Finance review

Overview

On 25 August 2020, AVEVA announced that it had reached agreement to acquire OSIsoft at an enterprise value of $5.0 billion. The transaction subsequently completed on 19 March 2021 and therefore the FY21 statutory results include 13 days of OSIsoft's performance up to 31 March 2021. The finance review begins with a commentary of those statutory results.

The finance review then covers the unaudited standalone results of AVEVA and OSIsoft for FY21 and FY20, and also what the combined Group would look like on an unaudited pro forma basis for the same period as if AVEVA had owned OSIsoft from 1 April 2019. This is to show the underlying performance of both AVEVA and OSIsoft, and to provide a view of how the combined business now looks.

Statutory results for the year ended 31 March 2021

The statutory results for the year ended 31 March 2021 include 12 months of AVEVA trading and OSIsoft trading since the date of its acquisition (19 March 2021) compared with the FY20 results for standalone AVEVA only. OSIsoft contributed £17.4 million of revenue and £8.4 million of adjusted EBIT for the 13 days to 31 March 2021.

The statutory results are summarised below:

£m	FY21	FY20	Change
Revenue	**820.4**	833.8	(1.6)%
Cost of sales[1]	**(180.5)**	(190.1)	(5.0)%
Gross profit	**639.9**	643.7	(0.6)%
Operating expenses[1]	**(413.5)**	(426.9)	(3.1)%
Adjusted EBIT	**226.4**	216.8	4.4%
Net interest and other income	**(2.4)**	(3.0)	(20.0)%
Adjusted profit before tax	**224.0**	213.8	4.8%
Normalised adjustments	**(189.8)**	(121.8)	55.8%
Reported profit before tax	**34.2**	92.0	(62.8)%

1. Cost of sales and operating expenses adjusted to exclude amortisation of intangible assets (excluding other software), share-based payments, gain/loss on forward foreign exchange contracts and exceptional items.

On a statutory basis, revenue for the period was £820.4 million which was 1.6% lower compared with the previous year (FY20: £833.8 million). This change was due to tougher trading conditions due to the Covid-19 crisis and FX translation, partly offset by the inclusion of OSIsoft for 13 days of the year.

Subscription revenue, which includes rental contracts, token contracts and Cloud contracts, grew 13.5% to £359.7 million (FY20: £316.8 million), primarily due to the growth set out in the standalone AVEVA commentary below, which grew by 11.4%.

Maintenance revenue reduced by 2.0% to £197.7 million (FY20: £201.7 million), due to foreign exchange translation and some conversion of Maintenance contracts to Subscription.

Perpetual licences reduced 21.0% year-on-year to £141.6 million (FY20: £179.3 million), due to the tough business environment and some impact from the transition of customer purchases into subscription licence models.

Services revenue reduced by 10.7% to £121.4 million (FY20: £136.0 million). As part of our planned strategy as set out in the standalone AVEVA commentary below.

The Group made a profit before tax of £34.2 million (FY20: £92.0 million) and on an adjusted basis, driven by the acquisition and integration costs incurred in the year. The Group made an adjusted profit before tax of £224.0 million (FY20: £213.8 million).

Basic earnings per share was 11.35p (FY20: 34.78p) and diluted earnings per share was 11.27p (FY20: 34.60p).

Cash generated from operating activities before tax was £91.2 million, compared to £161.4 million in the previous year. This reflects the cash paid out in respect of exceptional items of £63.2 million (FY20: £28.8 million and the effect of multi-year contracts and resulting working capital movements on contract assets.

The statutory tax charge for the year ended 31 March 2021 was £9.4 million (FY20: £22.2 million). The effective rate of 27.5% (FY20: 24.1%) is in line with the US corporation tax rate of 23.7%. The tax rate was most affected by US alternative minimum tax and reduced benefits from intellectual property tax incentives, both of which are calculated on statutory profits.

