidity in the coming years.

#### **1.4.2 Results**

Consolidated revenue increased in the third quarter of 2021 from EUR 14.7 million in the first half of the year to EUR 21.2 million after nine months (previous year: EUR 19.1 million).

In the Northern Europe region, which focuses on the IT and Software Asset Management business, revenue increased from EUR 5.1 million in the same period of the previous year to EUR 5.4 million, which is EUR 0.1 million above budget.

Revenue in the DACH region also increased in the third quarter compared to the previous year. Totalling EUR 15.9 million after nine months, it is now EUR 1.3 million higher than in the same period of the previous year. However, the targeted revenue of approx. EUR 19.3 million was not achieved, in particular due to a lack of hardware and software sales, but also due to a lack of consulting capacity.

We were able to increase DACH-region revenue in the consulting-intensive areas of IT and Software Asset Management and IT Consulting from EUR 9.2 million in the same period last year to EUR 10.9 million (target: EUR 14.1 million). In the Managed Services segment, we were able to grow by EUR 0.6 million over the same period of the previous year to EUR 2.6 million, thus finishing EUR 0.2 million above target (EUR 2.4 million).

In addition to sales revenue, the Softline Group generated other operating income of approximately EUR 0.2 million in the first nine months of 2021, as in previous years.

This resulted in total revenue and operating income of EUR 21.2 million in the first nine months of 2021 (previous year: EUR 19.3 million).

The cost of materials rose in the reporting period to a total of EUR 8.2 million (previous year: EUR 7.2 million) and consisted of cost of goods of EUR 3.6 million (previous year: EUR 4.2 million) and cost of purchased services of EUR 4.6 million (previous year: EUR 3.1 million). The strong increase in purchased services can be explained by a major project in which Softline is acting as general contractor and a large part of the IT services are purchased. At the same time, there was an increase in expenses due to intensive investments in new employees for IT asset management, IT consulting and sales, while employee costs rose to a total of EUR 10.9 million, consisting of wages and salaries (EUR 9.3 million) and social security contributions (EUR 1.6 million), which corresponds to an increase of EUR 1.5 million compared to the previous year (EUR 9.4 million).

Consolidated intangible assets and property, plant and equipment were written down by a total of EUR 163,000. This value was EUR 148,000 in the previous year. Other operating expenses at EUR 2.6 million are approximately EUR 0.2 million up on the previous year.

The cumulative operating result at EBITDA level was heavily encumbered in the third quarter, particularly by the intensive investments in personnel and stands at EUR -0.4 million after the end of the first nine months of 2021. This amount is about EUR 0.6 million below the previous year's value and about EUR 0.7 million below target.

The operating result (EBIT) of the Softline Group (i.e. the difference between total revenue + operating income and operating expenses, amounted to EUR -598,000 in the reporting period (previous year: EUR 51,000).

Taking into account the financial result of approximately EUR -52,000 (previous year: EUR -89,000), annual earnings after taxes (EAT) of EUR -649,000 is approximately EUR 611,000 below that of the previous year (-39,000).

## **1.5 Employees**

The Softline Group had an average of 215 employees over the first nine months of 2021 (previous year: 202), and 227 at the end of September 2021.

An average of 177 employees worked for the parent company Softline AG during the reporting period (previous year: 0)<sup>2</sup> and 188 at the end of September 2021.

## **1.6 Risk report**

### **1.6.1 Risk management and control system**

After a significant improvement in the pandemic situation in the first half of 2021, the business outlook for the second half of the year was good, although the risk of another corona wave persisted.

Since our processes were already optimised in 2020 in order to remain fully capable of acting in the event of renewed restrictions, appropriate measures were already taken for Softline AG and its subsidiaries at that time.

Possible risks due to global disruptions in supply chains have been identified for individual projects and other risks, in particular due to a possible COVID-related loss of personnel, have already been adequately considered in the risk inventory for the second half of 2021 for all affected departments and areas.

No additional risks have been identified up to and beyond the end of the financial year.

## **1.7 Opportunity report**

Detailed notes on the economic development and expected market growth in the IT and Software Asset Management and Cloud business areas provided in the Opportunity Report included in Annual Report 2020 (Section 3.7 of the Management Report) continue to apply after the first nine months of the year. Even though the fourth Corona wave is now influencing private and professional life, activities involving digitalisation, cloud and IT security are at the top of the agenda of our current and potential customers.

The need for advice on the above-mentioned key activities remains high and is continuously increasing. Intensive investments in previous years and especially in the last few months have gone into the development of new concepts as well as into the development and training of the

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<sup>2</sup> An upstream merger of the two subsidiaries Softline Solutions GmbH, Leipzig and Softline Services GmbH, Aschheim into Softline AG took place in March 2021. All employees of the two subsidiaries have therefore been transferred to Softline AG.

team. Investment in the growth of our team in 2021 alone will amount to approximately EUR 0.7 to 0.8 million by the end of the year. Despite the generally difficult situation in the labour market when recruiting skilled workers and specialists, we have managed to achieve the goals we set ourselves with regard to the recruitment, onboarding and training of new IT specialists and consultants. This year, we were able to successfully close the Corona-related recruitment gap from last year.

