

3 Economic Report

3.1 Macroeconomic and Industry-Specific Conditions

General economic conditions

Global economy

In 2019, the global economy continued its positive economic development overall, but lost momentum compared with the previous year. Factors influencing this development included the transnational weakness of key industries such as the automotive sector and the reduction in global trade volumes. Uncertainty also continued regarding the trade conflict between the USA and China. Economic output in the eurozone was unable to repeat the high growth rate of the previous year and declined noticeably. In the United Kingdom, the uncertainties surrounding Brexit are likely to have been the trigger for comparatively low growth rates. The largest contribution to global growth in 2019 was again made by China with 6.2%.

For 2019, the German Council of Economic Experts assumed that global GDP would grow by 2.6% (previous year: 3.3%).

Eurozone

Economic development in the eurozone in 2019 was heterogeneous, although the restrained momentum of the previous year continued overall. The larger member states saw a slowdown in the pace of growth. One reason for this was the weaker performance in the manufacturing industry. By contrast, private consumption provided positive impetus in view of the favorable situation on the employment market. Growth in gross fixed asset investments in the eurozone declined noticeably, although the financing environment appeared very positive. In September 2019, the European Central Bank again eased its monetary policy, which had been expansionary for years. The decline in the unemployment rate slowed, not least due to the continuing shortage of labor and skilled workers.

For 2019, the German Council of Economic Experts expected GDP in the eurozone to grow by 1.2% (previous year: 1.9%).

USA

The USA recorded a slight slowing in the pace of growth. Nevertheless, the economic upswing remains robust. This had an increasingly positive effect on the employment market, causing the unemployment rate to drop to 3.5%. After recently weaker figures, private consumption made a substantial contribution to growth in GDP. Investments in intellectual property – including both software and research and development – recorded strong growth, while non-governmental gross fixed asset investments and investments in equipment and non-residential construction declined markedly. Exports from the United States also weakened significantly in the year under review. The increases in expenditure and tax cuts under the Tax Cuts and Jobs Act led to

a noticeable widening of the government deficit and debt. After tightening its monetary policy again beginning in 2016, the Fed decided to relax its monetary policy for the first time in July 2019.

Following growth of 2.9% in the previous year, the US economy was expected to grow by 2.3% in 2019.

Japan

Economic development in Japan remained positive, but with comparatively little momentum. Japan's foreign trade suffered from the ongoing global trade conflicts and the slowdown in the international economy. For the year under review, there were signs of a decline in both exports and imports of goods. Companies continued to pursue their investment plans, although the growth rate was lower than in the previous year. The main growth drivers were private consumption and the special economic situation caused by the 2020 Summer Olympics in Tokyo. The Bank of Japan confirmed its expansionary monetary policy.

Overall, economic output was expected to increase by 0.8% in 2019 – the same growth rate as in the previous year.

Emerging markets

Economic development in the major emerging markets was heterogeneous.

In China, the economic upswing continued, although the rate of growth lost some of its momentum. Economic growth of 6.2% was expected for the year under review (previous year: 6.6%). The trade conflict with the United States as well as monetary and fiscal policy measures taken by the Chinese government had a particular impact. Following the restrictive monetary policy of recent years, there could now be a trend reversal towards a more expansive policy. At the same time, China wants to expand lending to companies.

In India, the high rate of growth of the previous year was unable to be repeated, although economic growth remained at a high level of 5.4% (previous year: 7.3%). For Russia, the lack of private investment is likely to have had noticeable consequences. A slight increase in economic output of 0.7% was assumed for 2019 (previous year: 2.2%).

Overall, the German Council of Economic Experts anticipated GDP growth of 4.5% in the emerging markets (previous year: 5.2%).

Sources: Annual Report 2019/20 German Council of Economic Experts; GTAI – Wirtschaftsausblick Russland (November 2019), GTAI – Wirtschaftsausblick Japan (November 2019).

Development of the construction industry

Europe

The European construction industry continued its economic upswing in 2019, even though the majority of Euroconstruct member countries were unable to repeat the high growth rates of the previous year. The three largest economies developed heterogeneously. While growth in Germany and France slowed significantly (from 1.7% in the previous year to 0.8% for Germany and from 3.4% to 2.1% for France), the industry experts at Euroconstruct expected growth in the UK to reach 0.7% (previous year: 0.3%). The Netherlands (from 6.7% in the previous year to 3.6%) as well as Spain (from 6.5% to 4.6%) were unable to maintain the strong growth of the previous year. In Eastern Europe, the upswing continued following the 2016 crisis year. At 13.3%, the highest growth was forecast for Hungary, followed by Poland (8.0%) and the Czech Republic (3.3%). According to current forecasts, a growth rate of 1.3% is estimated for new residential construction. A constant growth rate of 5.1% is anticipated for infrastructure construction.

In total, Euroconstruct expects an increase in construction volume of 2.0% (previous year: 3.1%) for the member countries of the industry network.

North America

After the previous years characterized by growth, the economic development of the US construction industry stagnated in 2019. The FMI industry experts assumed that the previous year's construction output would stagnate in the year under review, after +3.3% in the previous year. Construction output in new residential construction even declined. On the other hand, there was a rising growth rate in infrastructure construction. Public spending on infrastructure restructuring and modernization is necessary due to many years of underinvestment. After a positive trend reversal had become apparent in 2018, a considerable growth rate of 6% was forecast for infrastructure projects in 2019 (previous year: +1%).

Japan

The Japanese construction sector recorded an upward trend in 2019, with an expansion in private residential construction (+1.8%) and infrastructure construction (+8.4%) in particular. Following the decline in public sector construction investments in the previous year, a growth rate of 3.1% was expected for 2019. In contrast, investments in the non-residential construction sector declined.

The Japanese Research Institute of Construction and Economy (RICE) estimated a significant increase in construction volume of 2.2% in 2019 (previous year: 0.3%).

Emerging markets

The performance of the construction industry in the emerging markets painted a mixed picture in 2019.

The construction sector remained one of the main pillars of the Chinese economy. As in the previous year, the residential construction sector in particular was expected to achieve significant growth in the two-digit percentage range. While investments in office construction remained stable, there was a significant decline in investments in retail space. In state infrastructure construction, the Chinese government is focusing on pushing ahead with the expansion of the railway network.

In India, the construction industry was expected to continue its dynamic growth, with the infrastructure sector as the driving force. Building construction showed a different development. Residential construction in India was anticipated to recover slightly in the year under review, but remained a source of concern. Although there is great demand for new housing, particularly in the conurbations, liquidity bottlenecks are hampering the realization of new construction projects. However, overall, building construction developed positively thanks to growth rates in the commercial sector.

In Russia, building construction output in the first half of 2019 increased by a moderate 0.2% year-on-year, thanks in particular to private residential construction. In civil engineering, the implementation of major infrastructure projects lagged behind schedule. Further construction projects, for example in Siberia, were expected in 2019 and the following years, with a focus on transport routes and train lines. This should provide additional growth impetus.