Dividends

The Directors propose to pay a final dividend of 23.5 pence per share. After adjustment to reflect the bonus element of the rights issue, this represents an increase of 1% versus the FY20 final dividend. The final dividend will be payable on 4 August 2021 to shareholders on the register on 9 July 2021.

Terms and financing of the acquisition of OSIsoft, debt and capital structure

The acquisition of OSIsoft was at an enterprise value of $5.0 billion, on a cash-free and debt-free basis, assuming a normal level of working capital and subject to customary completion adjustments. Completion accounts are in the process of being drawn up and any final adjustments to the purchase price will be made in the first half of FY22.

AVEVA funded the $5,086.5 million (£3,831.4 million) consideration via a rights issue raising approximately $3,734.3 million (£2,806.9 million), the issue of 13.7 million consideration shares to the majority selling shareholder worth $648.4 million (£465.7 million) and $703.8 million (£558.8 million) from existing cash and new debt facilities including a $900 million term loan from Schneider Electric.

The rights issue and the issue of consideration shares resulted in an additional 139.4m AVEVA shares being issued. This resulted in total shares in issue at 31 March 2021 of 301.2 million (FY20: 161.5 million) ordinary shares of 3.56 pence each.

The $900.0 million debt facility was entered into on 9 October 2020 with Schneider Electric SE and was subsequently assigned to another Schneider entity. The debt is repayable over a three-year term, and bears interest at LIBOR plus a margin. The initial margin was 1.30% but varies dependent upon the net leverage ratio. The term loan was drawn down on 19 March 2021 when the acquisition completed and expires on 19 March 2024. The balance as at 31 March 2021 was £654.0 million (2020: nil).

Balance sheet

Cash and treasury deposits were £286.9 million (FY20: £114.6 million) at 31 March 2021. A proportion of this cash was committed to pay transaction related costs and after payment of these costs net cash and treasury deposits were £217.1 million on 16 May 2021. There will be additional payments to the vendors of OSIsoft as part of the completion accounts mechanism during the first half of FY22.

Non-current assets were £5.8 billion (31 March 2020: £2.0 billion), reflecting goodwill and intangible assets that arose from the combination with the Schneider Electric industrial software business and the OSIsoft acquisition. Goodwill and intangible assets increased to £5.6 billion (FY20: £1.8 billion) as a result of the acquisition.

Trade and other receivables were £317.0 million (31 March 2020: £242.2 million). Contract assets increased to £215.6 million from £142.4 million at 31 March 2020, due to the upfront revenue recognition on multi-year contracts signed in the year.

Contract liabilities were £239.7 million (31 March 2020: £177.0 million), reflecting the increased size of the Group.

Pro forma results for the year ended 31 March 2021 (unaudited)

We now present the pro forma result for the year. OSIsoft was a transformational acquisition which helped AVEVA on its journey to become the global leader in industrial software, further enhancing the Group's ability to lead the digital transformation of the industrial world. The OSIsoft business has a strong financial profile with a track record of delivering strong growth, profitability and cash conversion, which will enhance AVEVA's profile.

The acquisition has created a larger business with pro forma FY21 revenue of £1,196.1 million, versus AVEVA's standalone FY21 revenue of £803.0 million. The largest proportion of this revenue now relates to software used for the operation of industrial assets at around two thirds, with engineering making up the remaining one third.

£m	FY21 (unaudited)	FY20 (unaudited)	Change (unaudited)
Revenue	**1,196.1**	1,213.2	(1.4)%
Cost of sales	**(229.1)**	(249.9)	(8.3)%
Gross profit	**967.0**	963.3	0.4%
Operating expenses	**(612.3)**	(635.2)	(3.6)%
Adjusted EBIT	**354.7**	328.1	8.1%
Net interest	**(16.0)**	(29.1)	(45.0)%
Adjusted profit before tax	**338.7**	299.0	13.3%
Tax charge	**(20.1)**	(15.3)	(31.4)%
Adjusted profit after tax	**318.6**	283.7	12.3%
Adjusted diluted EPS (pence)	**105.3**	94.1	11.9%
Gross margin	**80.8%**	79.4%	140bps
Adjusted EBIT margin	**29.7%**	27.0%	270bps
Tax charge	**5.9%**	5.1%	80bps

Combined Group pro forma revenue (unaudited)

Revenue for the combined Group was £1,196.1 million, representing a reduction of 1.4% (FY20: £1,213.2 million). Organic constant currency revenue grew 2.2%, adjusted for a currency translation headwind of £31.2 million and the disposals of Wonderware Italy, Germany and Scandinavia in the prior year.

