

Sopra Group financial presentation

Friday, 6 June 2008

Introduction

Pierre Pasquier
Chairman and CEO of Sopra Group

First, I'd like to thank you for attending this meeting.

Yesterday evening we published a press release announcing our intention to acquire Tumbleweed Communications and merge it with our subsidiary, Axway. The financial aspects of the deal were communicated to you. We are here today to answer any questions you may have concerning the transaction. Christophe Fabre, CEO of Axway, was in the United States two day ago. He will deliver the main part of the presentation, whereas I would like to remind you the broader context.

For some years, since the acquisition of Viewlocity, followed by Cyclone Commerce and Actis, and now if this transaction is successful, we have conducted a proactive strategy centred around Axway, making it a developer of B2B applications and exchange systems for clients across the world.

We were looking to acquire a company in the United States: we consider that the volume of Axway's business in the United States is currently too small compared to the volume of its business in Europe. So after looking at the opportunities offered by quite a substantial shortlist of companies, we targeted Tumbleweed a few months ago. Following relatively lengthy negotiations, we have reached a stage that enabled us to make the announcement this morning.

Our strategy is to establish Axway as a developer with global market positioning. Axway clearly operates in a niche market. But Cristophe Fabre is in a better position than me to speak to you about this, which he will be doing shortly. Axway's competitors are: WebMethod, Tibco and Sterling Commerce and its revenue is almost in line with these competitors, if not higher in some cases. It aims to achieve a margin of 15%. Once we manage to sustain this level of performance over the long term, we will shift to a higher gear and ensure that Axway's true value is recognised.

Axway's current share price does not accurately reflect the company's value. Axway is presently valued at 7 or 8 months of the Group's consolidated revenue. I believe that there is an overlap of the company's Product offers and its Consulting and system Integration offers. We hope that one day this value will be properly recognised. When companies such as Axway are offered for sale, they are valued and sold for between one and a half and three years' revenue and, in some cases, such as Business Objects, for four years' revenue. This is the kind of underlying value we can expect, particularly for a company like Axway, which has always made a profit. Over the last few years, Axway's profit margin was 10%; the target is to maintain it at 10.

I will now hand over to Christophe Fabre who has prepared some slides after which you will be able to ask questions.

Presentation of the merger plan

Christophe Fabre
CEO of Axway

My presentation consists of four topics: a brief history of Axway and Tumbleweed; Axway's target market and how the acquisition fits in with our strategy; the key points of the acquisition; and the business plan.

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Founded in 2001, Axway is a wholly-owned subsidiary of Sopra. It is a French company operating in the USA with a management team divided between Phoenix and Paris. 2007 revenue amounted to €145m and the 2008 target is €166m. Axway has significant product lines. Its flagship product line – Synchrony – represents a combination of all of Axway's products. Synchrony is positioned as leader in B2B and Managed File Transfer (MFT) Magic Quadrants.

We have established a solid reputation in the areas of SOA integration, back-end infrastructure and Business Activity Monitoring (BAM) and Business Process Management (BPM), but our core business remains B2B and MFT. The other components round out our offering.

We currently have 8,000 clients worldwide with a very strong European base. Our client base is mainly made up of blue-chip companies and we have relatively few middle-market clients.

In terms of external growth, you may recall that in 2002 Viewlocity was our first acquisition outside France and that Cyclone gave us a foray into the American market in 2006. In 2007, Actis, the Atos subsidiary specialized in B2B, propelled us into the leadership in Europe.

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Our market comprises services, licences and maintenance in roughly equal proportions with services representing a significant proportion, but not the kind of figure you would expect from a systems integrator. We provide specific product-related services. Since Synchrony is a fairly complex product, it's a must-have for our clients who expect it to be part of our mix. We should also note a strong push in licensing.

Geographically, France is still an important market, accounting for 42% of total revenue. Germany accounts for 15% followed by the USA with 16%. However, this analysis is in euros and we have been impacted by the weakness of the dollar. The UK accounts for 6% of our revenue and the rest of the world 21%. The fastest growing markets are the USA and the UK. Although France and Germany are already leaders in their market, they have nevertheless achieved growth of over 10%.