Sources: Euroconstruct Summary Report Warsaw Nov 2019; ifo_Bauwesen_Euro_2019; 2020 FMI Overview; GTAI – Branchencheck – Russland – Dezember 2019; GTAI – Branchenanalyse – Russland – 2019; Invest India – 03.02.2020; GTAI – Branchencheck – Indien – Dezember 2019; GTAI – Branche kompakt – Indien (November 2019); GTAI – Branchencheck – China – Dezember 2019; GTAI – Durchwachsene Stimmung in Chinas Bausektor – Oktober 2019; GTAI – China investiert weniger in Büro- und Handelsflächen – 2019; GTAI – China – Tiefbau – Schienennetz – Apr. 2019; RICE Japan – CONSTRUCTION INVESTMENT – Sept. 2019; NBS National BIM Report 2016 – 2018; JbKnowledge Construction Technology Report 2017-2019; BICP Global BIM Study – Lessons for Ireland's BIM Program.

Digitalization in construction

Key figures for the construction industry are just one of several indicators for the development of the Nemetschek Group's markets. Expenditure for IT and software plays an important role in digitalization. At around 1.5% of revenue, IT expenditure in the construction industry is still below average compared with other industries. However, IT expenditure in the construction industry is expected to increase significantly in the next few years.

Digital change in the construction industry is largely determined by the Building Information Modeling (BIM) working method. The use of BIM methodology is already widespread in the USA and Singapore, as well as in the Scandinavian countries, the Netherlands and the UK. In 2016, the UK took a decisive step towards the nationwide establishment of BIM with the entry into effect of the BIM Level 2 mandate, which makes the use of BIM Level 2 mandatory for public construction projects. With the planned BIM Level 3 from 2020, the model-based collaboration of all disciplines in the UK requiring the use of Open BIM, is to be taken to a new level.

Since 2014, there has also been a new directive for the EU that recommends the use of computer-based methods such as BIM in the awarding of public works contracts and tenders. In the meantime, many European countries have implemented the EU recommendations on a national level.

In Germany, BIM is being boosted by the “Digital Planning, Building and Operation” step-by-step plan. Since 2015, experience has been gathered and skills have been pooled in pilot projects funded by the Federal Ministry of Transport and Digital Infrastructure (BMVI) in order to define the necessary quality standards. Since 2017, BIM has been used in an extended pilot phase in numerous transport infrastructure projects. From 2020, the use of BIM is to be mandatory in all new public sector infrastructure projects that are in the planning stage.

Sources: Euroconstruct Summary Report Warsaw Nov 2019; HM Government – Construction 2025, NBS National BIM Report 2016 – 2018; JbKnowledge Construction Technology Report 2017-2019; BICP Global BIM Study – Lessons for Ireland's BIM Program; EU BIM Task Group; Stufenplan Digitales Planen und Bauen von BMVI; IT Software & Services von Kepler Cheuvreux 11/2015; Deloitte 2016–2017 Global CIO Survey; BIM Maturity levels in the UK.

3.2 Business Performance in 2019 and Key Events Influencing the Company's Business Performance

General statement on the economic position of the Group

The Nemetschek Group had a successful 2019 financial year, recording revenue growth in the double-digit percentage range and an above-average increase in EBITDA. The growth targets for 2019 regarding revenue and the EBITDA margin were exceeded. Growth was driven both by organic operational business development and the acquisition of the Spacewell brand, which was consolidated for a full 12 months for the first time. In the 2019 financial year, Nemetschek continued to drive forward its key strategic initiatives with a particular focus on internationalization, further developing solutions and targeting new customers.

Acquisitions/sales

Holding level

No acquisitions were made at holding level in 2019.

Segment level

After the Nemetschek Group's Manage segment acquired **Spacewell**, a software provider for property, facility and workplace management based in Belgium, at the end of August 2018, the acquisition of 100% of the shares in **Axxerion Group B.V.**, based in Heteren, the Netherlands, followed as of January 11, 2019. Axxerion offers workflow-based cloud solutions for the facility and property management of companies. Available as a pure SaaS model, the solution optimizes operational processes such as data requests, workflow management, contract management and maintenance. The purchase price for the acquisition was approximately EUR 75 million (cash-/debt-free). Axxerion

was integrated into the Spacewell Group.

With the agreement dated April 5, 2019, Maxon Computer GmbH (Media & Entertainment segment) acquired 100% of the shares of Redshift Rendering Technologies, Inc., based in Newport Beach, USA. With its product of the same name, Redshift offers a rendering solution for 3D content creation. Following the acquisition of the remaining 30% of Maxon and the appointment of a new management team in 2018, the acquisition of Redshift was a further step in the expansion of the Media & Entertainment segment. The purchase price for the acquisition consists of a fixed component of EUR 27.3 million and a subsequent purchase price payment of up to EUR 7.6 million (earn-out). The earn-out component is dependent on achieving specific revenue and earnings targets and technical milestones.

Furthermore, Maxon Computer GmbH and the shareholders of RedGiant LLC signed an agreement on December 17, 2019 on the merger of Maxon and RedGiant. As part of the transaction, Maxon will acquire the US company RedGiant through a combination of a cash payment of around EUR 70 million and the granting of shares in Maxon. After closing the transaction, Nemetschek will hold approximately 84% and the former owners of RedGiant will hold around 16% of the shares in Maxon. This is financed by its own cash and cash equivalents and by taking out a loan. The transaction was closed in January 2020. RedGiant, headquartered in Portland, USA, offers a comprehensive product portfolio of motion design and innovative software solutions for visual effects.

Divestments

The Nemetschek Group sold its 22.4% stake in DocuWare, a supplier of document management and workflow solutions, to the technology company Ricoh with effect from June 28, 2019. The sales proceeds led to a book profit of EUR 29.9 million for the Nemetschek Group and are shown in the financial result for 2019.

Cooperation and partnerships

In order to expand its market position and meet the diverse customer requirements, the Nemetschek Group also relies on cooperation and collaboration with partners from the industry or with scientific institutions. Partnerships exist both within the Group among the brand companies and between brand and external companies.

Existing partnerships were continued in 2019.

3.3 Results of Operations, Financial Position and Net Assets of the Nemetschek Group

Results of operations

Revenue development

The Nemetschek Group had a very successful year in 2019. Across all quarters, the Group demonstrated its sustained growth strength with double-digit growth rates compared with the same periods of the previous year. As in previous years, revenue growth was characterized by both organic growth and acquisitions.

There were also positive currency effects in all quarters, especially resulting from the US dollar.

For the full year 2019, Group revenue increased by 20.7% to EUR 556.9 million (2018: EUR 461.3 million). Group revenue was thus slightly above the forecast corridor of EUR 540 million to EUR 550 million. Adjusted for currency effects, total revenue increased by 18.0%. The increase in revenue is attributable both to strong organic growth of 15.8% (adjusted for currency effects: 13.1%) and the positive business performance of the acquired Spacewell Group in the Manage segment.

