Highlights

How we performed

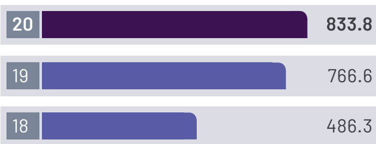
AVEVA delivered good financial results achieving revenue and profitability growth while continuing to drive a business model transition to subscription.

Financial

Revenue

£833.8m

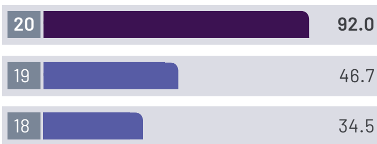
Up 8.8% (FY19: £766.6m)



Profit before tax

£92.0m

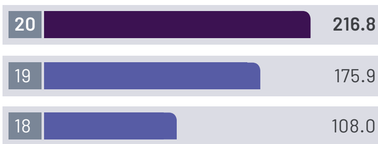
Up 97.0% (FY19: £46.7m)



Adjusted[1] EBIT

£216.8m

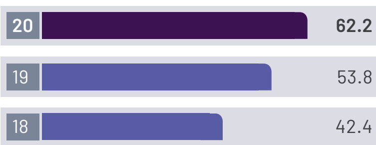
Up 23.3% (FY19: £175.9m)



Recurring revenue[2]

62.2%

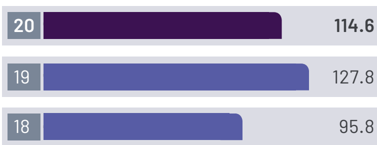
Up 840 bps (FY19: 53.8%)



Net cash

£114.6m

Down 10.3% (FY19: £127.8m)



Adjusted[1] EBIT margin

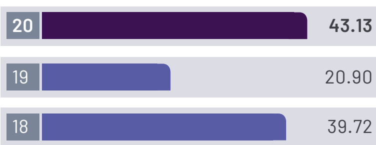
26.0%

Up 310 bps (FY19: 22.9%)

Diluted EPS

43.13p

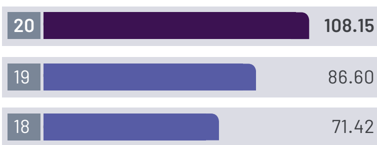
Up 106% (FY19: 20.90p)



Adjusted[1] diluted EPS

108.15p

Up 24.9% (FY19: 86.60p)



1 Adjusted figures are calculated before amortisation of intangible assets (excluding other software), share-based payments, gain/loss on fair value of forward foreign exchange contracts and exceptional items. Where relevant this also includes the tax effect of these adjustments.

2 Recurring revenue is defined as subscription plus maintenance revenue.

Operational

Customer events

AVEVA World Summit
Singapore, September 2019

Over 600 delegates attended the two-day Summit, with insights from 63 industry leaders including Shell, ENI, Schneider Electric and Nestlé.

AVEVA World Conference
Florida, November 2019

More than 1,400 delegates joined us for 130 expert sessions that spanned eight industry verticals.

Acquisitions

Acquisition of AssetPlus
April 2019

We acquired AssetPlus software from MaxGrip, integrating predictive and prescriptive analytics into our asset performance management, boosting our artificial intelligence capabilities.

Product launches

We launched AVEVA™ Discrete Lean Management

In February we launched our Discrete Lean Management product suite at ARC Forum in Florida, USA. The system is designed specifically for the needs of the discrete manufacturing sector.

Launch of cloud-enabled multi-experience capabilities

In 2020, we launched enhanced multi-experience capabilities across our software, improving collaboration by ensuring teams had a consistent experience whether they were working in the field, in the office or at home.

Limitless Possibilities, Integrity Always, Flexibility Together, Excellence Every Day

Number of culture workshops held in the year

84

To embed our new culture, we have been holding small group workshops throughout the world. For more information, see page 32.

Employee engagement rate

82%

In February and March we surveyed all employees across a range of topics. To read more, see page 33.

Over one-third of employees used their paid community day to give back

1,536 days

For more information, see pages 36.

Money and time donated for charitable causes in the year

£523,000

A combination of local and national causes, support for employee community days, and employee matched funding.

Finance Review

Continued good progress against all key targets

Overview

Revenue was £833.8 million, which was up 8.8% versus the previous year (FY19: £766.6 million on a statutory basis). Adjusted EBIT grew by 23.3% to £216.8 million (FY19: £175.9 million), primarily due to revenue growth, higher gross margin and operational leverage. For the same reasons, on a statutory basis, profit before tax increased by 97% to £92.0 million.

