

Elevating industries through Performance Intelligence

AVEVA made strong operational and strategic progress during the financial year, making good headway on our subscription transition journey and completing the acquisition of OSIsoft.



Redefining sustainable innovation

Sidebar with Lisa Johnston,
Chief Marketing
and Sustainability Officer



In 2020, climate change-related gas emissions dropped by 17% owing to the pandemic. Across the world, communities benefitted from cleaner air and quieter, less polluted environments. As economies reopen, we have an opportunity to realise a sustainable future through digital transformation.

The next ten years will be critical to our success in tackling climate change and achieving the UN Sustainable Development Goals (SDGs) – it's been named the Decade of Action. It has never been more important for industries to harness the full potential of technology to make a difference.

Digital solutions are already helping to cut carbon emissions by up to 15%, in energy, manufacturing, agriculture, buildings, services and transportation. This corresponds to more than the combined carbon footprints of the EU and the US put together. Analysis by the World Economic Forum and PwC has shown that current applications of advanced technologies could have a high impact on at least ten of the SDGs and enable 70% of the 169 targets underpinning them. This represents a huge opportunity for our industry.

At AVEVA, we have the expertise, the network and the software capabilities to help realise the sustainable industries of the future. We recognise that technology has a core part to play, including driving energy efficiency, circularity, traceability and resilience across global industries.

We take our responsibility seriously. We are increasing investment in R&D, extending our capabilities and building new solutions that enable our customers to drive sustainability throughout engineering and operations. We are proud to be supporting the front-line, advancing sustainable industries worldwide.

Summary

During the first half of the year, revenue for the standalone AVEVA Group was impacted by the disruptions of the Covid-19 pandemic, although performance improved significantly during the second half, resulting in broadly flat year-on-year revenue on an organic constant currency basis.

The OSIssoft business experienced a similar pattern to the financial year, with a strong second half leading to 6.6% growth in organic constant currency revenue. This resulted in combined Group pro forma revenue growing by 2.2% on the same basis. Although this is well below longer-term trends, it was an acceptable outcome given the global challenges faced during the period. Cost control measures, together with saving on expenditure such as travel due to the Covid-19 restrictions, led to an improvement in overall Group adjusted EBIT of 8.1% to £354.7 million (FY20: £328.1 million) and adjusted EBIT margin to 29.7% (FY20: 27.0%) on a pro forma basis.

The standalone AVEVA business increased recurring revenue as a percentage of total revenue to 67.9% (FY20: 62.2%). This was ahead of the Group's medium-term target of 60%. AVEVA remains committed to its subscription transition journey. With the standalone AVEVA target exceeded and the addition of OSIssoft to the Group, AVEVA is formulating new Subscription transition targets and will disclose increased targets at the forthcoming Capital Markets Day on 1 July.

Operating during the Covid-19 pandemic

AVEVA adapted quickly to a new way of working, with a focus on the safety and wellbeing of employees.

From a demand generation perspective, we made substantial investments in digital marketing, for example by hosting virtual AVEVA World Digital conferences. In the context of the experiences since the beginning of the Covid-19 pandemic, the Group has undertaken a 'Dynamic Work' project and will retain many of the efficiency and productivity gains achieved into the longer-term, for example with less travel and more flexible working practices.

Acquisition of OSIsoft

On 25 August 2020, AVEVA announced that it had reached agreement to acquire OSIsoft at an enterprise value of \$5.0 billion. OSIsoft is a global leader in real-time industrial data software. Through OSIsoft's PI System, customers draw insights, make better decisions, optimise operations, and drive digital transformation.

The acquisition completed on 19 March 2021. This followed a successful rights issue and the securing of a \$900 million term loan in order to part finance the purchase, and the receipt of regulatory approvals.

AVEVA is now the clear global leader in operational industrial software, with Engineering software representing around one-third of Group revenue and Operational software representing two-thirds.

OSIsoft performed well during the year ended 31 March 2021, achieving 6.6% growth on a constant currency basis. As with standalone AVEVA, OSIsoft experienced more difficult trading conditions in the first half of the year, followed by a recovery in the second half. Revenue growth in the second half was 10.6%, up from 2.0% in the first half on an organic constant currency basis. On an end market basis, growth was driven by a strong performance in OSIsoft's largest market, Power. Chemicals and Pharma & Life Sciences also saw strong growth, while Energy saw a moderate decline.

AVEVA expects substantial revenue synergies from areas including cross selling, expanding OSIsoft's global reach and developing and launching new combined products. In addition to this, pre-tax cost synergies are expected of not less than £20.0 million per annum on a run rate basis by the end of FY23.