By vertical market we should note that Axway's strength lies in financial services but also in healthcare and pharmaceuticals. This market share is primarily attributable to the USA. More generally, Axway products target all supply chains because of the high level of transactions between partners and clients and the intensive computer processing chains. Our automotive business comes from the German subsidiary, with Actis.

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Tumbleweed was founded in 1993. It is headquartered in Redwood near San Francisco in Silicon Valley. The company is listed on NASDAQ. Its capital comprises 55 million shares which were worth \$1.85 each on 30 May 2008.

2007 revenue totalled \$58m and the 2008 target is \$65m. The company forecasts steady growth.

Like Awway, Tumbleweed is strongly positioned in MFT. Together, they rank no. 3 in the world.

Tumbleweed is also positioned in email security. They enjoy an excellent reputation in the area of security. Tumbleweed's CTO was the man behind the SSL standard. Tumbleweed has filed 29 security patents. It goes without saying that in the world of intercompany transactions, security is an area of major importance.

Tumbleweed has around 3,300 clients worldwide, although 90% of these are located in the USA.

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The sales, services and marketing teams are based in the United States.

The distribution activity, that is to say the teams in charge of revenue, sales, pre-sales and services, employ 85 staff in the USA and 10 in Europe (8 in the UK, 2 in Germany). They have a more modest-scale presence in Asia.

Software development, which comprises the teams designing products and monitoring the market, i.e. marketing, the R&D teams developing and maintaining the products and the client support teams, are mainly based in Silicon Valley (some 50 staff), while most of the development personnel are located offshore in Sofia, Bulgaria.

The G&A part of the business is mainly based here in the US.

There are a total of 330 staff. Axway's workforce currently totals 1,400.

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As regards the type of activity, it may be noted that the service content is weaker compared to Axway because Tumbleweed has not developed as complete a platform as our own. Its services are fairly technological and do not involve a great deal of implementation. We believe that improvement is possible to take the proportion up to 30%.

The client base for maintenance is a solid one with a very low ratio of client loss. Licence agreements account for 41%.

The country breakdown shows that 90% of revenue is achieved in the USA and 8% in the UK, with the balance representing more tactical business opportunities. This is very much an American company.

In vertical market terms the company is complementary to Axway. Tumbleweed's two main business segments are banking (29%) and government (23%). The main financial services client is Citigroup and the main government client is the US Air Force. The third largest business segment is healthcare (16%). Axway's business is more focused on supply chain services for the pharmaceutical industry whereas Tumbleweed is more involved in healthcare and hospital systems. These last two vertical specialities are very complementary. So we have a very nice level of vertical market coverage.

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Why is this transaction so central to Axway's own strategy?

The two most important software markets are those for the development of applications and for managing infrastructure (i.e. databases) and application server development. The infrastructure market is served by IBM, Oracle and Microsoft; application development by SAP, Oracle and Microsoft.

The term SOA may also be used to group together all the various layers of middleware required to configure software platforms or develop in-house applications. This is internal applications territory.

In terms of integration, as the environment becomes more complex so it becomes more heterogeneous in terms of exchanges between businesses and more precisely, as regards the automation of the processes for communicating business data. The problems associated with B2B also become relatively complex because no two companies tend to have the same formats, protocols, data, processes and standards.

Exchanges take place either on the basis of very specific protocols for particular vertical sectors (e.g. in the world of banking, Swift, X25, ET Back, etc.) or at a more technological level (http, email, etc.). File transfer is as important inside a business as it is externally. You need applications that source internal systems. The required applications need to provide visibility regarding all the external processes involved.

These four market segments remain separate for the moment but we believe that consolidation is going to take place around the companies that will be capable of servicing all four segments. This tendency is already apparent in the most recent analyses provided by Gartner or Forrester. Our goal

is to become a leader by combining all four functions so as to be the natural choice to complement the major software developers' own offerings. It represents a market niche because it is a smaller market than that for the developers themselves, although observers note that it is a market that is currently growing by more than 15% a year.