Organic constant currency revenue grew 7.4%, adjusted for a currency translation benefit of £7.6 million in FY20, and the effects of the deferred revenue haircut, disposal of Wonderware Italy, Germany and Scandinavia and the acquisition of MaxGrip.

Year ended 31 March	FY20 £m	FY19 £m	Change
Revenue	**833.8**	766.6	8.8%
Cost of sales	**(190.1)**	(191.3)	(0.6)%
Gross profit	**643.7**	575.3	11.9%
Operating expenses	**(426.9)**	(399.4)	6.9%
Adjusted EBIT	**216.8**	175.9	23.3%
Net interest	**(3.0)**	(0.5)	500%
Adjusted profit before tax	**213.8**	175.4	21.9%
Tax charge	**(38.8)**	(35.4)	9.6%
Adjusted profit after tax	**175.0**	140.0	25.0%
Profit before tax	**92.0**	46.7	97.0%
Adjusted diluted EPS (pence)	**108.15**	86.60	24.9%
Gross margin	**77.2%**	75.0%	220 bps
Adjusted EBIT margin	**26.0%**	22.9%	310 bps
Tax charge	**18.1%**	20.2%	(210)bps

"Revenue growth was driven by strong sales execution in the context of stable end market conditions for the majority of the year and an ongoing trend towards digitalisation."

James Kidd
Deputy CEO and CFO

8.8%
Growth in total revenue

25.7%
Growth in recurring revenue

23.3%
Growth in adjusted EBIT

Revenue overview

Revenue growth was driven by strong sales execution in the context of stable end market conditions for the majority of the year and an ongoing trend towards digitalisation.

Revenue by type is set out below:

£m	FY20	% of total	FY19	% of total	Change	Organic constant currency
Subscription	**316.8**	**38.0%**	218.2	28.4%	45.2%	43.2%
Maintenance	**201.7**	**24.2%**	194.4	25.4%	3.8%	(0.6)%
Total recurring revenue	**518.5**	**62.2%**	412.6	53.8%	25.7%	22.8%
Perpetual licences	**179.3**	**21.5%**	211.6	27.6%	(15.3)%	(16.8)%
Services	**136.0**	**16.3%**	142.4	18.6%	(4.5)%	(5.0)%
Total	**833.8**	**100.0%**	766.6	100.0%	8.8%	7.4%

Business model transition

As previously highlighted, AVEVA is driving a business model transition with the strategy to increase levels of recurring revenue. There are two aspects to this switch: increasing subscription revenue, and the transformation of the services business.

Recurring revenue

Strong progress was made during the year on our strategy to increase the level of recurring revenue as a proportion of total revenue with the medium-term target of 60% surpassed. Overall recurring revenue grew by 25.7% to £518.5 million (FY19: £412.6 million) driven by very strong growth in subscription resulting in recurring revenue of 62.2% (FY19: 53.8%).

Subscriptions revenue, which includes rental contracts, token contracts and subscriptions, grew 45.2% to £316.8 million (FY19: £218.2 million). There was consistent growth in subscriptions across all regions. This reflected a change in customer buying behaviour from perpetual licences to subscription, helped by the introduction of AVEVA Flex, the increased number of multi-year contracts and a switch from maintenance contracts to subscription. Furthermore, the new salesforce incentives to promote subscription over perpetual licences and services contributed significantly to the growth.

The introduction of the AVEVA Flex subscription offering for products in the Monitoring & Control business unit was successful with growth of over 150%, with several large enterprise accounts, particularly in North America and EMEA opting for the new subscription offering. Many of these contracts were closed through the indirect channel. AVEVA Flex is being enabled for the entire portfolio.

Across all three regions there were customers on maintenance contracts who successfully transitioned to higher annual value subscription contracts. This compressed our maintenance revenue growth to 3.8%, equivalent to £201.7 million (FY19: £194.4 million).

Perpetual licences

The corresponding impact from the business model transition to subscription was seen in perpetual licences, which reduced 15.3% year-on-year to £179.3 million (FY19: £211.6 million) as more customer orders moved to subscription.

Services

Services revenue reduced by 4.5% to £136.0 million (FY19: £142.4 million). Services are sold alongside the software licence to ensure efficient deployment and to generate value faster for customers. This planned reduction was driven by AVEVA's focus on increasing the proportion of higher gross margin software as part of its overall revenue mix and the implementation of the change in sales incentives at the beginning of the financial year to drive this.

