

Live Conference Call

14 November 2013

The Acquisition of COR&FJA Banking Solutions

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I) Background

Good evening everyone, and thank you for joining the Sopra Group call detailing the acquisition of COR&FJA Banking Solutions, an acquisition that we announced tonight for our subsidiary, Sopra Banking Software. You all know me, but for the sake of the recording, my name is Kathleen Clark Bracco and I am Head of Investor Relations for Sopra Group. I will start with a short presentation and then open the floor for questions.

As you know, Sopra Group has been very acquisitive in the past 18 months, especially in the financial services sector. Our strategy is to build upon our existing strengths as both an integrator and software developer capable of providing dedicated solutions and services addressing the issues that face banks today. In rolling out this strategy, we recently acquired Delta Informatique in France, Tieto Financial Solutions in the UK and Callataÿ & Wouters in Belgium. We then joined those three companies to our in-house banking solutions, previously marketed under the brand Evolan, and this led to the creation of Sopra Banking Software.

II) The Acquisition

The acquisition of COR&FJA Banking Solutions fits nicely into our strategy by providing Sopra Banking Software with an extensive client base in Germany, which is a key market for the sector. As we mentioned in the press release, their clients are not only German retail and private banks but also the financing arms of automotive manufacturers and mortgage lenders.

I'd like to give you a little background about the creation of COR&FJA Banking Solutions. In the summer of this year, this subsidiary was carved out from its parent company, COR&FJA AG. In financial year 2012 the revenue of the Banking Solutions that we are acquiring was EUR23.3 million, of which nearly half was generated by maintenance sales. The company currently employs about 120 people in Stuttgart. As we mentioned in the press release, the price that we propose to pay for 100% of the share capital – and this is of course not a deal that has been closed and signed yet – is EUR13.0 million.

At this point, I will open up the call for questions.

Questions and Answers

Derric Marcon – Société Générale

You included a lot of information in the press release, but could you just talk a bit more about the profitability of this €23m revenue business? Are there any earn-outs attached to the deal, if it is closed? Finally, what is the proportion of licence revenue within the EUR23.3 million?

Kathleen CLARK BRACCO

As you can imagine, the profitability of the company as it was being restructured was not great either last year or this year. However, with the plan that we have put in place for 2014 we expect to generate an EBIT margin of between 5% and 10%. Because the company was not public prior to that date, we are not releasing historic margin performance.

There are no earn-outs associated with the acquisition and the licence revenue is about 3% of total revenue.

Richard Beaudoux - Natixis

Could you tell us what the consolidation date will be for this acquisition, please?

Kathleen CLARK BRACCO

We will probably close some time in Quarter 1. It should happen by 1 April at the latest, but it may be earlier depending on when the conditions precedents are released.

Richard Beaudoux - Natixis

Will there be an operating loss for 2013?

Kathleen CLARK BRACCO

Yes.

Richard Beaudoux - Natixis

Do you expect there to be restructuring costs in 2014?

Kathleen CLARK BRACCO

No, the restructuring costs are being carried by the seller this year.

Laurent Daure – Kepler Cheuvreux

Coming back to the margin, could you tell us more about how you plan to move from a loss? I understood you said that it would be a margin of 5% to 10% in 2014.

Kathleen CLARK BRACCO

That is correct.

Laurent Daure – Kepler Cheuvreux

You also said that they had 120 people?

Kathleen CLARK BRACCO

That is correct.

Laurent Daure – Kepler Cheuvreux

I would imagine therefore that it is a question of not just restructuring people but also that action on other costs will be needed. Could you therefore tell us a little more about that?

Kathleen CLARK BRACCO

We are drastically reducing subcontractors. When I look at the plan for 2013 to 2014 that it is the main cost saving.

Laurent Daure – Kepler Cheuvreux

Most of the savings will therefore come from that, so it is not a situation like HR Access where they will come from making people redundant.

Kathleen CLARK BRACCO

No. The redundancies are being carried out by the parent company.

Laurent Daure – Kepler Cheuvreux

It is therefore already behind ?

Kathleen CLARK BRACCO

Yes.

Laurent Daure – Kepler Cheuvreux

Do you know what the trend has been like for margins in recent quarters?

Kathleen CLARK BRACCO

Not too good, otherwise the company would not have been for sale. However, we are not talking about the same level of losses as for our last acquisition (HR Access).

Laurent Daure – Kepler Cheuvreux

In the long run, given that most of the revenues come from services and maintenance, do you expect the company to reach the average margin for Sopra Banking Software?

Kathleen CLARK BRACCO

Our eventual target is to bring the margin to 15%, which is the target for all our solutions, whether they are banking, human resources (HR) or real estate. We think that that will be possible within two years.

Laurent Daure – Kepler Cheuvreux

There is no debt associated with this company ?

Kathleen CLARK BRACCO

That is correct. It is debt free and what I can add to that is that there is equity of EUR2 million in the company.

Laurent Daure – Kepler Cheuvreux

Finally, what kind of sales momentum did they have in the last two to three years?