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How is the competition placed? What are their strengths in these four segments?

Axway's revenue amounts to €166m, Tumbleweed's totals €43m, Sterling (a subsidiary of ATNT) generated revenue of €400m, Tibco (not yet positioned for B2B business but capable of doing so) also had €400m revenue, WebMethods' revenue was €13m (WebMethods has been bought by Software AG and has a strong SOA and BPM positioning as well as the capacity to develop towards B2B) and revenue for Seeburger (a German developer and partner of SAP) was €50m.

With the exception of Sterling and Tumbleweed, our competitors only manage to cover three of the four segments. One differentiating factor is MFT which is an important protocol because it is a basic one capable of being integrated by anyone, even if that does not mean it is easy to manage.

By acquiring Tumbleweed we reinforce our MFT position. Tumbleweed may not yet be positioned for B2B but it nevertheless has features which have very useful B2B applications. I am thinking in particular of security and more specifically, of its very compelling offering with regard to identity management. When your bank sends you a message you need to be certain that the author really is your bank. Tumbleweed offers very comprehensive authentication processes and the same applies to their offer regarding the management of email exchanges.

In terms of visibility and integration, Axway's offer is strong enough for it to confront all the competition and this applies to MFT as well. Both Axway and Sterling are focused on major business accounts, whereas Tumbleweed has a much more lightweight offering that is well adapted to the middle market. For a major bank or distributor, the problem is not to establish connections with other super-sized IT systems but to do so with entities possessing much smaller systems.

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What are the key features of the merger?

We want to become a developer with a very strong B2B MFT offering. Our objective is to enable major companies to exchange data with their partners of whatever size. Their current difficulty is to establish connections with their smallest partners because of the cost and technical difficulties involved and also for reasons of security. Tumbleweed provides some very useful products in this area.

Synergies may also be achieved between our respective client bases. Very few of Tumbleweed's 700 main clients in the USA have taken on board the functions of B2B integration or visibility, i.e. components which Axway possesses via its platform and will be in a position to offer to Tumbleweed clients.

For Axway's clients, Tumbleweed's security and appliance expertise can also provide benefits. Appliance involves embedded software on a PC, then undertaking pre-configuration and system

launch thus reducing onboarding by at least four weeks. Tumbleweed has pretty good expertise in this area.

But Tumbleweed's key business is its ad hoc MFT expertise. We might go so far as to say that the dream of any major company for connecting its partners would be to use the one tool that everyone has, i.e. Microsoft Outlook. But the problem is that Outlook does not guarantee that messages are transmitted and in addition, you can never be certain with whom you are communicating because there is no watertight system of authentication. Tumbleweed offers a product which can be plugged in behind Outlook and detects whether the message is a secure one or not, after which it can be transferred over the internet via another secure channel. This solution avoids the client having to change its systems completely while at the same time obtaining a completely secure connection with its partner which may be a bank or a major supplier. In other words, it's as and when a message is despatched that the appropriate communication channel is selected. This is a very attractive product offer and we believe it will be a real contributory factor to growing the market for MFT.

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But over and above the synergies in our product offerings, there is the value of reinforcing our presence in the USA. Tumbleweed and Axway both have US sales forces of about 35 people, so this transaction would double our resources. This slide highlights our geographical coverage with green circles for Tumbleweed's present locations, red circles for Axway's main locations and white circles for its other locations. It is clear that our geographical coverage would double as well. Axway has a strong presence in Phoenix for the West Coast, in Dallas and in Atlanta, and we are also to some extent present in New York and Chicago. Tumbleweed has a strong presence in Silicon Valley and more generally all along the West Coast, and is also present in New York (for financial markets) and Washington DC (for federal government). Both companies are present in Chicago, a major business hub, so this transaction would create an entity which would really have strong coverage of local markets.