DEVELOPMENT OF REVENUE AND GROWTH OF REVENUE

In EUR million	FY 2019	FY 2018	Δ in %	Δ in % currency-adjusted	Δ in % organic	Δ in % organic + currency-adjusted
Total year	556.9	461.4	20.7%	18.0%	15.8%	13.1%
Q1	129.9	102.2	27.1%	23.2%	21.3%	17.3%
Q2	137.8	113.8	21.1%	18.0%	14.9%	11.9%
Q3	138.3	114.9	20.4%	18.0%	15.7%	13.2%
Q4	150.8	130.4	15.7%	14.0%	12.3%	10.6%

Revenue development according to recurring revenues and software licenses

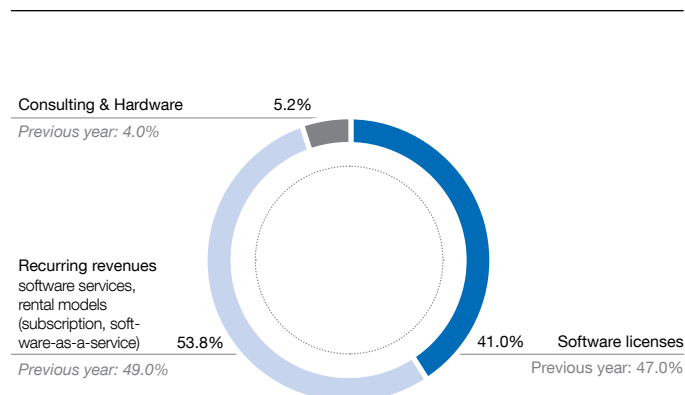
Growth in the year under review was driven by **recurring revenues from service contracts** and **rental models** such as subscription, which increased by 32.6% (adjusted for currency effects: 29.9%) to EUR 299.5 million (previous year: EUR 225.8 million). The above-average increase reflects the strategic change in Nemetschek's business model to offer both licenses and subscriptions. The further switch to rental models will continue to influence license growth in the future.

Subscription revenue increased significantly faster than Group growth, rising 114.8% (adjusted for currency effects: 110.6%) to EUR 50.3 million (previous year: EUR 23.4 million). The high growth is attributable to strong organic growth in rental models and inorganic growth effects. The purely organic growth in subscription revenues was 70.2% (adjusted for currency effects: 65.7%). Revenue from service contracts increased by 32.6% (adjusted for currency effects: 29.9%), from EUR 202.4 million to EUR 249.2 million.

In total, the share of recurring revenues in total revenue increased from 49.0% in the previous year to 53.8%. The revenue share of subscriptions increased from 5.0% to 9.0% year-on-year.

Revenue from **software licenses** rose 5.2% (adjusted for currency effects: 2.5%) to EUR 228.2 million (previous year: EUR 216.8 million). The share of software licenses in total revenue fell accordingly to 41.0% (previous year: 47.0%).

REVENUE BY TYPE IN %



Revenue by region

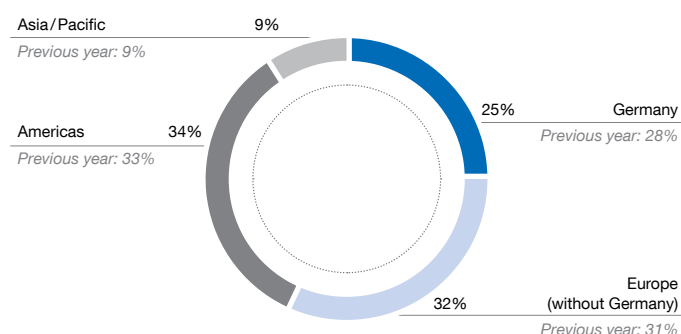
Overall, foreign revenues in 2019 rose much more strongly than revenues in Germany. In the domestic market, where the Nemetschek Group already enjoys a very strong position, revenues increased by around 10% compared with the previous year. In line with the strategy, the foreign share of revenue increased to 74.7% (previous year: 71.8%).

In all focus regions – Europe, North America and Asia – the Nemetschek Group grew in 2019 and expanded its market position. In Europe, the countries in which the use of BIM methodology is already established or well advanced contributed to the strongest growth. These particularly included the Nordic countries with growth of around 36%.

As a result of the strong expansion achieved by Nemetschek overseas in recent years and also in 2019, the USA is now the Group's largest single sales market with a revenue share of around 34% (previous year: 32%). Revenue growth in the USA was around 25% in 2019.

The Asia/Pacific region recorded growth of around 16%, with Japan being the largest market for the Nemetschek Group in this region.

REVENUE DISTRIBUTION BY REGION IN %



Segment developments

At the beginning of the financial year, the Nemetschek Group geared its organization more strongly toward the four operating segments with the new Executive Board and management structure. As a result, centrally incurred costs are no longer reported as part of the operating segment result. The figures for the previous year have been adjusted accordingly.

All four segments were able to continue their growth trajectory in the 2019 financial year.

Revenues in the **Design** segment rose by 10.2% (adjusted for currency effects: 8.6%) to EUR 314.6 million (previous year: EUR 285.4 million). There were no acquisition effects in the Design segment. Segment activities focused on further internationalization and new releases of software solutions. Although the Design segment is already showing high penetration rates in its target markets, it benefited from a growing demand for 3D solutions in architecture and civil engineering and the associated transition from 2D to 3D software solutions required by BIM regulations. The Design segment accounted for 56.5% of Group revenue (previous year: 61.9%).

Segment EBITDA grew more quickly than revenue, rising 23.3% (adjusted for currency effects: 21.3%) to EUR 102.0 million (previous year: EUR 82.7 million). The EBITDA margin increased accordingly from 29.0% in the previous year to 32.4%. This strong increase was positively influenced by the first-time application of the new IFRS 16 for the accounting of leasing contracts.

Adjusted for this effect, the EBITDA margin of 30.0% was also higher than in the previous year. At the same time, further investments were made in product innovations, further internationalization and cross-brand development projects.

The **Build** segment remained the segment with the strongest organic revenue growth in 2019. There were no acquisition effects in the Build segment. Sales revenue rose by 25.6% (adjusted for currency effects: 20.7%) to EUR 177.7 million (previous year: EUR 141.5 million). The segment thus now accounts for 31.9% (previous year: 30.7%) of Group revenue. In the Build segment, the Nemetschek Group benefited from the still low level of digitalization in the construction sector. The segment's growth was again strongly driven by the further expansion of the US brand Bluebeam, which is now the Nemetschek Group's top-selling brand.

Thanks to the strong operating performance, EBITDA in the Build segment grew significantly faster than revenue. With a plus of 47.3% (adjusted for currency effects: 40.3%), EBITDA rose to EUR 61.6 million (previous year: EUR 41.8 million), corresponding to an EBITDA margin of 34.7% (previous year: 29.6%). Even adjusted for the IFRS 16 effect, the margin of 31.8% was clearly above the previous year. At the same time, the Build segment also invested in further internationalization and the further development of the solutions portfolio.