As previously announced, the Board believes that there is an opportunity to generate significant revenue synergies over the medium term through the combination of AVEVA and OSIsoft. These include cross-selling AVEVA's portfolio into the OSIsoft customer base, expansion of OSIsoft's global reach in Asia Pacific and EMEA through AVEVA's global footprint and enhancing AVEVA's Digital Twin offering through the combination of engineering and operations data.

Recurring revenue for the combined Group grew 7.7% to £800.2 million (FY20: £743.0 million) representing 66.9% (FY20: 61.2%) of overall revenue. This was driven by strong growth in subscription of 17.4% with maintenance flat compared with FY20. Perpetual licence revenue fell by 16.8% principally as a result of the tougher business environment and the business model transition in standalone AVEVA. AVEVA intends to continue with its strategy of increasing the combined Group's overall levels of recurring through subscription revenue.

The revenue mix for the combined Group is shown below:

£m	FY21	FY20	Reported change	Organic constant currency change	% of FY21 total
Subscription	**387.4**	330.1	17.4%	19.8%	32.4%
Maintenance	**412.8**	412.9	0.0%	4.0%	34.5%
Total recurring revenue	**800.2**	743.0	7.7%	11.0%	66.9%
Perpetual licences	**271.2**	326.0	(16.8)%	(12.2)%	22.7%
Services	**124.7**	144.2	(13.5)%	(11.3)%	10.4%
Total	**1,196.1**	1,213.2	(1.4%)	2.2%	100%

Combined Group pro forma adjusted EBIT (unaudited)

Adjusted EBIT increased by 8.1% to £354.7 million (FY20: £328.1 million), reflecting cost control and cost savings relating to global Covid-19 related restrictions. This resulted in an adjusted EBIT margin of 29.7% (FY20: 27.0%).

The year-on-year margin improvement resulted from some Covid-19 related cost reductions and an element of these is expected to return as the restrictions in certain countries are eased, for example in the areas of travel and customer events.

As announced as part of the acquisition, pre-tax cash cost synergies are expected of not less than £20 million per annum on a run rate basis by the end of the second full financial year following completion, which is year ending 31 March 2023.

Combined Group pro forma net interest charge (unaudited)

The combined pro forma assumes that the $900 million term loan was drawn down on 1 April 2019 and therefore a full year's interest is charged in each year. Total pro forma net interest would have been £16.0 million (FY20: £29.1 million). The year-on-year reduction was due to lower LIBOR rates in FY21.

Combined Group pro forma earnings per share (unaudited)

Pro forma diluted adjusted EPS increased by 11.9% to 105.3 pence (FY20: 94.1 pence), primarily as a result of the higher adjusted EBIT.

Standalone AVEVA revenue (unaudited)

Revenue for the year on an organic constant currency basis grew by 0.2%. On a reported basis, revenue declined by 3.7% to £803.0 million (FY20: £833.8 million). Following a challenging first half, AVEVA saw second half revenue of £470.4 million (FY20: £441.9 million) which was a growth of 6.5% in reported terms or 10.6% in organic constant currency terms driven by strong contract renewals in Q3.