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Axway has 1,500 clients in the USA of which 300 are major companies. Tumbleweed would bring us an extra 700. In contrast with Axway, for which it is not the case in the USA, Tumbleweed has a strong banking presence. Our healthcare segment, where both companies have quite a strong presence, would be reinforced. Finally, Tumbleweed has a strong presence in the government sector. We would really achieve critical mass both in client numbers and in the number of vertical segments covered. In addition, this transaction would enable us to extend the Axway model to Tumbleweed's client base for services representing about the same scale of revenue as for Axway. Tumbleweed employs 12 people in services; we employ 100. It is also worth noting that resellers account for a fairly large proportion of software revenue. For example, IBM sells more software via its resellers than directly to its clients. Tumbleweed is setting up its own indirect distribution network by selecting the best available resellers in each of the regions. We currently have about 90 such outlets which can be used to market our simpler products.

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Axway's business plan, without Tumbleweed, looks pretty good. For 2008 EBIT is 10 and our target is for 14 to 18. But it is important to bear in mind the fairly regular trend in growth above the

level of 10%. The regional split of revenue is also important and our target, given that we are already strong in the USA and the UK, is to move towards a split of 20% of revenue in the USA, 37% in France and 14% in Germany. The key point is that our reinforcement in the USA, by doubling our growth there, would allow Axway to become as strong in the USA as in Europe and thus gain credibility as a global player. We have to recognise that until now, despite our presence and strong growth in the USA, we have not had the critical mass enabling us to be perceived as a global player.

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EBIT is improving and we are on target for our aim of €250m of revenue in 2010 and an associated margin of at least 15%. The transaction also offers some synergies in terms of costs and we have estimated them at €8m. They would enable Axway to maintain its margin. There will, as usual, be some exceptional costs as well in particular for staff retention.

Discussion

From the floor

Can you provide details of the €8m of synergies you have mentioned and also of the timescale within which they would be achieved?

Christophe Fabre

Tumbleweed would be de-listed, which is a major investment item for a company of its size. That should generate savings of at least \$2m. There would then be the traditional synergies resulting from the fact that both companies are US-based with about the same size and infrastructure in terms of the two function hubs, which will be pooled (thus saving the costs of one hub). We will make savings in terms of marketing. Finally, a proportion of the management team will not remain with the new structure.

From the floor

Could you expand on the prior growth of the company you intend to acquire? There would appear to be something of a gap between its past performance and the potential that you forecast for it in respect of certain products.

Christophe Fabre

You're right. If everything in the garden was rosy for this company, it would not be up for sale. The company clearly has a problem, not because it's badly managed or lacks potential but its low growth and lack of immediate potential reflect the fact that since 2003 our own company has enriched its B2B-MFT offering with additional components in such a way that we have a complete product offering whereas Tumbleweed do not. So they have a problem when it comes to continuing to service their major customers and grow their revenue, but Axway has the missing links to Tumbleweed's offering and we remain optimistic about our synergies for growth.

From the floor

How much has this company's revenue grown by over the last three years?

Christophe Fabre

I don't have the figure on the tip of my tongue but I would guess at a little more or less than 10%.

From the floor

And in terms of operating margin?

Christophe Fabre

Under US GAAP, I think we are talking about a loss for 2007 of \$11m for \$58m of revenue. Excluding the impact of stock options etc. there was a loss of \$5m. Getting back to your question about synergies, we aim for €8m of synergies, i.e. \$12m. 12 minus 5 equals 7 i.e. net profit of \$7m for \$60m of revenue which provides the company with a margin of 10% in line with our current standard. The expected synergies would enable Tumbleweed to achieve Axway's current level of margin. The company's growth in the coming years will clearly depend on the fact that we shall be selling our own product portfolio to complement theirs. That will be our motor for growth.

From the floor

Are you assuming full achievement of the synergies in 2008?

Christophe Fabre

Practically. During the three to six months of integration, we need to put projects in place and ensure proper migration of all the systems.

From the floor

Tumbleweed's budgeted revenue for 2008 - \$65m compared to \$58m in 2007 – seems very surprising given the company's recent stagnation.