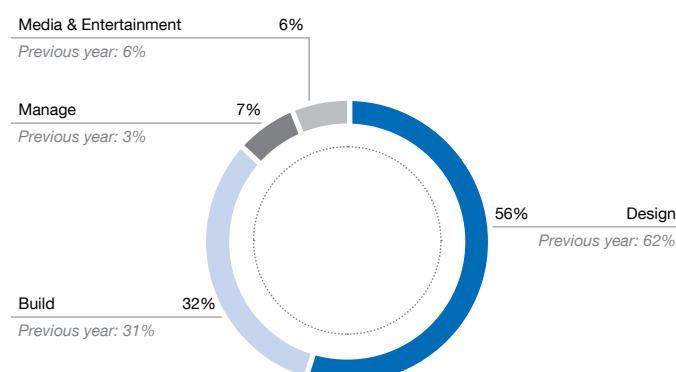
The **Manage** segment, comprising activities relating to facility management, was significantly strengthened from September 2018 by the Spacewell acquisition, which was recognized for a full 12 months for the first time in the year under review. As a result of organic growth and the strong inorganic contribution of Spacewell, segment revenue totaled EUR 38.5 million (previous year: EUR 13.8 million). Growth amounted to 178.8% (adjusted for currency effects: 178.5%). Organic growth, excluding Spacewell, came to 14.0% (adjusted for currency effects: 14.0%). The Manage segment's share of Group revenue rose to 6.9% (previous year: 3.0%).

Segment EBITDA rose slightly less than revenue from EUR 2.9 million in the previous year to EUR 7.9 million. Accordingly, the EBITDA margin was down on the previous year's figure of 21.1% at just 20.5% (adjusted for IFRS 16 effects: 16.9%). This decline reflects acquisition-related costs and Spacewell's EBITDA margin, which is still below the Group average. Spacewell, as the new umbrella brand for this segment, is investing more heavily in new solutions and further internationalization.

In the **Media & Entertainment** segment, Nemetschek achieved strong growth with a simultaneous conversion to subscription models. The conversion was carried out at the end of the third quarter and was positively received by customers. Revenue increased by 23.2% (adjusted for currency effects: 20.1%) to EUR 33.9 million (previous year: EUR 27.5 million). The Media & Entertainment segment accounted for 6.1% of total revenue (previous year: 6.0%).

Segment EBITDA reached EUR 9.4 million (previous year: EUR 11.9 million), with the result that the EBITDA margin fell from 43.1% in the previous year to 27.8%. Adjusted for effects from IFRS 16, the margin was 26.6%. The EBITDA margin reflects costs for the acquisition of the US company Redshift Rendering Technologies and the costs of switching to subscription models.

REVENUE BY SEGMENT IN %



ANNUAL REVIEW: REVENUE AND EARNINGS DEVELOPMENT

In EUR million	FY 2019	FY 2018	Δ in %	Δ in % currency-adjusted	Δ in % organic	Δ in % organic + currency-adjusted
Group						
Revenue	556.9	461.3	20.7%	18.0%	15.8%	13.1%
EBITDA	165.7	121.3	36.6%	32.8%	33.0%	29.1%
EBITDA margin	29.7%	26.3%	–	–	–	–
EBITDA before IFRS 16	150.5	121.3	24.1%	20.3%	21.4%	17.5%
EBITDA margin before IFRS 16	27.0%	26.3%	–	–	–	–
Design						
Revenue	314.6	285.4	10.2%	8.6%	–	–
EBITDA	102.0	82.7	23.3%	21.3%	–	–
EBITDA margin	32.4%	29.0%	–	–	–	–
EBITDA before IFRS 16	94.5	82.7	14.2%	12.2%	–	–
EBITDA margin before IFRS 16	30.0%	29.0%	–	–	–	–
Build						
Revenue	177.7	141.5	25.6%	20.7%	–	–
EBITDA	61.6	41.8	47.3%	40.3%	–	–
EBITDA margin	34.7%	29.6%	–	–	–	–
EBITDA before IFRS 16	56.2	41.8	34.4%	27.4%	–	–
EBITDA margin before IFRS 16	31.6%	29.6%	–	–	–	–
Manage						
Revenue	38.5	13.8	178.8%	178.5%	14.0%	14.0%
EBITDA	7.9	2.9	171.8%	173.6%	29.3%	29.3%
EBITDA margin	20.5%	21.1%	–	–	–	–
EBITDA before IFRS 16	6.5	2.9	123.8%	125.6%	–	–
EBITDA margin before IFRS 16	16.9%	21.1%	–	–	–	–
Media & Entertainment						
Revenue	33.9	27.5	23.2%	20.1%	–	–
EBITDA	9.4	11.9	–20.5%	–22.1%	–	–
EBITDA margin	27.8%	43.1%	–	–	–	–
EBITDA before IFRS 16	9.0	11.9	–23.9%	–25.5%	–	–
EBITDA margin before IFRS 16	26.6%	43.1%	–	–	–	–

Earnings performance

Operating **EBITDA** rose faster than revenue by 36.6% (adjusted for currency effects: 32.8%) to EUR 165.7 million (previous year: EUR 121.3 million). The EBITDA margin thus increased to 29.7% (previous year: 26.3%) and was above the forecast corridor of 27% to 29%. In purely organic terms, EBITDA would have grown by 33.0% (adjusted for currency effects: 29.1%).

As of January 1, 2019 the new **IFRS 16** accounting standard had to be applied for the first time, according to which leases of all types (operating leasing and finance leasing) must always be recognized in the balance sheet. As a result of this reform, the Nemetschek Group recorded a positive effect of around EUR 15.2 million at EBITDA level. Adjusted for this effect, the EBITDA margin of 27.0% was also higher than in the previous year.

A sharp increase in profits and returns was achieved despite the fact that the Group continued to invest in strategic growth projects such as further internationalization, the development of the solutions portfolio and cross-brand strategic initiatives in 2019. These investments should also enable the Nemetschek Group to achieve double-digit percentage growth in the future.

Operating expenses before depreciation and amortization increased overall by 15.0% to EUR 397.4 million (previous year: EUR 345.5 million), primarily due to higher cost of materials, which rose by 41.8% to EUR 20.2 million (previous year: EUR 14.3 million). This item reflects revenues from third-party solutions, which in 2019 were significantly higher than in the previous year, also as a result of acquisitions.

Compared with revenue, personnel expenses rose at a slightly lower rate by 19.4% to EUR 239.4 million (previous year: EUR 200.6 million), mainly due to the 16.9% higher average number of employees over the year. Other operating expenses increased by 5.4% to EUR 137.8 million (previous year: EUR 130.7 million), well below the rate of revenue growth. This item reflects investments in external personnel and IT systems as well as legal and consulting costs, which were primarily related to M&A activities.