Revenue by type is set out below:

£m	FY21	% of total	FY20	% of total	Change	Organic constant currency
Subscription	**353.0**	**44.0%**	316.8	38.0%	11.4%	13.5%
Maintenance	**192.3**	**23.9%**	201.7	24.2%	(4.7)%	0.5%
Total recurring revenue	**545.3**	**67.9%**	518.5	62.2%	5.2%	8.5%
Perpetual licences	**136.5**	**17.0%**	179.3	21.5%	(23.9)%	(17.9)%
Services	**121.2**	**15.1%**	136.0	16.3%	(10.9)%	(8.7)%
Total	**803.0**	**100.0%**	833.8	100.0%	(3.7)%	0.2%

Recurring revenue

Growing recurring revenue, both as a proportion of overall revenue and in absolute terms, remains a key focus for AVEVA. Total recurring revenue increased by 5.2% to £545.3 million (FY20: £518.5 million). On an organic constant currency basis, the increase was 8.5%.

Subscriptions revenue, which includes rental contracts, token contracts and Cloud contracts, grew 11.4% to £353.0 million (FY20: £316.8 million) or 13.5% on an organic constant currency basis. The second half saw strong growth in Subscriptions following the large contract renewals in the third quarter. Going forward, AVEVA expects considerable growth in Cloud orders, which are recognised rateably over the term of the contract. This will impact the amount of revenue recognised within a year on new Subscription contracts, but does create backlog for future years.

Maintenance revenue was resilient, reducing by 4.7% to £192.3 million (FY20: £201.7 million), largely due to foreign exchange translation (organic constant currency was an increase of 0.5%) and some conversion of Maintenance contracts to Subscription.

Perpetual licences

Perpetual licences reduced 23.9% year-on-year to £136.5 million (FY20: £179.3 million), or 17.9% on an organic constant currency basis, due to the tough business environment and some impact from the transition of customer purchases into Subscription licence models.

Services

As planned, services revenue reduced by 10.9% to £121.2 million (FY20: £136.0 million), or 8.7% on an organic constant currency basis. Services are sold alongside software licences 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 in the longer term, while still undertaking services that support long-term growth, particularly in newer areas of the business such as Asset Performance Management and Digital Twin projects.

Standalone AVEVA adjusted EBIT and cost management (unaudited)

Adjusted EBIT increased 0.6% to £218.0 million (FY20: £216.8 million). The adjusted EBIT margin increased to 27.1% (FY20: 26.0%) due to tight cost control and savings archived due to the Covid-19 pandemic. Some of these costs are expected to come back in FY22 as restrictions on travel are gradually lifted.

AVEVA continued to invest in strategic areas such as Cloud, Artificial Intelligence and digital marketing, whilst significantly reducing costs elsewhere.

Total adjusted costs were £585.0 million (FY20: £617.0 million), a decrease of 5.2% over the previous year and a decrease of 3.4% on a constant currency basis.

An analysis of total expenses is summarised below:

£m	Cost of sales	R&D	Selling and distribution	Admin.	Net impairment loss from financial assets	Other income	Total
Statutory	**179.8**	**179.3**	**222.9**	**189.7**	**3.4**	**(5.5)**	**769.6**
Amortisation excl. other software	–	(63.9)	(26.6)	–	–	–	(90.5)
Share-based payments	–	–	–	(16.3)	–	–	(16.3)
Gain on FX contracts	–	–	–	0.7	–	–	0.7
Exceptional items	(0.8)	(0.3)	(4.6)	(78.3)	–	5.5	(78.5)
Adjusted costs	**179.0**	**115.1**	**191.7**	**95.8**	**3.4**	**–**	**585.0**
FY20	190.1	120.7	209.1	89.5	7.6	–	617.0
Change	(5.8)%	(4.6)%	(8.3)%	7.0%	(55.3)%	–	(5.2)%
Constant currency	(4.1)%	(3.1)%	(6.2)%	8.6%	(55.3)%	–	(3.4)%

Cost of sales decreased by 5.8% to £179.0 million (FY20: £190.1 million). This was driven by a significant reduction in the cost of delivering services and customer support, including reduced travel costs, partially offset by significantly higher Cloud hosting costs.

Research & Development costs were £115.1 million (FY20: £120.7 million), representing a decrease of 4.6% with tight cost control being partly offset by investment in areas including Cloud and AI.