Christophe Fabre

It's less than the company's own forecast, which we have already reduced.

From the floor

What will happen to Tumbleweed's management? Will they stay or will they go? What assumption of growth in the financial services sector in the USA have you retained in your business plan for the next eighteen months? What euro/dollar exchange rate have you retained in your business plan through to 2010?

Christophe Fabre

We have assumed the same euro/dollar exchange rate as today.

Management of both companies are enthusiastic about this proposal. To some extent Tumbleweed's own ambition coincides with what we are doing at the moment. So in principle there should not be any hostility. Both teams have worked on the proposal and share its aims. Nevertheless it is obvious that not all Tumbleweed's top management will remain. For the moment we're still at the stage of the proposal and it's too early to provide you with our ultimate organisation chart.

From the floor

Will key company managers be leaving?

Christophe Fabre

No. The persons we have identified as critical will stay with us and they want to stay. However as the proposal is not yet finalised employment contracts have yet to be signed. Tumbleweed has a very strong development team as well as some very solid marketing and product management employees. Their middle management is very capable in terms of distribution. All these people support our proposal.

In the area of banking, we are mainly present at the retail level and what we sell generally has the scope for a fairly strong and rapid return on investment. We're not selling them infrastructure but tools to help them grow their own revenue. Even if we need to remain prudent in the current environment, Axway continues to sign up new banking business, although not enough, since we are trying to reinforce our client base. There is nevertheless a bank, which I shall be able to name to you in two or three months, which two years ago acquired our Synchrony platform as an extension to its Tumbleweed system. The contract was worth 2 million for licences and 2 million for services and the platform is expected to be operational in two months' time. The ROI is estimated at just three months. The bank currently exchanges data automatically with 1,000 of its corporate customers; by using Axway's platform they will be able to connect 2,000, 3,000 or 4,000 customers. The 3,000 extra customers necessarily produce an ROI, so it's not a difficult investment to sell.

From the floor

You have mentioned clients such as Bank of America or JP Morgan Securities. What trend do you expect in these institutions' IT expenditure during the coming eighteen months and in particular, for your products?

Christophe Fabre

I can only respond for our own products. To date we have not noted any deterioration in our order book from the banking industry. All the business plans for investment in our products are designed to increase the banks' revenues and the ROI is generally a rapid one. Our offer provides them with an advantage. Banking information systems in the USA lag a little behind Europe and there is still plenty of scope for offering US banks opportunities for fairly rapid paybacks.

From the floor

So Axway will de-list its shares from the NASDAQ. There was a time when we might have imagined the opposite would happen. Does this acquisition change anything for you as regards the status of Axway within Sopra Group?

Pierre Pasquier

No. Our strategy and objective have not changed: about \$250m of revenue. And there is another piece of information that you haven't had: the company we're acquiring has \$28m to \$30m in cash.

From the floor

Could you re-explain the financing arrangements for the transaction? I seem to remember the existence of a credit facility of €200m of which €20m had been used. You're now using it all. What is your remaining scope for acquisitions and how are you placed in terms of any covenants?

Pierre Pasquier

We shall be using €70m to €80m of cash, no more than that. We still have a lot of scope for use of our credit facilities.

Alain Cohen

Absolutely. We arranged a new facility of €132m in April. We have no problem at all with our covenants and the banks continue to be content to make small margins on our borrowings.

Pierre Pasquier

We have been saying very clearly, for several years, that if we could we would do something of this sort with Axway given that the USA is our major target. We also mentioned the UK but we haven't found the right company. We are holding to our strategy. As for other acquisitions, we had no really ambitious goal for this year. Perhaps we shall buy two or three companies but leave any more ambitious acquisitions until 2009 or 2010.

If the Tumbleweed transaction succeeds – and we still have a few hurdles to overcome – the board of directors and the executive committee consider it to be a perfect response to our objective of €2 billion of revenue for Sopra in 2010.

From the floor

Have you counted the de-listing costs for the company, generally rather high in the USA, as part of the €3 million of transaction costs and if so, in what proportion?