Depreciation of fixed assets increased due to higher PPA depreciation and higher investments in fixed assets. In addition, depreciation of EUR 14.7 million on leasing contracts was recognized for the first time due to the new IFRS 16 accounting standard. Overall, depreciation and amortization thus rose from EUR 23.5 million in the previous year to EUR 42.1 million in 2019. PPA

depreciation rose to EUR 17.1 million (previous year: EUR 14.7 million) due to new acquisitions in 2019 and the second half of 2018.

The financial result was mainly characterized by a non-recurring income of EUR 29.9 million from the disposal of the non-strategic investment in DocuWare. Interest expenses in the financial result increased from EUR 1.1 million in the previous year to EUR 3.2 million. In addition to increased interest for bank liabilities, this item also includes interest of EUR 1.5 million, which is reported in the financial result due to the new IFRS 16 leasing standard. Overall, the financial result amounted to EUR 30.1 million (previous year: EUR 2.0 million). Adjusted for the non-recurring effect of the sale of DocuWare, it was EUR 0.1 million. Adjusted for DocuWare and IFRS 16, the performance shows an increase in expenses, which is primarily due to higher average acquisition loans compared with the previous year.

EBITA increased by 25.0% to EUR 140.7 million (previous year: EUR 112.5 million), resulting in an EBITDA margin of 25.3% (previous year: 24.4%). Earnings before interest and taxes (EBIT) improved to EUR 123.6 million, up 26.4% on the previous year (EUR 97.8 million).

Income taxes rose from EUR 23.2 million to EUR 26.4 million. At 17.2%, the Group tax rate was below the level of the previous year (23.3%). The almost tax-free sale of DocuWare had a significant effect. In addition, loss carryforwards and deferred tax assets not recognized in previous years (EUR 1.8 million) were capitalized for the first time and an adjustment was made to deferred taxes on investment book values (EUR 0.9 million). Adjusted for the above-mentioned effects, the tax rate was 23.1% and thus almost at the previous year's level.

Net income (Group earnings after taxes) increased by 66.2% from EUR 76.6 million to EUR 127.3 million. The sharp rise is due to the growing operating business and the positive non-recurring effect from the sale of DocuWare. Net income (shareholders of the parent company) increased from EUR 76.5 million to EUR 127.2 million.

Earnings per share were EUR 1.10 (previous year: EUR 0.66), an increase of 66.3%. Adjusted for the non-recurring income from the DocuWare sale, net income (shareholders of the parent company) was EUR 97.7 million, resulting in a 27.7% increase for 2019. The EPS in 2019 adjusted for the DocuWare sale was EUR 0.85.

OVERVIEW OF GROUP KEY FIGURES

In EUR million	FY 2019	FY 2018	Change in %
Revenue	556.9	461.3	20.7%
EBITDA	165.7	121.3	36.6%
EBITDA margin	29.7%	26.3%	-
EBITDA before IFRS 16	150.5	121.3	24.1%
EBITDA margin before IFRS	27.0%	26.3%	-
EBITA	140.7	112.5	25.0%
EBITA margin	25.3%	24.4%	-
EBIT	123.6	97.8	26.4%
EBIT margin	22.2%	21.1%	-
Net income for the year (equity holders of the parent company)	127.2	76.5	66.3%
Earnings per share in EUR	1.10	0.66	66.3%
Net income (shareholders of the parent company) adjusted for DocuWare effect	97.7	76.5	27.7%
Earnings per share adjusted for DocuWare effect*	0.85	0.66	27.7%
Net income before PPA depreciation	140.3	88.1	59.2%
Earnings per share before PPA depreciation in EUR*	1.21	0.76	59.2%
Net income before PPA depreciation and adjusted for DocuWare effect	110.8	88.1	25.8%
Earnings per share before PPA depreciation and adjusted for DocuWare effect in EUR*	0.96	0.76	25.8%

* ENG: For better comparability, the earnings per share in the previous year are shown after the share split.

Financial position

Main features and objectives of financial management

The primary objective of financial management is to ensure the financial stability and flexibility as well as the liquidity of the Nemet-schek Group. This is achieved through a balanced ratio of equity to debt capital. There were no changes in financing policy or financial management in the 2019 financial year. As of December 31, 2019, liabilities to banks at the Group increased by EUR 57.5 million to EUR 188.1 million, largely as a result of new loans of around EUR 130 million for acquisitions. Scheduled repayments of long-term loans (EUR 42.0 million following EUR 38.0 million in the previous year) and short-term acquisition loans (EUR 30.0 million after EUR 0 million in the previous year) had an opposite effect. The Group's balance sheet structure showed an equity ratio of 40.7% as of December 31, 2019 (previous year: 43.0%). Adjusted for the effects of IFRS 16, the equity ratio was 44.4%.

Liquidity analysis

As of December 31, 2019 the Group had cash and cash equivalents of EUR 209.1 million, an increase of 73.2% over the previous year (EUR 120.7 million). Despite repayments of EUR 72.0 million from long- and short-term acquisition loans during the financial year and the dividend payment of EUR 31.2 million in 2019, the Group still has substantial liquidity reserves for further organic and inorganic growth. Part of the cash and cash equivalents was used to acquire the shares in RedGiant LLC at the beginning of the 2020 financial year. The Executive Board is pursuing a sustainable dividend policy that provides for a distribution of around 25 % of the operating cash flow. The dividend policy always takes into account the overall economic development and the economic and financial situation of the company.

When investing the surplus liquidity, short-term, risk-free availability is generally more important than the objective of maximizing earnings, in order to be able to fall back quickly on available funds in the event of possible acquisitions and to keep the risk profile of the Group low.

As of the balance sheet date of December 31, 2019 there were euro-denominated loan liabilities of EUR 185.8 million due to financing company acquisitions. This includes EUR 30 million to finance the acquisition of RedGiant LLC in January 2020. The interest rates for loans is between 0.42% p.a. and 1.03% p.a. The Group's net liquidity on the reporting date of December 31 rose to EUR 21.0 million (previous year: net debt of EUR 9.9 million).

To ensure efficient cash and liquidity management, Nemetschek SE as parent company carries out cash pooling with selected subsidiaries. The ultimate Group holding company also receives further cash and cash equivalents from the annual dividends paid by the subsidiaries.

Development of cash flow

The Group's cash flow for the period increased by 35.8% to EUR 164.7 million (previous year: EUR 121.3 million), mainly due to the higher earnings before taxes and write-downs on rights of use in the amount of EUR 14.7 million from the first-time application of IFRS 16.

Operating cash flow significantly rose by 60.8% to EUR 160.4 million in 2019 (previous year: EUR 99.7 million). In addition to the increase in cash flow for the period, the high growth in software service and subscription contracts with the corresponding recurring revenues had an effect, as in previous years. In 2019, this effect was EUR 46.7 million (previous year: EUR 14.9 million). The increase in trade receivables by EUR 6.3 million had the opposite effect. The year 2018 was marked by non-recurring effects, resulting in a right to payment of EUR 4.1 million from an investment subsidy and a deposit of EUR 5.2 million for a rented office in the USA. The investment subsidy was paid to the Group in 2019. At 10.8%, the increase in income taxes paid was disproportionately low compared with business development. In contrast, provisions for current income taxes rose significantly above business development.