Adjusted EBIT and cost management

Together with cost control, the revenue growth delivered an increase in adjusted EBIT of 23.3% versus the prior year. Adjusted EBIT margin improved to 26.0% (FY19: 22.9%).

Finance Review continued

+310 bps
Improved adjusted EBIT margin

£33m
Annualised cost savings
Target: £25m

Total adjusted costs were £617.0 million (FY19: £590.7 million), an increase of 4.5% over the previous year and 3.3% on a constant currency basis. This was broadly in line with AVEVA's target of inflationary cost increases due to a reduction in cost of sale and controlled operating cost increases despite incremental investment in sales, marketing and R&D.

On an underlying basis, AVEVA has been implementing a cost synergies programme through rationalisation of duplicated functions, the implementation of common systems, shared services for back office functions, real estate consolidation and enhanced R&D effectiveness. The Group targeted annualised cost synergies as part of the combination with SES and by the end of the financial year achieved annualised savings of circa £33 million compared to the target of £25 million. These savings have been re-invested in capabilities to drive future revenue growth, such as R&D and sales.

Cost of sales decreased by 0.6% to £190.1 million (FY19: £191.3 million) and the gross margin improved to 77.2% (FY19: 75.0%).

To improve efficiency, the Services team have focused on higher margin projects together with initiatives to increase standard, repeatable solutions, which reduce the need for configuration and customisation. We have also used more offshore service delivery teams in Mexico, Spain and India to deliver projects. As part of the services transformation programme, AVEVA has embarked on

An analysis of total expenses is summarised below:

£m	Cost of sales	R&D	Selling and distribution	Admin. expenses	Net impairment loss from financial assets	Other income	Total
Statutory	**190.7**	**184.6**	**240.1**	**127.7**	**7.6**	**(11.9)**	**738.8**
Amortisation excl. other software	–	(63.5)	(27.1)	–	–	–	(90.6)
Share-based payments	–	–	–	(12.0)	–	–	(12.0)
Loss on FX contracts	–	–	–	(0.4)	–	–	(0.4)
Exceptional items	(0.6)	(0.4)	(3.9)	(25.8)	–	11.9	(18.8)
Adjusted costs	**190.1**	**120.7**	**209.1**	**89.5**	**7.6**	**–**	**617.0**
FY19	191.3	114.5	196.7	81.9	6.3	–	590.7
Change	(0.6)%	5.4%	6.3%	9.3%	20.6%	–	4.5%
Constant currency	(1.6)%	3.9%	5.6%	7.1%	20.6%	–	3.3%

"Revenue grew 8.8% to £833.8 million whilst adjusted EBIT grew 23.3% versus last year to £216.8 million."

James Kidd
Deputy CEO & CFO

a strategy to strengthen its network of system integrators and provide them with the capability and skills to successfully implement AVEVA's products with a number of projects started in the year.

Research & Development costs were £120.7 million (FY19: £114.5 million) representing an increase of 5.4% due to investment in areas including Cloud and AI.

Selling and distribution expenses were £209.1 million (FY19: £196.7 million), a 6.3% increase versus the prior year. The increase represents investments made during the year in sales and in strengthening the marketing team and in customer events to showcase AVEVA's enlarged product portfolio.

Administrative expenses were £89.5 million (FY19: £81.9 million) an increase of 9.3%. This was due investment in support functions, such as Human Resources, IT and Finance as the transitional services from Schneider Electric were exited and replaced with in-house capabilities.

Net impairment loss from financial assets represents the impairment of accounts receivable and contract assets during the year of £7.6 million (FY19: £6.3 million). This included an incremental provision amount for possible increased risk resulting from Covid-19 related macroeconomic disruption.

Cost management in FY21

In the context of this challenging growth environment, AVEVA is managing its cost base appropriately, while continuing to invest to support longer-term growth.

Cost of sales: Approximately 50% of AVEVA's cost of sale relates to the delivery of services. This is expected to reduce during the current financial year as Services revenue is further reduced. The largest part of the remainder of cost of sale relates to the cost of delivering support to customers as part of the support or subscription contracts. Other elements of cost of sale include royalties and payments to third parties, such as cloud hosting fees.

