

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 statutory results compare the performance of the combined AVEVA and OSIsoft business in FY22 with the standalone AVEVA business plus 12 days of OSIsoft ownership in FY21.

The finance review begins with a commentary of those statutory results and then covers pro forma results to show the underlying performance of the combined business.

Statutory results

On a statutory basis¹, revenue for the year was £1,185.3 million which was 44.5% higher compared with the previous year (FY21: £820.4 million). This change was due to the inclusion of OSIsoft in the current year and growth in the business, partly offset by negative FX translation due to the relative strengthening of Sterling, particularly in relation to the US Dollar on average during the year, given that the majority of AVEVA's sales are made in US Dollars.

Subscription revenue, which includes rental contracts and SaaS contracts, grew 17.9% to £424.2 million (FY21: £359.7 million), primarily due to the growth in the heritage AVEVA business Operations business unit.

Maintenance revenue grew by 74.6% to £345.2 million (FY21: £197.7 million), primarily due to the inclusion of OSIsoft in FY22.

Perpetual licences grew 107.0% to £293.1 million (FY21: £141.6 million), primarily due to the inclusion of OSIsoft in FY22 and growth in the OSIsoft business.

Services revenue grew 1.2% to £122.8 million (FY21: £121.4 million) relating to a focus on growing higher margin software revenue.

Total statutory costs increased to £1,203.9 million (FY21: £786.2 million). This increase was mainly due to the acquisition of OSIsoft and the cost of sale, operating cost and amortisation of intangible assets associated with this.

As a result of the acquisition the amortisation charge increased to £226.1 million (FY21: £95.7 million). While the cost of sale increased 28.2% to £232.5 million (FY21: £181.3 million), operating costs including amortisation increased 59.2% to £959.3 million

(FY21: £602.5 million) and net interest increased from £2.4 million to £12.1 million.

Cost of sales was £232.5 million (FY21: £181.3 million) representing an increase of 28.2%. This was below the statutory increase in revenue of 44.5%, due to a lower cost of sale for the OSIsoft business, which has a lower services revenue mix.

Research & Development costs were £343.3 million (FY21: £184.5 million) representing an increase of 86.1%. This was due the amortisation of acquired intangible assets, an increase in the scale of the business, growth due to investment in cloud and higher employment costs.

Selling and distribution expenses were £345.4 million (FY21: £226.8 million) representing an increase of 52.3%. This was mainly due to the greater scale of the business and additional amortisation.

Administrative expenses were £246.3 million (FY21: £193.0 million) representing an increase of 27.6%. This reflected a decrease in exceptional items, which was more than offset by the increased scale of the business and underlying higher costs in IT and legal functions.

The Group made a loss before tax of £18.6 million (FY21: profit of £34.2 million). This was largely due to the amortisation of intangible assets relating to AVEVA's combinations with the Schneider Electric industrial software business and OSIsoft, the deferred revenue haircut and exceptional costs.

Basic loss per share was 20.8 pence (FY21: EPS 11.4 pence) and diluted loss per share was 20.8 pence (FY21: EPS 11.3 pence).

The statutory tax charge was £44.0 million (FY21: £9.4 million). This was due to factors including additional taxable profits following the OSIsoft acquisition, US alternative minimum tax and an increase in the UK tax rate from 19% to 25%.

Operating cash flow

Cash generated from operating activities before tax was £197.2 million, compared to £91.2 million generated in the previous year.

This included cash paid in the period in relation to the acquisition of OSIsoft of £67.4 million and other exceptional items of £40.6 million (FY21: £63.2 million).

Cash conversion, defined as free cash flow before tax excluding acquisition costs as a proportion of adjusted profit before tax was 62.5% (FY21: 36.8%).

Dividends

The Directors propose to pay a final dividend of 24.5 pence per share (FY21: 23.5 pence). The final dividend will be payable on 5 August 2022 to shareholders on the register on 8 July 2022.

Balance sheet

On 31 March 2022, AVEVA had net debt of £405.2 million (31 March 2021: £367.4 million). Net debt is defined as loans and borrowings minus cash and cash equivalents. This reflects the \$900 million term loan taken out to partly finance the acquisition of OSIsoft, together with cash of £279.3 million (31 March 2021: £286.6 million).

Non-current assets were £5.7 billion (31 March 2021: £5.8 billion), reflecting goodwill and intangible assets that arose from the combination with the Schneider Electric industrial software business and the OSIssoft acquisition. Goodwill and intangible assets were £5.5 billion (31 March 2021: £5.6 billion).

Trade and other receivables were £381.2 million (31 March 2021: £318.0 million). Contract assets increased to £302.1 million

from £215.6 million at 31 March 2021. This increase included the impact of new subscription contract wins with point in time revenue recognition.