Selling and distribution expenses were £191.7 million (FY20: £209.1 million), an 8.3% decrease versus the prior year. This was primarily due to lower Sales costs, relating largely to reduced travel costs, partly offset by an increase in investment in Marketing and in particular, digital marketing.

Administrative expenses were £95.8 million (FY20: £89.5 million) representing an increase of 7.0%. This was primarily due to investment in the IT function to support the larger Group as the transitional services with Schneider Electric were exited, together with some expansion of the Finance function.

Net impairment loss from financial assets represents the impairment of accounts receivable and contract assets during the year of £3.4 million (FY20: £7.6 million).

Standalone AVEVA normalised and exceptional items (unaudited)

The normalised and exceptional items below have been excluded in presenting the standalone AVEVA's adjusted results. Although OSIsoft did incur transaction costs relating to the acquisition, these are not included in these results because the pro forma for OSIsoft presents results on an adjusted basis.

£m	FY21	FY20
Acquisition costs	**44.4**	0.8
Integration activities	**37.3**	28.2
Restructuring costs	**2.3**	1.7
Other income	**(5.5)**	(11.9)
Total exceptional items	**78.5**	18.8
Amortisation excl. other software	**90.5**	90.6
Share-based payments	**16.3**	12.0
(Gain)/loss on FX contracts	**(0.7)**	0.4
Total normalised items	**106.1**	103.0

Acquisition and integration activities principally related to acquisition costs associated with OSIsoft and the tail-end of integration activities related to the Schneider Electric industrial software business, such as IT costs related to the exit of the Transitional Service Agreement, including the new ERP system implementation. Other income relates to reimbursement of capital expenditure on integration activities from Schneider Electric.

Amortisation relates to the amortisation of the fair valued heritage AVEVA intangible assets under acquisition accounting, following the combination with the Schneider Electric industrial software business.

Standalone AVEVA operating cash flow (unaudited)

Cash generated from operating activities before tax and exceptional items was £173.3 million, compared to £190.2 million in the previous year, resulting in conversion of adjusted EBIT to operating cash flow of 79% (FY20: 88%). This reflects the effect of multi-year contracts and particularly those contracts where customers pay in annual instalments, but revenue is recognised earlier under IFRS 15.

Net cash paid out in respect of exceptional items was £63.2 million (FY20: £23.3 million).

Standalone OSIsoft performance (unaudited)

Revenue

Revenue increased 6.6% on an organic constant currency basis. On a reported basis, revenue increased by 3.6% to £393.1 million (FY20: £379.4 million). Similarly to AVEVA, OSIsoft had a weaker first half of the year due to the disruption caused by Covid-19 with revenue growth of 2.0% and a stronger second half with organic constant currency growth of 10.6%.

Revenue by type is set out below:

£m	FY21	% of total	FY20	% of total	Change	Organic constant currency
Subscription	**34.4**	**8.7%**	13.3	3.5%	158.6%	169.2%
Maintenance	**220.5**	**56.1%**	211.2	55.7%	4.4%	7.3%
Total recurring revenue	**254.9**	**64.8%**	224.5	59.2%	13.5%	16.9%
Perpetual licences	**134.8**	**34.3%**	146.7	38.7%	(8.1)%	(5.6)%
Services	**3.4**	**0.9%**	8.2	2.1%	(58.5)%	(57.3)%
Total	**393.1**	**100.0%**	379.4	100.0%	3.6%	6.6%

Recurring revenue

Recurring revenue increased from £224.5 million to £254.9 million representing 64.8% (FY20: 59.2%) of total revenue.

Maintenance revenue increased by 4.4% to £220.5 million (FY20: £211.2 million), largely due to new revenue resulting from new perpetual licence sales and a high retention rate among existing accounts.

Subscriptions revenue grew 158.6% to £34.4 million (FY20: £13.3 million). This was due to broad based growth and assisted by a larger multi-year contract signed at the end of the financial year.