Hervé Dechelette

Those costs are included. I can't give you the precise figure right now but they're included in the overall cost that we've quoted.

From the floor

What is the origin of the losses this company recorded last year? Are they essentially related to installing their distribution network or is there some other reason? Could you tell us a little more about their partners? Will setting up this network involve more costs in the future? What are the real benefits that Tumbleweed expects from setting up this indirect network?

Christophe Fabre

The three main causes are a cost base that is too high in terms of the company's debt – even without selling, Tumbleweed would have come around to the idea of de-listing the company – their investment in the distribution network and strong investment in ad hoc MFT. They have continued to spend on R&D. Their product lines have not yet reached their full revenue potential.

From the floor

As regards their products and revenue split, can you give us a breakdown between MFT and secure email exchanges? Are the two very much interlinked or can Tumbleweed engage in MFT without associating it with emails?

Christophe Fabre

Yes. There are two sorts of emails. One is purely B2B and based on a product called Secure Messenger. This product will naturally be used to round out our own offer. The other email component is more a matter of security at the level of inter-network communications. This latter activity is not precisely either MFT or B2B but it is a profitable product line which may not correspond precisely to our own portfolio but for which all the required technology is useful to what we do in addition, since all our own B2B and MFT offers need to go through these layers of security. It makes sense for us to understand what is involved because that way we can fine-tune our own proposals. This component represents 25 to 30% of the total revenue.

The MFT component currently also represents 30% of the total revenue and the B2B email component, 10 to 15%. The balance relates to patent revenue for the company's security components. In short, 70 to 80% of the company's revenue is complementary to Axway's and the 20% for email protection is very much adjacent. And there are R&D synergies for a profitable product that is selling well.

From the floor

The company has no customers at all in France. If I were a customer with the same needs as they are satisfying for their American clients, to whom would I go at present?

Christophe Fabre

To Axway! For MFT the answer is an obvious one.

From the floor

What about everything involving emails for example?

Christophe Fabre

I don't think they have any direct competitors for B2B emails. In email protection you will find companies like Postiny. Gartner includes Tumbleweed in its Magic Quadrant for this area. From memory I think one can also mention Google and Cisco, i.e. some pretty good names.

From the floor

I've taken note of the synergies you intend to achieve. But don't you feel that your offering price is giving the seller the major part of those synergies? You're offering about twice their revenue. Pierre Pasquier suggested that the price is what you often expect for high margin developers but we're talking here about margins in the range of 10 to 15%. In other words, are you not tending to see the bride as more beautiful than she really is?

Christophe Fabre

You don't marry a bride for what she is but for what she can become. Our offering price also reflects the potential we perceive for the company. I agree that the company is not necessarily a profitable one on the basis of a multiple of two. Remember that Tibco paid \$50m for Applic despite the fact that it was only just inside the Magic Quadrant yet the price paid amounted to three times the company's revenue.

Pierre Pasquier

If the company had been profitable we would have had to pay a great deal more, really a great deal more. The question is whether we can make immediate savings in the coming two months. We shall have exceptional costs of €2m to €3m for redundancies as well as for the people we are sure to want to keep for another year. And we have our synergies of €8m. By adding up all that we reach our own current level of profitability straight away. But it's a fact that acquisitions always cost too much. Choices always have to be made. If we'd been able to pay less we'd have been happy too, but how much margin did we have? Perhaps \$10m. If the company had been making 10% on sales we'd have been paying three or four times those sales.

Since IBM's announcement that it was going to buy 15 companies each year, and the same from Oracle and SAP, we know the market is there and that it has its value. Some companies will continue to exist and others will disappear but overall there will be fewer of them. Some will be purchased and continue to exist, as is the case for example of WebMethods within Software AG.

Our offering price is not high in terms of the market for such companies. And don't forget to take account of the future value of Axway.

From the floor

Are you going to take the time to integrate this company? Will Axway continue to look for more potential acquisitions?