AVEVA has appointed a Senior Vice President to lead the integration function, reporting to the Deputy CEO and CFO. The integration of OSIsoft has begun, with a management structure for the combined Group having been implemented. The next stage of integration is to begin the implementation of value capture opportunities. These include both revenue and cost synergies.

Of these, the revenue synergy opportunity is the largest. OSIsoft's global market-leading data platform provides an unrivalled base from which to run and integrate industrial software applications and discussions with key customers have been very positive, showing demand for integrated products. An example of this is AVEVA's plan to integrate Predictive Analytics with OSIsoft's capabilities and bring a combined offer to Power customers. In terms of cost synergies, work to remove duplicate overhead costs, systems and processes has begun. For example, AVEVA has a programme to consolidate offices in 17 locations where there is overlap.

Trading and market trends

AVEVA and OSIsoft were run separately during the financial year, with the acquisition completing shortly before the year end. Notwithstanding this, both businesses experienced similar market trends during the year and so the commentary below relates to the wider Group. We have reported this on a pro forma basis, which is unaudited.

The industries that AVEVA serves are making ever-greater use of technology to reduce both capital and operating costs in the context of competitive pressures to increase efficiency, output, flexibility and improve overall sustainability. This is being enabled by ongoing technological mega trends that are driving the digitalisation of the industrial world, notably the industrial internet of things, Cloud, data visualisation and AI.

Our people

Sidebar with Caoimhe Keogan,
Chief People Officer



Our employees are the driving force behind Performance Intelligence. It's their relentless pursuit of innovation that puts industrial data and artificial intelligence at our customers' fingertips.

We are constantly striving to create an environment and culture where people feel empowered, supported and able to do their best work.

Learning is a mindset that we cultivate at AVEVA. We're proud to facilitate it through challenging work that supports personal growth as well as more formal development programmes.

Over the last 12 months of global remote working, we've increased our focus on employee wellbeing, and this will continue. We're using many ways to reach our employees on a personal level and ensure they can bring their whole, healthy and authentic selves to work. These include mental-health campaigns, Employee Assistance Programmes, toolkits for managers, diversity and inclusion initiatives, worldwide exercise challenges and more.

We've also learned that where we work does not impact how we work. We are excited about introducing a new, more dynamic approach to our workplaces, where our people have more flexibility to work remotely, without losing the option of meaningful face-to-face interaction.

As we push forward into a new chapter for AVEVA, welcoming 1,500 new colleagues from OSIsoft, we will take the best of both companies, learning from each other's skills and experiences as we bring the right people into the teams where they can have the biggest positive impact.

This is an incredibly exciting time to be part of AVEVA, and that is down to the hard work, dedication and enthusiasm of our 6,250 brilliant employees.

AVEVA PERFORMANCE INTELLIGENCE

Bringing together Engineering & Operational Data, Digital Twin, Artificial Intelligence and Cloud to realise Performance Intelligence

Digital, data-led strategies enable companies to benefit from broader, more precise and accurate insights that empower them to drive sustainable growth. This is why Performance Intelligence is key to unlocking success in today's operating environment.

GlaxoSmithKline, for example, uses OSIsoft's PI System together with AVEVA™ System Platform to optimise vaccine production.

“Using AVEVA System Platform together with PI System operational data management empowers our team to execute our automation strategy to drive efficiencies in manufacturing. We benefit from the integration of our automation platform with our plant information, using AVEVA’s digital and data analytics capabilities.”

Antonio Buendia, Director of Global Automations, GlaxoSmithKline

Performance Intelligence from AVEVA's industrial information management combined with insight from AI-infused analytics, Digital Twins and visualisation enables industries to simplify design processes, optimise operations, minimise energy use and maximise performance in real time. Leveraging the Cloud, AVEVA integrates solutions and connects teams with their data, freeing them to predict outcomes, collaborate faster and target sustainable growth.

We are committed to being open and hardware agnostic. We use the power of our ecosystem to drive engineering efficiency, operational agility and growth for our customers.

This is driving long-term growth in demand for industrial software. AVEVA is optimally placed to help its customers digitalise, due to its end-to-end product portfolio, which runs from simulation through design and construction and into operations and now also includes OSIsoft's rich industrial data layer.

AVEVA primarily serves process, batch and hybrid industries. These industries provide staple requirements for basic consumption, such as energy, food, and transport. As such, they have some level of resilience to Covid-19 disruption. Notwithstanding this, the Group experienced tough trading conditions in the first half of the financial year across most markets. This was primarily due to general disruption and uncertainty impacting the speed of customers' decision making.