Operating costs: AVEVA is protecting investments in strategic areas within Research & Development such as Cloud and AI, whilst significantly reducing costs to support operating margins and cash generation. Actions being taken include pay and recruitment freezes and a reduction in travel and event costs. The annual bonus scheme is also dependent on sales and profitability. Overall, these actions are expected to result in a reduction in costs of approximately £50–60 million versus AVEVA's pre-Covid-19 plans for FY21.

Normalised and exceptional items

The following normalised and exceptional items have been excluded in presenting the adjusted results:

	Year ended 31 March	
£m	**2020**	2019
Acquisition and integration activities	**29.0**	23.0
Restructuring costs	**1.7**	5.9
Other income	**(11.9)**	–
Total exceptional items	**18.8**	28.9
Amortisation (excl. other software)	**90.6**	88.1
Share-based payments	**12.0**	11.2
Loss on FX contracts	**0.4**	0.5
Total normalised items	**103.0**	99.8

Acquisition and integration activities principally related to contractors working on functional integration, consultancy costs paid to advisers for integration support, investment in new systems and deal-related executive retention costs.

Other income includes a £7.7 million gain on sale of three distribution businesses and £3.8 million received from Schneider Electric in reimbursement for capital expenditure incurred as part of the migration from activities covered by TSAs following the Combination.

Restructuring costs related to severance payments for employees as part of the continuing cost synergy programme started in FY19, following completion of the combination with SES.

Amortisation mainly relates to the amortisation of the fair valued heritage AVEVA intangible assets under acquisition accounting, following the combination with SES.

Finance Review continued

Taxation

The statutory tax charge was £22.2 million (FY19: £12.9 million). The effective rate of tax of 24.1% is in line with the US effective corporation tax rate of 24%. This rate was affected by the cost of increase in the rate of UK corporation tax from 17% to 19% on the calculation of deferred tax liabilities for intangible fixed assets, but this cost was offset by the benefit of tax incentives for intellectual property in the current and prior periods.

The adjusted tax rate was 18.1% (FY19: 20.2%), benefiting from tax incentives for intellectual property in the current and prior periods.

Earnings per share

Statutory diluted EPS was 43.13 pence (FY19: 20.90 pence). Adjusted diluted EPS grew 24.9% to 108.15 pence (FY19: 86.60 pence).

Dividends

AVEVA's Board intends to maintain a final dividend of 29.0 pence per share at a cost of £46.8 million (FY19: 29.0 pence per share at a cost of £46.8 million). Subject to approval at AVEVA's AGM on 21 July 2020, the final dividend will be payable on 11 August 2020 to shareholders on the register as at 10 July 2020.

Balance sheet and cash flow

The Group continues to maintain a strong balance sheet, with net cash and treasury deposits of £114.6 million and no debt. As at 31 March 2020 non-current assets were £1,956.0 million (31 March 2019: £1,923.0 million) reflecting goodwill and intangible assets that arose from the combination with SES.

Trade and other receivables at 31 March 2020 were £242.2 million (31 March 2019: £238.7 million). Contract assets increased to £142.4 million from £100.5 million at 31 March 2019, largely due to the impact of the multi-year contracts closed in the period. Contract liabilities representing deferred revenue were £177.0 million (31 March 2019: £174.6 million).

Cash generated from operating activities before tax was £161.4 million, compared to £169.1 million in the previous year, resulting in conversion of adjusted EBIT to operating cash flow of 74.4%. This reflects the impact of multi-year contracts and particularly those contracts where customers pay in annual instalments, but revenue is recognised earlier under IFRS 15, as well as the impact of exceptional costs.

Integration

The integration of the heritage AVEVA business and SES is largely complete and has been successfully delivered in line with the plans.

The areas still being completed are in real estate and IT. There are office consolidations to complete in Sydney, Beijing, and Tokyo together with some smaller sites. The IT transitional arrangements with Schneider Electric which are still to be fully exited, are in two main areas: the transition of heritage SES offices onto the new AVEVA IT infrastructure, and the implementation of the new ERP system which will replace the legacy systems in both businesses. These areas are progressing well and are in execution phase for end-user computing, applications, data, security, connectivity, systems and hosting. However, the Covid-19 pandemic has disrupted activities with staff not being able to physically visit offices and alternative plans have been created and are now in place. As a result, agreement has been reached with Schneider Electric to extend the transitional services agreement in those areas to 1 March 2021.

The merger of the two businesses has delivered value to our customers and our shareholders. As such, we aim to participate in further consolidation of the industrial software industry, as and when value-creating opportunities arise.

James Kidd
Deputy CEO and CFO
9 June 2020