Cash flow from investing activities amounted to EUR –83.8 million (previous year: EUR –74.4 million). The main influencing factors for this in the year under review were payments for the acquisition of the Axserion Group of EUR 73.5 million and EUR 24.2 million for the purchase of Redshift – in each case less acquired cash and cash equivalents. Proceeds of EUR 33.3 million were recognized from the sale of the investment in DocuWare GmbH. This was used to repay two short-term acquisition loans. This item also includes expansion and replacement investments in fixed assets of EUR 19.3 million (previous year: EUR 11.3 million), which is particularly marked by an extraordinary infrastructure expansion in the Build segment amounting to EUR 8.5 million due to a US brand in the Build segment moving to a new company building.

Cash flow from financing activities was EUR 10.7 million (previous year: EUR –10.4 million). Cash inflows from taking out acquisition loans of EUR 130.0 million (previous year: EUR 86.0 million) were offset by the repayment of loans (EUR 72.5 million) and the dividend payment for the 2018 financial year (EUR 31.2 million). In addition, interest and redemption payments for lease liabilities in accordance with IFRS 16 were reported for the first time in the amount of EUR 12.8 million, of which EUR 11.3 million was for redemption payments.

Cash and cash equivalents amounted to EUR 209.1 million at the end of the year (beginning of the year: EUR 120.7 million).

CASH FLOW ANALYSIS IN EUR MILLION

EBITDA



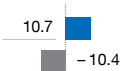
Cash flow from operating activities



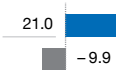
Cash flow from investing activities



Cash flow from financing activities



Net liquidity



■ Fiscal year 2019 ■ Fiscal year 2018

Management of liquidity risks

Liquidity risks arise when customers are not able to settle their obligations to the Nemetschek Group under normal trading conditions. To manage this risk, the Company periodically assesses the solvency of its customers.

The high creditworthiness of the Nemetschek Group allows sufficient liquid funds to be procured. As of December 31, 2019, there were also unutilized credit lines of EUR 24.5 million. Nemetschek continually monitors the risk of a liquidity bottleneck using monthly liquidity planning. Maturities of financial assets (receivables, fixed-term deposits, etc.) and expected cash flows from operating activities are taken into account. The objective is to continuously cover the ongoing need for financial resources while maintaining flexibility in financing.

Investment analysis

In order to secure a leading position in the AEC market and continue tapping new areas of application, investments in capacity expansions as well as replacement and rationalization measures are necessary. In this respect, acquisitions are a key driver. Acquisitions are largely financed by bank loans, with own funds also being used. Further investments will be financed from operating cash flow.

The dividend payout also comes from operating cash flow.

In total, the Nemetschek Group invested EUR 140.6 million (previous year: EUR 88.8 million) in property, plant and equipment (EUR 17.5 million, previous year: EUR 10.1 million) and intangible assets (EUR 123.1 million, previous year: EUR 78.7 million). The main investments here were the acquisitions of the Axserion Group (purchase price: EUR 76.8 million) in the Manage segment and Redshift (purchase price: EUR 33.1 million) in the Media & Entertainment segment. The previous year was dominated by the acquisitions of the Spacewell Group (Manage segment, purchase price: EUR 46.1 million) and 123erfasst.de (Build segment, purchase price: EUR 17.1 million). In addition, investments were mainly made in expansion and maintenance.

In mid-December 2019, the Nemetschek Group concluded an agreement to acquire RedGiant LLC. As well as a provisional cash purchase price of EUR 71.2 million, the sellers received shares in Maxon Computer GmbH. The cash purchase price was financed in the amount of EUR 30 million by a bank loan as of December 31, 2019, with the remainder coming from freely available funds within the Group. The transaction was completed on January 7, 2020.

Net assets

The consolidated balance sheet total as of December 31, 2019 increased by 47.7% to EUR 857.2 million (previous year: EUR 580.6 million).

On the assets side of the consolidated balance sheet, current assets increased by 46.1%, from EUR 202.2 million to EUR 295.5 million. This can be primarily attributed to the EUR 88.4 million increase in cash and cash equivalents and the EUR 6.3 million rise in trade receivables.

Tax assets of EUR 3.9 million at the reporting date of December 31, 2019, changed only a little compared with the previous year's figure of EUR 4.2 million. In the previous year, other current financial assets included an investment subsidy for leasehold improvements amounting to EUR 4.1 million, which was paid in 2019.

Non-current assets rose by EUR 183.4 million to EUR 561.7 million. Goodwill increased from EUR 244.3 million to EUR 325.0 million (+33.0%). In the year under review, this was mainly due to the acquisitions of the Axserion Group in the amount of EUR 54.9 million and Redshift in the amount of EUR 24.3 million. Intangible assets also increased by EUR 25.6 million to EUR 127.7 million (December 2018: EUR 102.1 million), mainly due to acquisitions. The increase of EUR 10.0 million in property, plant and equipment resulted from the Build segment's investments in building infrastructure in addition to the expansion and replacement investments. Shares in associates decreased significantly by EUR 3.4 million due to the sale of the share in DocuWare GmbH.

On the liabilities side, current liabilities increased by 22.2% to EUR 271.6 million (December 31, 2018: EUR 222.3 million). This item includes trade payables as well as provisions and accruals due within one year. The item "current loans" includes EUR 56.3

million of the repayment amount of the non-current acquisition loans due in the next 12 months.

Trade payables remained almost constant year-on-year at EUR 12.4 million (previous year: EUR 12.9 million). The increase in other provisions to EUR 44.0 million (previous year: EUR 40.6 million) and deferred revenues to EUR 118.5 million (previous year: EUR 95.1 million) is also due to the significant expansion in business volume. Income tax liabilities rose significantly by EUR 5.5 million to EUR 11.0 million (+101.6%), particularly in current liabilities.

Non-current liabilities rose from EUR 108.7 million to EUR 236.9 million (+118.1%), primarily due to new bank loans taken out for acquisitions (EUR 55.2 million) and the first-time application of IFRS 16 (EUR 57.7 million). Deferred tax liabilities increased to EUR 23.3 million (December 31, 2018: EUR 17.2 million), also largely as a result of acquisitions. Other non-current financial obligations rose by EUR 3.0 million to EUR 7.1 million. This item mainly comprises the subsequent purchase price obligations from the acquisition of Redshift (EUR 6.4 million) and revaluation effects of the variable purchase price liability from the acquisition of 123erfasst.de.

The equity ratio decreased to 40.7% at the end of the year under review (previous year: 43.0%). This decline came as a result of the first-time application of IFRS 16. Adjusted for the effect of IFRS 16, the equity ratio would be 44.4%.

As a result of the share split with capital increase from own funds in the year under review, the share capital increased by EUR 77.0 million to EUR 115.5 million. By contrast, retained earnings decreased.