Contract liabilities were £328.2 million (31 March 2021: £239.7 million). This increase reflected an increase in Maintenance contract wins and the unwinding of the deferred revenue haircut, which arose from the acquisition of OSIssoft.

Pro forma results

The pro forma results are summarised below:

£m	FY22 Unaudited	FY21 Unaudited	Change	Organic constant currency
Revenue	1,235.6	1,196.1	3.3%	7.1%
Cost of sales	(232.3)	(229.1)	1.4%	4.9%
Gross profit	1,003.3	967.0	3.8%	7.7%
Operating expenses	(638.2)	(612.3)	4.2%	7.6%
Adjusted EBIT	365.1	354.7	2.9%	7.7%
Net interest	(12.1)	(16.0)	(24.4)%	
Adjusted profit before tax	353.0	338.7	4.2%	
Tax charge	(50.6)	(20.1)	151.7%	
Adjusted profit after tax	302.4	318.6	(5.1)%	
Adjusted diluted EPS (pence)	99.6	105.3	(5.4)%	-
Gross margin	81.2%	80.8%	+40bps	+40bps
Adjusted EBIT margin	29.5%	29.7%	(20)bps	+30bps
Tax charge	14.3%	5.9%	+840bps	-

Pro forma results include results for both AVEVA and OSIssoft for the 12 months to 31 March 2022 and the 12 months to 31 March 2021. In addition to this, the results have been adjusted to exclude the effect of the deferred revenue haircut under IFRS 3 (Business Combinations).

Adjusted metrics are calculated before amortisation of intangible assets, share-based payments and exceptional items. Adjusted Earnings Per Share also includes the tax effects of these adjustments.

Pro forma revenue

Revenue was £1,235.6 million, representing an increase of 3.3% (FY21: £1,196.1 million). Organic constant currency revenue grew 7.1%, adjusted for a currency translation headwind of £42.5 million and minor disposals in the current year.

The revenue mix for the combined Group is shown below:

£m	FY22	FY21	Reported change	Organic constant currency change	% of FY22 total
On-premises rental	396.4	364.0	8.9%	11.5%	32.1%
SaaS	27.8	23.4	18.8%	23.9%	2.2%
Total subscription revenue	424.2	387.4	9.5%	12.3%	34.3%
Maintenance	395.5	412.8	(4.2)%	0.4%	32.0%
Total recurring revenue	819.7	800.2	2.4%	6.2%	66.3%
Perpetual licences	293.1	271.2	8.1%	12.2%	23.7%
Services	122.8	124.7	(1.5)%	2.5%	10.0%
Total	1,235.6	1,196.1	3.3%	7.1%	100.0%

Subscription revenue growth was driven by sales of on-premises rental contracts within the heritage AVEVA business as the transition to a recurring revenue model continued and also subscription growth from OSIssoft, as it began its business model transition. Within subscription, SaaS revenue grew 18.8% to £27.8 million (FY21: £23.4 million) which was due to sales of cloud solutions such as Value Chain Optimisation, Asset Information Management and Unified Engineering. On an organic constant currency basis the increase was 23.9%.

Maintenance revenue was driven by growth associated with the OSIssoft business, which more than offset a decline at the heritage AVEVA business due to the planned subscription transition.

Perpetual licence increase was driven by strong growth from the heritage OSIssoft business, ahead of its move to a subscription business model.

Services revenue was driven by growth in the overall business, partly offset by a focus on higher margin software revenue.

Notes:

1. Statutory results include the results for the combined AVEVA Group for the 12 months to 31 March 2022 compared to the results for AVEVA Group and 12 days of OSIssoft ownership for FY21.

The revenue mix for the combined Group showing point in time versus overtime revenue recognition is shown below:

£m	FY22			FY21		
	Revenue point in time	Revenue over time	Total	Revenue point in time	Revenue over time	Total
On-premises rental	280.7	115.7	396.4	259.6	104.4	364.0
SaaS	–	27.8	27.8	–	23.4	23.4
Total subscription	280.7	143.5	424.2	259.6	127.8	387.4
Maintenance	–	395.5	395.5	–	412.8	412.8
Total recurring revenue	280.7	539.0	819.7	259.6	540.6	800.2
Perpetual licences	293.1	–	293.1	271.2	–	271.2
Services	–	122.8	122.8	–	124.7	124.7
Total	573.8	661.8	1,235.6	530.8	665.3	1,196.1

Of the total revenue recognised in FY22, £661.8 million (FY21: £665.3 million) was recognised over time representing 53.6% of the total (FY21: 55.6%), demonstrating that AVEVA already has a significant amount of revenue which is recognised rateably.

Revenue recognised at a point in time was £573.8 million (FY21: £530.8 million) representing 46.4% of total revenue (FY21: 44.4%). Of this £280.7 million (FY21: £259.6 million) related to on-premises rental subscription contracts and represented

22.7% of total revenue in the year (FY21: 21.7%), showing that this element is relatively stable year on year.