AVEVA's largest end market is Energy at around 35% of pro forma revenue, which includes upstream, mid-stream and downstream Oil & Gas and the emerging renewable energy sector. Power is AVEVA's second largest market at around 15% of revenue, while Packaged Goods (such as Food & Beverage and Pharma) and Chemicals both account for around 10% of revenue. Other end markets include Metals & Mining, Marine and Infrastructure.

Energy was particularly challenged due to the extreme volatility in oil prices. Other large markets have been more resilient, including Power, Food & Beverage, Packaged Goods and Pharma. The shipbuilding market has continued to experience depressed trading conditions.

Standalone AVEVA Cloud

Demand for Cloud products was good with overall SaaS and customer-hosted Cloud sales increasing strongly. In line with AVEVA's 'Cloud First' focus, several key products were launched on AVEVA Connect, the Group's Cloud platform. These included AVEVA Unified Engineering, providing key engineering products such as E3D, Engineering and Simulation in a single Cloud environment; AVEVA Unified Supply Chain; AVEVA Insight Guided and Advanced Analytics; and AVEVA Asset Information Management. The number of customers using AVEVA Connect increased substantially.

Standalone AVEVA business unit performance

During the year, AVEVA was organised into four business units: Engineering, Monitoring & Control, Asset Performance Management and Planning & Operations.

Following the year end, this structure has been simplified, with AVEVA's business being organised into two areas, Engineering and Operations. Engineering contains products that are focused on the capital expenditure lifecycle of industrial assets and Operations contains products that are focused on the operating lifecycle of these assets. The new Operations business unit consists of the software that was previously in Monitoring & Control, Asset Performance Management, Planning & Operations and OSIsoft.

In terms of the performance of the former business units, **Engineering** consists of simulation, design and project execution software. It contributed 42% of revenue for the standalone AVEVA during the year. On an organic constant currency basis, revenue declined by 4.3%, while recurring revenue declined by 2.4%, which in the context of the difficult global capital expenditure environment was robust, helped by our ability to help customers mitigate risk in capital project execution and use engineering information management in operations.

Creating scale, extending reach, sustainably: The OSIsoft acquisition

Sidebar with Dr J. Patrick Kennedy, Founder OSIsoft



In 1980, I started a consultancy to advise Oil & Gas companies on advanced control. We built some in-house software to capture data from newly-introduced digital control systems, and found that it was of interest to our customers as well. That software became the PI System, now used every day by industrial professionals in 146 countries. Over 20,000 sites depend on

the PI System to improve operational performance, protect health and safety, and maintain quality and reliability to drive financial and environmental sustainability. This is a big and humbling responsibility.

I believe we have only scratched the surface of what is possible from digitisation. Enabling better control of a particular asset, plant or enterprise-wide operations is a great start. Combining what we have learned with advances in software will be transformative, such as Cloud-based services to help our customers better collaborate with their customers, suppliers, regulators and other partners.

Industrial processes rely on three fundamental flows: materials, energy and information. Through the power of shared data, we have a huge opportunity to accelerate the third flow – information – to create stronger industrial value chains for our customers. We have witnessed this potential recently as the pharmaceutical industry developed, manufactured and delivered Covid-19 vaccines in months rather than years.

This vision is a big part of what drove us to join forces with AVEVA, and I am excited to be a part of it.

AVEVA's strength across both engineering and operational software, and the associated benefits to customers of using AVEVA as a supplier for both, led to an increase in orders from owner operators managing engineering information as the core of their digitalisation strategies to build the Digital Twin within their existing plant facilities. We saw significant wins from Shell and BHP Group.

From our EPC customers, we saw significant contract wins from Wood, Worley and Petrofac. Although the Covid-19 crisis had an impact on planned capital projects being postponed, we saw demand shift from 3D design software to project execution software, as AVEVA continues to drive digital transformation with these customers.

In terms of end markets, there was a reduction in orders from Oil & Gas and Marine, but assisted by the energy transition, we saw an increase in orders from the Power end market with significant contract wins, for example from EDF.

Monitoring & Control represented 32% of total revenue for the standalone AVEVA. On an organic constant currency basis, revenue grew by 6.4%, while recurring revenue increased by 28.5%. Customers continued to focus on operations efficiency, remote operations and collaboration. Enterprise visibility and performance management are being realised by AVEVA's Unified Operations Center solutions. Transition to AVEVA's Flex Subscription offer continued successfully. In terms of end markets, AVEVA saw strength in mid-stream Oil & Gas with a number of key wins including from SoCalGas, and in other sectors AVEVA achieved significant order wins from customers including BHP Group.