Christophe Fabre

This is a project that will keep us busy for a year or two; it's too early to say if we shall be making additional acquisitions or not.

Pierre Pasquier

One of our objectives has already been achieved. If you add up our US revenue it amounts to just 30% of the total based on the current value of the dollar, but if the dollar returned to parity with the euro the American market would be our foremost one and no longer France.

From the floor

Will the CTO keep his job?

Pierre Pasquier

For the moment I don't know.

From the floor

What about any reduction in R&D costs which I believe are currently running at about 25% of revenue?

Christophe Fabre

I didn't mention R&D savings but they will exist where our respective functions overlap and there will also be small savings at the level of each entity. But we have no intention of cutting the company's overall R&D investment.

From the floor

What is the level of Tumbleweed's indirect sales?

Christophe Fabre

About 40% of their total revenue.

From the floor

Will their resale network be able to distribute Axway's products?

Christophe Fabre

Not all of them.

From the floor

So which ones?

Christophe FABRE

The simplest ones, not the platform. Our business offer involves some fairly sophisticated services which will continue to be marketed on a direct basis. But we also have more standard and simpler solutions which resellers could easily handle.

From the floor

Do you intend to merge Axway's staff in Romania and Tumbleweed's in Bulgaria?

Christophe Fabre

No.

From the floor

To de-list a company you need to hold 95% of its share capital. What is the current composition of Tumbleweed's share capital?

Will there be an integration problem with your Synchrony platform? Will you need time to prepare an integrated and packaged product that will be attractive to clients and that it will be possible for you to cross-sell?

Christophe Fabre

We performed the same type of integration when we bought Cyclone, which had its own MFT offering, and equally so with Actis. It takes between three and six months to put a product on the market. It's not difficult to do and there's no particular problem of architecture.

Hervé Dechelette

As regards de-listing, the process we are proposing is one of merger and more specifically, of what is called a triangular reverse merger under which a simple majority of the shareholders can suffice to gain access to all the company's share capital. So we don't need 95% support but only 50% and we think we can get it.

From the floor

Could you give us more information about Tumbleweed's share capital? Given their past losses, will you be recovering tax losses and if so, how much?

Hervé Dechelette

Tumbleweed's share capital is not very dispersed. Three investment fund type investors hold a total of 32% and the next ten funds make for a total of 65%. Management also holds 5% so it's not difficult to reach 70%. And we have their board's support for the process we have proposed and that the board will recommend for approval by the shareholders.

The company does indeed have tax losses it can carry forward. We have not taken them into account in valuing the company but they certainly exist and can be recovered based on the company's future business plan. Cyclone, that we bought two years ago, also had tax losses it could carry forward. The new company will be in a very comfortable position from this point of view. But in the USA the use of tax losses is very much regulated and spread out over time so they will not produce any immediate one-off impact.

From the floor

What is the level of gross margin for the three revenue components: licences, maintenance and services?

Christophe Fabre

I can't say from memory. I believe that for maintenance we reach 85%. There is an excellent ratio between maintenance revenue and the support teams required.

From the floor

Will the revenue trend towards a greater share of appliance have an impact? The related gross margins are much lower than for licensing.

Christophe Fabre

No, there will be no impact because it is precisely the business email protection component that is sold on an appliance basis.

From the floor

You have specified that Tumbleweed possesses patents which provide part of the company's revenue in the form of royalties. But are those patents in turn dependent on any third party technology? The area of cryptography has been covered by lots of patents for a long time.

Christophe Fabre

Other than a new Oracle database product I don't see any particular factor in this respect.

From the floor

Were you the only candidate as potential acquirer? I suppose we can always imagine a counter-bid. Has the company been for sale for a long time? May other parties develop an interest?

I've noted your optimism for 2008. But could you talk a little more about what happened in 2007 with a drop in revenue of 7% and 22% for product revenue? Management also disclosed a significant drop in authority certification revenue. Could you give us more details about 2007? What gives you hope for 2008? What gives you confidence in their budget? And what do you know about their pipeline?

Christophe Fabre

I wasn't there in 2007 and so I can't reply.