The current liability ratio was 31.6% of the balance sheet total (previous year: 38.3%) and the non-current liability ratio was 27.6% (previous year: 18.7%).

In the 2019 financial year, exchange rate changes resulting from the foreign exchange translation differences of financial statements prepared in foreign currencies in the consolidated financial statements had a positive impact of EUR 3.2 million on the translation effects recognized in equity.

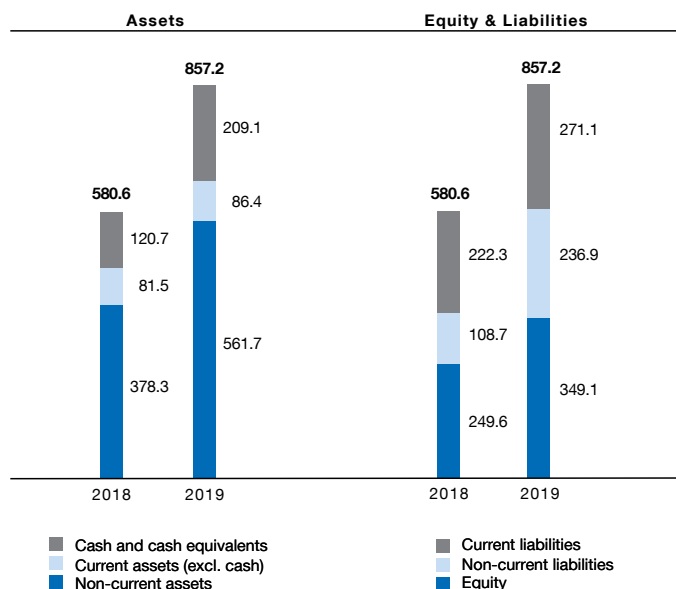
As in previous years, the Nemetschek Group identified capital costs for each cash-generating unit as part of the impairment test for goodwill (WACC = Weighted Average Cost of Capital). The risk-free interest rate was calculated using the Svensson method and amounted to 0.2% as of December 31, 2019 (previous year: 1.00%).

A market risk premium of 7.5% (previous year: 6.5%) was applied. Additionally, country risk premiums were taken into account where necessary. This results in capital cost rates before taxes ranging from 12.92% to 13.50% (previous year: 11.48% to 13.83%). Based on the market capitalization as of December 31, 2019 and the planning expectations, the internal rate of return before taxes is around 4%.

KEY BALANCE SHEET FIGURES

In EUR million	FY 2019	FY 2018	Change in %
Cash and cash equivalents	209.1	120.7	+73.2%
Goodwill	325.0	244.3	+33.0%
Equity	349.1	249.6	+39.9%
Balance sheet total	857.2	580.6	+47.7%
Equity ratio in %	40.7%	43.0%	

Balance sheet figures for the individual segments can be found in the notes.

BALANCE SHEET OVERVIEW IN EUR MILLION**Nemetschek Group employees**

In order to act quickly and agilely in the respective markets and regions, the individual brands manage HR topics themselves. The Human Resources department of Nemetschek SE supports and advises the individual HR departments in this respect.

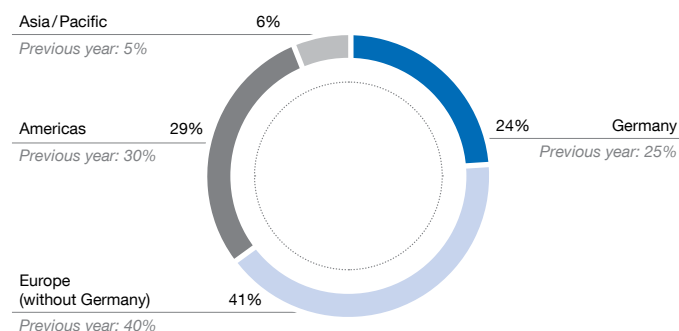
More information on employee responsibility and Human Resources can be found in the non-financial statement under item 2.

As of December 31, 2019 the Nemetschek Group had 2,875 employees worldwide (previous year: 2,587), representing an increase of 288 people, or 11.1%. This does not include employees on parental leave, freelancers and those on long-term sick leave. The figure at the end of 2019 includes 90 employees who were added at the beginning of the year resulting from the acquisition of Axserion. Adjusted for this effect, the number of employees increased by 198 persons or 7.7% compared with the same period last year.

At 75% (previous year: 75%), the majority of the Nemetschek Group's employees were employed outside Germany at the end of 2019, as in the previous year.

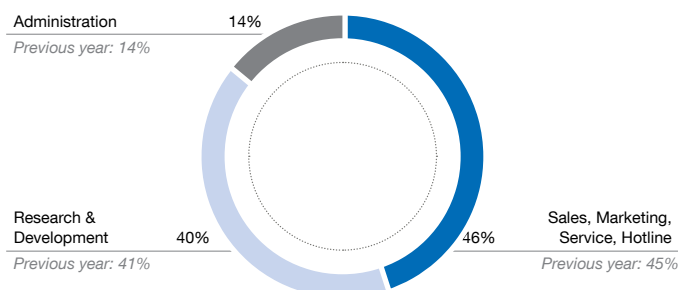
On average, the Nemetschek Group employed 2,767 people worldwide in 2019, an increase of 16.7% compared with the previous year (2,367). The average number of employees in research and development was 1,103 (previous year: 962), or 39.9% of the total workforce (previous year: 40.6%).

The average number of employees in sales, marketing and hotline came to 1,280 (previous year: 1,084). In addition, 383 employees (previous year: 321) worked in administration (including 15 trainees after 14 in the previous year). Trainees are primarily employed in the commercial departments as well as in the IT and development departments.

DISTRIBUTION OF EMPLOYEES BY REGION

In 2019, personnel expenses rose by 19.4% to EUR 239.4 million (previous year: EUR 200.6 million), resulting in a personnel expense ratio (personnel expense/revenue) of 43.0% (previous year: 43.5%).

PERSONNEL STRUCTURE



Further information on employees can be found in the non-financial statement (item 2).

3.4 Results of Operations, Financial Position and Net Assets of Nemetschek SE

The following information refers to Nemetschek SE as the parent company of the Nemetschek Group. The information is based on the German Commercial Code (HGB) on accounting for large corporations and the German Stock Corporation Act. The result of Nemetschek SE is dependent on the earnings of subsidiaries held directly and indirectly. The separate non-financial consolidated report is combined with the non-financial report of the parent company under item 2.

Revenue development and earnings situation

Nemetschek SE's revenues in the reporting year of EUR 6.3 million (previous year: EUR 5.3 million) resulted primarily from income from licensing the umbrella brand "A Nemetschek Company."

At EUR 2.7 million, other operating income remained almost at the previous year's level of EUR 3.0 million. This includes write-downs on financial assets of EUR 1.7 million (previous year: EUR 1.6 million). Operating expenses of EUR 15.8 million (previous year: EUR 13.1 million) include personnel expenses, consulting costs and other operating expenses that cannot be charged to subsidiaries.