Kathleen CLARK BRACCO

The sales momentum was down slightly because it is of course in the banking sector which has been under duress for the last few years. However, they had some nice signatures at

the end of this year and others that are underway. We believe that they will return to growth by 2015.

Laurent Daure – Kepler Cheuvreux

That is all quite clear and those are all my questions. Thank you.

Emmanuel Parot – Gilbert Dupont

I just have one question. Does this mean that you are not expecting any organic growth in 2014?

Kathleen CLARK BRACCO

Yes.

Gregory Ramirez – Bryan Garnier

I would just like to have a little more detail on expectations. You are not expecting growth for 2014, but what are you expecting for 2013 in terms of revenues? Should we expect a decline and that revenue will be no more than EUR20 million in 2014?

Kathleen CLARK BRACCO

That is probably a good estimate for 2014. Revenue for 2013 will be relatively flat - just on the negative side of zero.

Gregory Ramirez – Bryan Garnier

Revenue will be flat for 2014, slightly declining in 2013?

Kathleen CLARK BRACCO

We expect a slight decline in 2013, although we do not consolidate any of those figures. Then, more significantly declining in 2014 and returning to growth in 2015.

Gregory Ramirez – Bryan Garnier

I understood from what you said that 3% of revenues came from licence.

Kathleen CLARK BRACCO

That is correct.

Gregory Ramirez – Bryan Garnier

That is quite low. What happened there, given that the company generates a lot of revenues from maintenance? Is this like a kind of application management, as you did for your real estate offering, for instance?

Kathleen CLARK BRACCO

We do not plan to develop or invest in the product line, although we will not cut the products, of course, as they are dedicated to the German market. The most interesting thing for us is the client base for selling the rest of the Sopra Banking Platform solution.

Gregory Ramirez – Bryan Garnier

Do you think that the Sopra Banking Platform will fit completely with the German regulations and so on or will you have to adapt it or use the company's functionalities?

Kathleen CLARK BRACCO

There is no need to adapt the platform. Our internal Sopra Banking Software roadmap will not need to be changed.

Nicolas David – Aurel BGC

I just have one question. Are there any pension liabilities connected with this acquisition?

Kathleen CLARK BRACCO

There were some but those have been provisioned appropriately. This is one of the conditions precedents to closing.

Nicolas David – Aurel BGC

Just to be clear about the strategic rationale, your objective is more about buying a client base rather than integrating technology.

Kathleen CLARK BRACCO

That is correct.

Nicolas David – Aurel BGC

However, are there any assets that you will take from the software?

Kathleen CLARK BRACCO

Yes. We will maintain the products and licences that are currently sold as the maintenance revenue is very attractive. It would be very difficult to go to the clients and say 'We will not support your software any longer, but you can buy this from us, although it is not necessarily adapted to your market or needs'. This is a long-term process with the clients and we would like to sell the rest of the platform to them and not head off what they already have.

Nicolas David – Aurel BGC

Are you expecting any synergies following the acquisition?

Kathleen CLARK BRACCO

We are not expecting a lot of cost synergies as the restructuring costs are covered prior to closing and the parent company is handling that. Apart from the subcontractors, as I mentioned earlier, there will not be a lot of other cost reductions.

Nicolas David – Aurel BGC

You are therefore not expecting to see any further synergies after restructuring ?

Kathleen CLARK BRACCO

We are not expecting to see any further synergies in terms of costs. However, in terms of commercial and sales opportunities, there should certainly be quite a lot.

Nicolas David – Aurel BGC

Thank you. That is clear.

Derric Marcon – Société Générale

What is the churn of the maintenance business for this company and has it evolved or changed significantly over the past five years? Secondly, how many customers do they

have? Is revenue highly concentrated on certain large customers or is it spread more widely across the base? What is the typical size of their customer? Is it mid-sized banks, for instance? You mentioned retail and private banking but did not specify the size of the customers.

Kathleen CLARK BRACCO

As clients, they have the leading regional bank in Germany, LBBW, Mitsubishi Bank, Honda Bank, BMW Bank and one of the largest private banks in Germany, M. M. Warburg & Co, just to give you a few names. It is a very good client list. I do not believe that there is any super-client concentration and it is certainly not a case where 50% of revenue is with one particular client. In addition to those attractive names that I just mentioned, they have a lot of small Tier 2 regional banks in Germany.

That answers your question on clients. However, I did not understand your question on the maintenance business.

Derric Marcon – Société Générale

The products seem to be quite old and the company does not sell any upgrades or new products. Is the maintenance contract therefore a sustainable revenue stream or has the churn in the installed customer base increased in the last few years as there is no further innovation in the product? I just wondered how resilient the EUR10 million maintenance contract revenue stream was.

Kathleen CLARK BRACCO

I think that it is quite resilient. We do not believe today that it will move much. However, I do not have the five-year history for it.

Derric Marcon – Société Générale

Do you know how much they spend on research and development (R&D) per year?

Kathleen CLARK BRACCO

I am sorry but I do not have that information here with me today.

As there are no further questions, I would like to thank you all for attending the call on such short notice. Have a good evening, everyone.