

SimCorp A/S

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Information memorandum

SimCorp A/S – Supplementary financial disclosures

SimCorp is transforming from a traditional Software company to a full-scale Software-as-a-Service provider. As a consequence of transformation, SimCorp will gradually change its business focus from license and maintenance revenue to subscription, hosting and technology enabled services. SimCorp is converting perpetual license contracts to SaaS subscription agreements, and the steady transition into a full SaaS business will be a multi-year journey.

This fundamental business change will impact the relevance of financial metrics, and SimCorp is today announcing important additional financial disclosures to further emphasise the focus on the key value drivers of SimCorp during and post the transformation.

The supplementary financial disclosures are as communicated at the Capital Markets Day in October 2022 and can be divided into three separate but related disclosures:

- Updated revenue segmentation
- Introduction of Forward-looking Annual Recurring Revenue as key revenue KPI
- Introducing "Ratable revenue" as a KPI to reflect the underlying development of cash revenue (adjusted for upfront revenue recognition as per IFRS 15)

These will be communicated on a quarterly basis in 2023.

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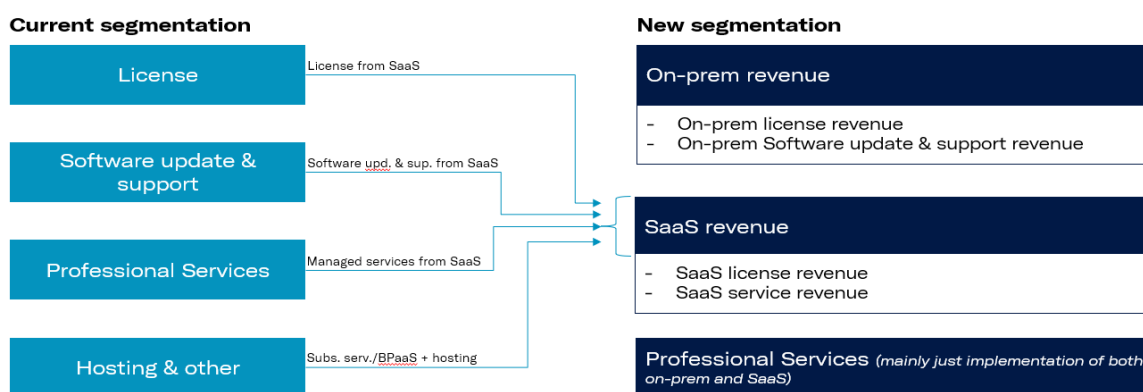
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New revenue segmentation

The current revenue segmentation has served SimCorp well historically as a traditional software company. However, it does not reflect SimCorp's transformation, and the fact that SimCorp is already advanced as a SaaS company. SimCorp's development into a SaaS company is not easily assessed in the current segmentation. The objectives of the new revenue segmentation are to:

- **Increase transparency:** Transparent in terms of the SaaS transition with disclosures of both quarterly On-prem and SaaS revenue development
- **Reflect our operating model:** Revenue segmentation reflecting the new operating model with clear split between On-prem revenue, SaaS revenue and Professional Services

The new revenue segmentation is illustrated below:



The content of each revenue segment can be divided as follows:

- **On-Premise revenue**
 - License revenue: Includes only license from on-prem installations and 3rd party software licenses
 - Software updates and support revenue: Only includes on-prem installations
- **SaaS revenue:** All SaaS revenue (including BPaaS) split into license revenue and service (incl. software updates & support) revenue due to the difference in revenue recognition (SaaS license revenue applies up-front revenue recognition as per IFRS 15)
- **Professional services:** Mainly implementation services, but also revenue from other activities such as training and education, previously classified under Hosting & Other

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New revenue segmentation – quarterly development

	Q1 2021	Q2 2021	Q3 2021	Q4 2021	FY2021	Q1 2022	Q2 2022	Q3 2022	
On-premises	Initial Licenses	1.7	11.5	0.8	2.9	16.9	3.6	0.1	2.5
	Additional Licenses	8.8	10.7	17.9	46.7	84.1	10.9	13.7	18.7
	Other Licenses	1.1	3.4	0.9	7.1	12.4	1.3	1.4	1.1
	Software updates and support	40.8	40.3	40.8	41.3	163.2	41.1	41.5	42.6
Total on-premises revenue	52.5	65.8	60.4	97.9	276.6	56.9	56.7	64.9	
SaaS	SaaS Initial Licenses	2.0	2.7	0.7	0.4	5.9	0.4	0.5	-1.0
	SaaS Additional Licenses	5.9	0.2	0.6	1.7	8.4	2.2	0.9	1.8
	SaaS Other Licenses	0.9	1.4	0.3	0.9	3.5	2.0	0.5	0.4
	SaaS Services incl. Software Updates & Support	11.9	11.9	12.6	13.5	49.9	15.9	17.2	17.4
Total SaaS Revenue	20.8	16.2	14.2	16.5	67.7	20.6	19.1	18.7	
Professional services	36.8	36.7	32.7	45.8	152.0	37.3	40.2	40.6	
Total revenue	110.0	118.8	107.3	160.2	496.3	114.7	116.0	124.2	