At 31 March 2022, the Group had a revenue backlog of £781.4 million (FY21: £657.9 million) representing remaining performance obligations which have not been met or are partially met. Of this £487.8 million (FY21: £425.8 million) will be recognisable within one year.

Pro forma costs

An analysis of total expenses is summarised below.

£m	Cost of sales	R&D	Selling and distribution	Admin.	Net impairment gain / loss from financial assets	Total
Adjusted costs	232.3	178.2	280.7	179.9	(0.6)	870.5
FY21	229.1	168.5	278.1	162.1	3.6	841.4
Change	1.4%	5.8%	0.9%	11.0%	(116.7)%	3.5%
Organic constant currency	4.9%	9.2%	4.2%	14.7%	(113.9)%	6.9%

Cost of sales increased largely due to the growth in the business and included higher cloud hosting and infrastructure costs.

Research & Development costs increased due to investment in the development of cloud products and also reflect higher employment costs, reflecting a very competitive labour market.

Selling and distribution expenses increased mainly due to increased sales commissions and sales employment costs.

Administrative expenses increased largely due to higher costs in IT and legal functions with increases in capacity being needed as the business scales.

Net impairment loss from financial assets represents the impairment of accounts receivable and contract assets. The reversal of provisions made during the Covid crisis in FY21, offset by the impairment of assets in Russia, led to a net positive impact in FY22.

Pro forma adjusted EBIT

Adjusted EBIT increased by 2.9% to £365.1 million (FY21: £354.7 million). This resulted in an adjusted EBIT margin of 29.5% (FY21: 29.7%), which was up +30bps on an organic constant currency basis.

Pro forma net interest charge

The combined pro forma interest charge assumes that the £685.1 million term loan was drawn down on 1 April 2020 and therefore a full year's interest is charged in each period. Total net interest was £12.1 million (FY21: £16.0 million). The year-on-year reduction was largely due to lower LIBOR rates.

Pro forma taxation

The pro forma tax charge on adjusted profit before tax was £50.6 million (FY21: £20.1 million), which equates to an effective tax rate of 14.3% (FY21: 5.9%). This tax charge factors in the benefit of UK tax incentives on intellectual property and US tax deductions for the amortisation of goodwill relating to the acquisition of OSIssoft. The year-on-year increase was due to increased US Alternative Minimum Tax and irrecoverable withholding tax. The tax rate on adjusted profit before tax is expected to remain at or below the level seen in FY22 going forward.

Pro forma earnings per share

Pro forma diluted adjusted EPS decreased by 5.4% to 99.6 pence (FY21: 105.3 pence) as a result of the higher adjusted EBIT and lower interest, being more than offset by a higher tax charge.

Normalised and exceptional items

The normalised and exceptional items below have been excluded in presenting the adjusted results.

£m	FY22	FY21
Acquisition costs relating to OSIssoft	0.8	44.4
Integration of OSIssoft	28.0	6.1
Integration of Schneider Electric industrial software business	13.5	27.6
Disposals	2.8	–
Retirement of steel fabrication business	15.4	–
Impairment of balances with Russian-based counterparties	7.3	–
Gain on disposal of pension scheme	–	(0.3)
Total exceptional items	67.8	77.8
Amortisation	226.1	95.7
Share-based payments	27.4	16.3
Total normalised items	253.5	112.0

Exceptional costs incurred in the integration of OSIssoft, primarily consisting of consultancy and advisor fees and additional temporary resources paid relating to the merging of IT systems and real estate, and rebranding. Costs are anticipated to continue until mid-calendar 2023.

In the year-ended 31 March 2022, Schneider Electric industrial software business integration costs primarily related to the continued build and implementation of a global ERP system and legal entity rationalisation. These costs are expected to continue until mid-calendar 2024.

A £14.9 million impairment of intangible assets associated with the Group's steel fabrication business (£10.9 million and £4.0 million of developed technology and customer relationships respectively) was recognised following the announcement in July 2021 of these products' retirement. Restructuring costs of £0.5 million have also been incurred.

As a result of the invasion of Ukraine by Russia, and the subsequent sanctions enforced by the UK and US governments, the Group fully provided against an additional £4.9 million of trade receivables, £1.0 million of amounts owed by related parties, and £1.4 million of contract assets held with entities within Russia at 31 March 2022.

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 and the amortisation of intangibles relating to the OSIssoft acquisition. Of the £226.1 million amortisation charge, £147.6 million relates to the intangibles acquired through the OSIssoft acquisition.

The increase in share-based payments reflects the increase in the size of AVEVA's business post the acquisition of OSIssoft.

Brian DiBenedetto

Chief Financial Officer

7 June 2022