This strong team, both in terms of personnel and expertise, means that the Softline Group is clearly set for further growth. With the forward-looking concept of "**IT and Software Asset Management**", we will clearly position ourselves globally beyond the DACH and Northern Europe regions, especially through the partnership with our main investor Softline International, which is represented almost worldwide. Our future-oriented activities in "**Cloud Transformation**", "**Information and IT Security**" and "**Digital Workplace**" will enable us to grow intensively in Europe over the next few years.

### 1.8 Report on subsequent events

While we are still being impacted by the aftermath of the Corona pandemic from the past year and a half, the fourth wave is now in full swing. Despite quite satisfactory capacity utilisation in all areas and a healthy volume of orders, we are also feeling the ongoing, partly global distortions in our current business development. In particular, orders for hardware and software investments are being put on hold, and contracted consulting contingents are not being utilised as planned, since our clients are dealing with the current pandemic-related challenges.

We nevertheless deliberately continued with the search, recruitment, hiring and onboarding of the employees needed to implement our growth plans in the fourth quarter and will have fully closed last year's hiring gap by the end of the year. These investments will naturally have an impact on the year-end result, as the new employees will only be able to contribute actively and fully to the generation of revenue once they have successfully completed their induction period.

### 1.9 Report on expected developments

In the past nine months, we have managed to increase our revenue from EUR 19.1 million in the previous year to EUR 21.2 million in 2021. As a result, we have also increased gross profit from EUR 12.1 million in 2020 to EUR 13.1 million in 2021. The volume of orders remains at a very high level of EUR 34.8 million, our administrative expenses increased only marginally last year, and the "**Great Place to Work**" awards in both the DACH and Northern Europe regions confirm that we not only have highly motivated, well-trained and good-humoured employees, but also an outstanding corporate culture.

Despite massive challenges in a very competitive market for IT specialists, professionals and consultants, we were able to successfully close the recruitment gap from last year. By the end of the year, we will have invested a total of about EUR 0.7 to 0.8 million in this endeavour. The investment puts us in an excellent position to realise our growth plans in the coming years, both globally, in the area of IT asset management, and in Europe, with a focus on the activities involving the cloud and IT security.

The lack of revenue from hardware and software as well as the extensive investments in developing and expanding our team have of course had a direct impact on revenue and results.



Based on the business trend in the fourth quarter of 2021 and taking into account the current volume of orders, we currently forecast consolidated revenue of between EUR 27.0 and 29.0 million and a possible loss of EUR 0.3 to 0.5 million at EBITDA level by the end of the year.

However, prospects for the coming 2022 business year are clearly positive, despite this currently difficult situation! The positive outlook can be attributed not least to the fact that strong foundations were laid in the third and fourth quarters of 2021, particularly with regard to personnel, but also in terms of the volume of orders and the order pipeline. We expect to further promote the growth and internationalisation of the Softline Group in 2022 and beyond in the portfolio areas of **"IT and Software Asset Management"**, **"Cloud and Future Datacentre"**, **"Information and IT Security"** and **"Digital Workplace"** under the banner of **"Achieving Compliance, Control and Cost savings for your IT"**, and thus realise significant increases in revenue and earnings.

## 2 NINE-MONTH FINANCIAL STATEMENT

### 2.1 Consolidated Income Statement

		01/01/2021 – 30/09/2021	01/01/2020 – 30/09/2020
	EUR	EUR	EUR
1. Revenue		21,192,053	19,058,563
2. Reduction in work in progress		-132,486	28,535
3. Other operating income		177,473	233,979
4. Material costs			
a. Expenditures for goods	3,579,352		4,187,684
b. Expenditures for purchased services	4,579,902		3,059,599
		<hr/>	<hr/>
		8,159,254	7,247,283
<b>5. <u>Gross earnings</u></b>		<b>13,077,785</b>	<b>12,073,795</b>
6. Personnel costs			
a. Wages and salaries	9,281,576		7,894,244
b. Social contributions and expenses	1,637,976		1,547,835
		<hr/>	<hr/>
		10,919,552	9,442,079
7. Write-downs			
a. on tangible and intangible noncurrent assets Property, plant and equipment		163,072	148,458
8. Other operating expenses		2,584,935	2,420,255
9. Other taxes		8,069	12,439
		<hr/>	<hr/>
<b>10. <u>Operating result (EBIT)</u></b>		<b>-597,844</b>	<b>50,564</b>
11. Interest and similar expenses		51,740	89,462
		<hr/>	<hr/>
<b>12. <u>Financial result</u></b>		<b>-51,740</b>	<b>-89,462</b>
13. Earnings before taxes (EBT)		<b>-649,583</b>	<b>-38,898</b>
14. <b><u>Consolidated earnings after taxes (EAT)</u></b>		<b>-649,583</b>	<b>-38,898</b>

**Managing Director**

Dipl.-Ing. Dipl.-Oec. Martin A. Schaletzky

**Supervisory Board**

Prof Knut Löschke - Entrepreneur, Leipzig (Chairman of the Supervisory Board)

Andrew Morrison – Vice President Global Solutions & Services, Softline International, London (Deputy Chairman of the Supervisory Board)

Roy Harding – President Softline International, London

**Employees**

On average, the Group employed 215 salaried employees during the first nine months of 2021, and 227 salaried employees as at the reporting date of 30 September 2021.