Forward-looking Annual Recurring Revenue

SimCorp commenced reporting Annual Recurring Revenue (ARR) on a quarterly basis in 2021 reflecting the initiation of the change to a service business. The current ARR is a backward-looking measure, and therefore does not capture the forward-looking value of signing new contracts. As communicated at the Capital Markets Day, we will in 2023 also introduce forward-looking ARR, which will be the main KPI in order to track value-creating business growth both internally and externally.

Forward-looking ARR is defined as:

Annual recurring revenue is the total of the average monthly recurring revenue of all contracts in force at a point in time multiplied by 12

ARR is most relevant as a measure of the recurring book of business development rather than a prediction for the next twelve months reported revenue. The main deviations to next twelve months reported revenue can be explained by 1) ARR is not impacted by upfront revenue recognition (Renewals and Conversions without change of scope or price have a positive impact on reported revenue but have no impact on ARR), 2) average Annual Contract Value (ACV) is fully included as soon as it is signed while reported revenue may be ramping up over a longer time period, 3) ACV of recurring revenue from subscription contracts that are expiring in the next 12 months is included in ARR and 4) Non-recurring revenue such as implementation fee has no impact on ARR.

Forward-looking ARR is a leading indicator of future “Ratable revenue” (see below) and therefore by nature also an indicator of the free cash flow development.

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The tracking of the forward-looking ARR on a quarterly or yearly basis can be split into the three main drivers. In SimCorp's quarterly disclosures, commentary disclosures will be provided for the three drivers of the ARR development:

- **ARR start of period:** Recurring ACV at the beginning of a period
 - **Net new wins:** The net of committed ACV from new customers and loss of ACV from past churn
 - **Net expansion with current customers:** The net of ACV expansion with current customers and ACV reduction with current customers
 - **Indexation & Other:** Impact of pricing changes and other adjustments
- **ARR end of period:** Recurring ACV at the end of a period

Ratable revenue

Ratable revenue is a new revenue KPI that will be introduced and complement forward-looking ARR. Ratable revenue adjusts revenue for upfront recognition (as per IFRS 15) and therefore better reflects the actual timing of the cash flow generation.

Ratable revenue is defined as:

Reported revenue adjusted for the change in Contract Assets (Contract Assets Closing Balance – Contract Assets Opening Balance)

Forward-looking ARR and Ratable revenue complement each other as upfront revenue recognition under IFRS 15 has no impact on either. Ratable revenue will better reflect current year development of cash revenue (with the majority committed already at start of the year), while forward-looking ARR will be a leading indicator of future cash revenue development.

Ratable revenue can easily be reconciled to reported revenue, and SimCorp will continuously reconcile reported revenue with Ratable revenue. Ratable revenue is inherently more stable and predictable than reported revenue due to the binary and lumpy nature of upfront revenue recognition.

Table 1: Historic revenue figures for Ratable revenue and Reported revenue

(EURm)	FY2020	Q1 2021	Q2 2021	Q3 2021	Q4 2021	FY2021	Q1 2022	Q2 2022	Q3 2022	9M2022
Rateable revenue	431.8	109.9	107.4	100.5	133.4	461.2	122.3	111.8	113.0	347.2
Upfront revenue recognition impact (IFRS-15)	24.2	0.1	11.3	6.8	26.8	45.1	-7.6	4.2	11.1	7.7
Reported revenue	456.0	110.0	118.8	107.3	160.2	496.3	114.7	116.0	124.2	354.9
Rateable revenue growth	10.4%	-0.8%	5.6%	2.1%	10.7%	4.5%	11.3%	4.1%	12.5%	9.2%
Reported revenue growth	0.3%	6.9%	11.3%	7.1%	9.6%	8.8%	4.3%	(2.3)%	15.7%	5.6%

*Upfront revenue recognition impact (as per IFRS 15) is calculated as: Contract Assets Closing Balance – Contract Assets Opening Balance

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Enquiries regarding this memorandum should be addressed to:

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