Asset Performance Management represented 14% of total revenue for the standalone AVEVA. On an organic constant currency basis, revenue declined by 2.1% while recurring revenue increased by 15.0%. This was due to lower sales of perpetual licences and services as part of AVEVA's Subscription transition, with strong growth in Subscription. AVEVA won its first mining customer in APM and continued a substantial global roll-out with an Energy major.

Planning & Operations represented 12% of total revenue for the standalone AVEVA. On an organic constant currency basis, revenue grew by 2.9% while recurring revenue increased by 20.3%. Growth was supported by sales of Supply Chain planning solutions to help customers in the Energy sector operate efficiently in the context of the disrupted market. AVEVA also saw growth in the Food & Beverage and Metals & Mining sectors for Manufacturing Execution software.

Standalone AVEVA regional performance

EMEA revenue was £328.4 million, representing a small increase on the previous year (FY20: £327.1 million). On an organic constant currency basis, sales grew 5.4%. In the first half of the year we saw our customers respond to the challenges of remote working with the successful conclusion of new business based on AVEVA Connect Cloud supporting access to AVEVA's solutions. As the second half saw customers adopt to new ways of working, AVEVA saw material new contract extensions in the Food & Beverage, Marine, and Energy sectors, with notable new customer wins addressing renewable energy and carbon capture.

Sales growth was helped by the renewal of large Global Account contracts in the second half; reflecting AVEVA's long standing strategic engagements with the world's largest EPC contractors and new wins with global Super Majors. In addition, EMEA won a new commitment with our largest and longest standing customer in nuclear power generation, which lays the foundation of the next 20 years of strategic engagement.

Americas revenue was £255.8 million, representing a decline of 8.4% on the previous year (FY20: £279.2 million). On an organic constant currency basis, sales declined 3.7%, with significant reductions in perpetual licences and services partly offset by good growth in Subscription and Cloud sales. Trading conditions were challenging due to the depressed economy and difficult conditions in the Oil & Gas sector in particular.

Asia Pacific revenue was £218.8 million, representing a 3.8% decline on the previous year (FY20: £227.5 million). On an organic constant currency basis, sales declined 2.4% against a very tough comparative in the previous year, which included a large Global Accounts contract. AVEVA delivered strong double-digit growth during the second half of the year, following a difficult first half due to the Covid-19 pandemic.

The Group delivered successfully on an end market diversification strategy, with Chemicals and Metal & Mining delivering very strong performance while Oil & Gas has been under pressure and the Marine market was challenging. AVEVA grew its business in South Korea and Japan, while performance in China was broadly flat due to the strong pandemic influence at the beginning of the year and with strong recovery in the second half. Due to a reduction in capital expenditure, Engineering revenue declined as anticipated, however Operations solutions showed strong growth, particularly in the area of Asset Performance and Planning & Operations.

Environmental, Social and Governance

Many of AVEVA's customers are focused on sustainability, as they transition to business models that are aligned with objectives such as carbon reduction and circularity.

The Group's software supports the development of industries such as clean power generation. In more mature industries it increases energy efficiency, helps reduce waste and boosts circularity throughout engineering and operations to maximise sustainable performance.

During the year, the remote deployment of AVEVA Unified Operations Centre enabled Saudi Aramco to monitor emissions and optimise energy usage; while Neste, the world's leading producer of renewable diesel and sustainable aviation fuel, used AVEVA's Unified Supply Chain to drive collaboration between its remote teams, boosting efficiency. Several of AVEVA's EPC customers used AVEVA™ Unified Engineering to help pioneer hydrogen production designs while other engineering companies use our software for onshore windfarms.

The acquisition of OSIssoft has significantly strengthened AVEVA's position in the power generation, transmission and distribution end markets, where software is essential to help power networks cope with intermittent supply from wind and solar.

AVEVA has accelerated investment in the area of sustainability and hosts a sustainability Customer Advisory Board, with members including global market leaders across the process, batch and hybrid industries.

In addition to the strong contribution that AVEVA is making to sustainability through its products, the Group also invested in other areas of ESG during the year. For example, AVEVA recruited a Head of Diversity & Inclusion (D&I) and has run global D&I training and is implementing a five-year D&I strategy.

Outlook

The ongoing digitalisation of the industrial world continues to drive demand for AVEVA's software. Notwithstanding the continued uncertainties in relation to Covid-19, trading conditions have largely normalised in our major markets following the global disruption at the start of the crisis. Organic currency neutral growth rates for the AVEVA and OSIssoft business are expected to be similar to their long-term trends in the current financial year. As such, the outlook for AVEVA remains in line with the Board's expectations. AVEVA will update its long-term targets to include the acquisition of OSIssoft at its upcoming Capital Markets Day on 1 July.



Peter Herweck
Chief Executive Officer

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