Perpetual licences

Perpetual licences decreased 8.1% year-on-year to £134.8 million (FY20: £146.7 million), due to disruption caused by the pandemic and in particular weakness in the Oil & Gas sector.

Services

Services revenue reduced by 58.5% to £3.4 million (FY20: £8.2 million), due to a sharp decline in on-site training and field service orders driven by customer responses to the conditions of the pandemic.

Standalone OSIsoft adjusted EBIT and cost management (unaudited)

Adjusted EBIT increased 22.8% to £136.7 million (FY20: £111.3 million). The adjusted EBIT margin increased to 34.8% (FY20: 29.3%) due to a combination of the revenue growth and savings archived due to the Covid-19 pandemic.

Total adjusted costs were £256.4 million (FY20: £268.1 million), a decrease of 4.4% over the previous year and a decrease of 1.6% on a constant currency basis.

An analysis of total expenses is summarised below:

£m	Cost of sales	R&D	Selling and distribution	Admin.	Net impairment loss from financial assets	Total
Adjusted costs	**50.1**	**53.4**	**86.4**	**66.3**	**0.2**	**256.4**
FY20	59.8	51.2	93.4	64.4	(0.7)	268.1
Change	(16.2)%	4.3%	(7.5)%	3.0%	–	(4.4)%
Constant currency	(13.9)%	7.2%	(4.8)%	5.9%	–	(1.6)%

Cost of sales decreased by 16.2% to £50.1 million (FY20: £59.8 million). This was driven by a reduction in travel by customer success functions in reaction to conditions of the pandemic.

Research & Development costs were £53.4 million (FY20: £51.2 million), representing an increase of 4.3% due to an increased investment in Cloud development.

Selling and distribution expenses were £86.4 million (FY20: £93.4 million), a 7.5% decrease versus the prior year. This was due to cancellation of on-site marketing and sales events such as user conferences, executive summits and trade events, as well as a steep reduction in travel related expenses. Both decreased as a result of conditions caused by the pandemic. This decrease was partly offset by additional investment in sales capabilities.

Administrative expenses were £66.3 million (FY20: £64.4 million) representing an increase of 3.0%. This was due to increased professional fees relating to the sale process and additional investment in business IT and software, such as Azure and Salesforce.

Net impairment loss from financial assets represents the impairment of accounts receivable and contract assets during the year of £0.2 million (FY20: income of £0.7 million).

Taxation (unaudited)

The pro forma tax charge on adjusted profit before tax was £20.3 million (FY20: £15.3 million), which equates to an effective tax rate of 5.9% (FY20: 5.1%). This tax charge factors in the benefit of UK and US tax incentives on intellectual property and the tax step-up relating the acquisition of OSIsoft.

The announced increase in UK corporation tax is expected to have a minimal impact on the adjusted tax rate because of the continued benefit of intellectual property tax incentives and the increased proportion of Group profits earned in the US following the OSIsoft acquisition.

Combined Group pro forma Annualised Recurring Revenue (ARR) (unaudited)

In order to make it easier to track the performance of AVEVA's recurring revenue progression, the Group is introducing a new metric, Annualised Recurring Revenue (ARR). ARR is a non-GAAP measure.

ARR removes distortions caused by applying the revenue recognition accounting standard by annualising the revenue associated with contracts at a point in time. For example, an on-premise Subscription contract would have a large element of the contract recognised upfront, whereas a Cloud Subscription contract is recognised rateably over the lifetime of the contract. ARR removes the differences in this revenue recognition treatment to make it easier to track underlying value progression.

On 31 March 2021, ARR for the combined AVEVA Group was £704.8 million. This represented a 12 month increase of 8.6% on a constant currency basis (31 March 2020: £648.9 million). This Group total consisted of £453.8 million of ARR for the standalone AVEVA Group (FY20: £420.9 million) and £251.0 million of ARR for OSIsoft (FY20: £228.0 million).

James Kidd
Deputy CEO & CFO

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