From the floor

But I imagine that your due diligence took a look at their history?

Christophe Fabre

The problem is clearly one of market positioning. They performed very well for their enterprise clients and in terms of MFT. Then the market evolved, in particular under the impetus of Axway and Sterling, towards more comprehensive offers and Tumbleweed didn't manage to follow. They

tried to change their strategy but hesitated between emails and MFT. Two years ago, they decided to concentrate on MFT. Their product offer is a good one but it's incomplete.

My confidence for the future is based first and foremost on the quality and competence of the company's management. They also have a client base which they have managed to grow over a period of ten to fifteen years. They began developing new components, two years ago, to secure their future and those components can be useful to us in rounding out our own offer.

Pierre Pasquier

To reply to your first question, we have no certainty that we shall be the only candidate for this transaction going forward. We don't know.

Christophe Fabre

As regards securing the business, we can quote the case of Cyclone which was also making losses when we bought it. But Cyclone had a very good client base. An MFT-B2B product is not a platform but we increased from 15 to 100. We made excellent platform sales during the first two years and starting virtually after three months. They were very well placed in terms of offer for the healthcare segment. This time, Tumbleweed is very well placed for ad hoc MFT, in which it continues to invest in R&D and which we can put on the market as early as this year. So I have the feeling that we already know the score. But it's also clear that the company is not in the best of health and that there remains a great deal of work to do.

From the floor

What are their forecasting tools?

Christophe Fabre

They have the usual sales force approach.

From the floor

Companies like this do not always have very effective forecasting tools for future orders and they can get things wrong from one quarter to the next. Do you expect to have to make efforts in this area in order to be sure of achieving budget?

Christophe Fabre

Our information systems will be merged. We have reviewed their current information system and I think they have good control over their sales operation. Their real difficulty is in priming the pipeline.

From the floor

What impact will this transaction have, if it succeeds, on your calendar in respect of a strategic service acquisition?

Pierre Pasquier

We had no strategic acquisition in view for 2008 so if this transaction goes ahead it will have no impact, it will be chemically neutral. But we think that if we can integrate Tumbleweed and Axway in the same way as we did for Cyclone, the transaction will provide immediate benefits in terms of revenue and margin. We shall spend a little cash but we probably need more than cash anyway when it comes to a strategic acquisition.

From the floor

You have shown us a chart with WebMethods and your competitors. How is Axway positioned with respect to these companies and how often do you encounter them? Do you follow parallel paths or are you in direct competition?

Christophe Fabre

Tibco and WebMethods cannot be ignored. They are more strongly positioned within BPM SOA but they also have a serious B2B offering. But our real competitors today are Seeburger, Sterling and Tumbleweed for MFT. The key factor compared to Seeburger is that we have a richer and more complete platform which extends to integration and MFT. Sterling has not really invested this area, tending more to hover between the supply chain and SAS components. They remain hesitant and have not committed clearly to MFT, B2B and SOA. In recent years we have gained ground in our product offering. Nevertheless Sterling still has the biggest market share in the USA.

The factor that differentiates us from everyone else is our multi-enterprise process strategy as well as our will to provide packaged ready-to-consume solutions for different vertical segments. We have a pharmaceutical supply chain offering which is very promising. The problem in the USA is that it has to be possible to check for any medicine sold that it hasn't been counterfeited and that it really has been supplied by the official manufacturer. It must be possible to retrace the complete delivery chain and identify who held the product at which time: this is known as track and trace. We have two superb references in this area which is not about technology, but more about a virtually application-based offering that we can sell directly to particular business lines. In our approach we always try to combine technology with a vertical market and business line segmentation and that is where we believe we can expect so much from Tumbleweed. In the area of finance, we have developed packages which enable the acceleration of monthly reporting procedures, which is a far cry from B2B but requires the same technology. Such offers enable us to optimise the financial data flows within businesses. We believe we can develop similar packages for the USA and adapt them to the local market. But to date, our client base was not sufficient for us to detect the really key factors in this area.