Income from interests of EUR 128.6 million (previous year: EUR 48.2 million) includes EUR 97.2 million in dividends from subsidiaries and income from the sale of the minority share in DocuWare GmbH of EUR 31.3 million. Income from profit transfer agreements in the amount of EUR 40.0 million (previous year: EUR 24.9 million) came as result of profit transfers from Allplan GmbH and Frilo Software GmbH and, for the first time, from transfers from Nevaris Bausoftware GmbH and Maxon Computer GmbH. Nemetschek SE's annual net profit increased to EUR 150.6 million (previous year: EUR 61.4 million).

Net assets

Nemetschek SE's balance sheet is mainly characterized by financial assets amounting to EUR 586.2 million (previous year: EUR 427.2 million). Affiliates accounted for by far the largest share at EUR 568.1 million (previous year: EUR 423.3 million). EUR 82.4 million resulted from capital increases by Maxon Computer GmbH for its acquisitions of Redshift Rendering Technologies Inc. (Newport Beach, USA) and RedGiant LLC (Portland, USA). There was also a capital increase of EUR 62.3 million in FASEAS International NV, the parent company of the Spacewell Group, to finance the acquisition of the Axxerion Group (Heteren, the Netherlands). Due to a sustained increase in earnings expectations, there was a reversal on write-downs of EUR 1.7 million made in previous years on the shares in Nevaris Bausoftware GmbH. In addition, the equity in Nemetschek, Inc. was reduced by EUR 1.6 million. Loans to affiliates increased to EUR 18.8 million (previous year: EUR 1.8 million). In the financial year, EUR 1.3 million was repaid and a new long-term loan of EUR 18.3 million was granted to a Group company.

With regard to current assets, trade receivables from affiliates and profit and loss transfer agreements amounted to EUR 40.4 million as of the balance sheet date (previous year: EUR 23.3 million).

Cash and cash equivalents amounted to EUR 17.0 million at the end of 2019 (previous year's reporting date: EUR 8.1 million).

As of the balance sheet date, the liabilities side of the stand alone balance sheet was dominated by liabilities to banks. As a result of scheduled repayments and new borrowings due to acquisitions, these rose to EUR 185.8 million (previous year's reporting date: EUR 127.8 million). Equity increased by EUR 119.4 million to EUR 389.2 million. Net income for 2019 of EUR 150.6 million was offset by the dividend payment for the 2018 financial year (EUR 31.2 million). Based on a resolution passed by the Annual General Meeting on May 28, 2019, EUR 77,000 were used for a capital increase from company funds. The equity ratio of Nemetschek SE was 60.2% as of the balance sheet date (previous year: 58.4%).

Provisions rose by EUR 3.4 million to EUR 10.3 million, primarily due to higher tax provisions.

Liabilities to affiliates resulted mainly from cash pooling. The increase of EUR 2.3 million to EUR 56.6 million was largely due to higher liabilities from cash pooling within Group companies.

In the 2019 financial year, profit and loss transfer and control agreements existed with the following subsidiaries: Allplan GmbH, Frilo Software GmbH, Nevaris Bausoftware GmbH and Maxon Computer GmbH. The contracts with Nevaris Bausoftware GmbH and Maxon Computer GmbH (terminated on December 31, 2019) were concluded in 2019 with a retrospective effect from January 1, 2019. There were also profit transfer and control agreements between Allplan GmbH and Allplan Deutschland GmbH and Allplan GmbH and Allplan Development Germany GmbH.

Financial position

Nemetschek SE's investment activities in the 2019 financial year were mainly characterized by the capital increases at Maxon Computer GmbH and the Spacewell Group. EUR 144.7 million including incidental costs were capitalized for the new acquisitions. This was offset by a capital reduction of EUR 1.6 million at Nemetschek Inc.

Nemetschek SE's financing activities mainly comprised redemption payments of EUR 72.0 million and the dividend payment of EUR 31.2 million (previous year: EUR 28.9 million). This was offset by cash inflows due to the raising of several bank loans totaling EUR 130.0 million. Interest payments of EUR 1.1 million were made on loans taken out in the financial year.

Within the scope of its financing activities, the company received funds primarily from cash pooling transactions and dividends from selected subsidiaries.

Nemetschek SE employees

On average, Nemetschek SE had 47 employees in 2019 (previous year: 43).

Outlook for Nemetschek SE

The future development of Nemetschek SE with its significant opportunities and risks is strongly influenced by the forecasts of the Nemetschek Group set out in the Opportunity and Risk Report. Based on the Group's planning, Nemetschek SE also expects an increase in net investment income in the 2020 financial year. Accordingly, Nemetschek SE is assuming that earnings will continue to develop positively and that the annual result for

the 2020 financial year will exceed that of the past financial year. The company plans to continue to distribute around 25% of the Group's operating cash flow to its shareholders in the future. The dividend policy always takes into account the overall economic development and the economic and financial situation of the company.

4 Comparison of Actual and Forecast Business Performance of the Nemetschek Group

The Executive Board forecast **revenue** in the range of EUR 540 million to EUR 550 million for the 2019 financial year, representing year-on-year growth of between 17% and 19%. This growth included inorganic effects. Organic growth was expected to be around 13%. Regarding the EBITDA margin, the Executive Board again expected to reach the level of 25% to 27% of Group revenue, excluding effects from the changeover to the new IFRS 16 leasing standard. Including the effects of IFRS 16, the Executive Board expected an EBITDA margin of between 27% and 29%.

On a segment basis, the Executive Board expected growth in the Design and Media segments to be below the average organic Group growth. On the other hand, the Build segment was expected to achieve double-digit percentage revenue growth above the Group average, while double-digit percentage revenue growth in a similar range as the planned organic Group growth was expected for the Manage segment. In the Manage segment, there were additional growth effects from acquisitions.

In the 2019 financial year, **Group revenue** rose by 20.7% to EUR 556.9 million and was therefore slightly above the forecast corridor of EUR 540 million to EUR 550 million. Adjusted for currency effects, total revenue increased by 18.0%. Organic growth of 15.8% (13.1% adjusted for currency effects) also exceeded the forecast of 13%. The targets set were also achieved on a segment basis.

Operating **EBITDA** rose faster than revenue in 2019, increasing by 36.6% to EUR 165.7 million. As a result, the EBITDA margin (including positive effects from the first-time application of the new IFRS 16 standard for lease accounting) also increased from 26.3% in the previous year to 29.7%, and was thus above the forecast range of 27% to 29%.

OVERVIEW OF THE FORECAST TO ACTUAL FIGURES IN THE FISCAL YEAR 2019

	Actual financial year 2018	Forecast 03/2019	Actual financial year 2019	Growth (organic)	Growth (organic) adjusted for foreign currency
Revenue in EUR million	461.3	540 – 550	556.9	20.7% (15.8%)	18.0% (13.1%)
EBITDA margin in %	26.3%	27% – 29%	29.7%	–	–
EBITDA margin in % before IFRS 16	26.3%	25% – 27%	27.0%	–	–