

Combined Management Report for the 2019 Financial Year

About This Report

The management report of Nemetschek SE and the Group management report for the 2019 financial year have been consolidated. The combined management report also contains the remuneration report and the corporate governance declaration. The consolidated financial statements prepared by Nemetschek as of December 31, 2019 are in compliance with the International Financial Reporting Standards (IFRS), applicable as of the reporting date, as well as with the requirements of the German Commercial Code in connection with German Accounting Standards.

1 Group Principles

1.1 Group Business Model

Organization

The Nemetschek Group, founded in 1963 by Prof. Georg Nemetschek and comprising Nemetschek SE and its operating subsidiaries, offers software solutions to enable continuous workflow across the entire construction lifecycle.

Nemetschek SE, headquartered in Munich, is a strategic holding company with 16 brands operating in four segments. The term “brands” is understood to mean subsidiaries of Nemetschek SE, which in most cases are wholly owned. Nemetschek SE is responsible for the central functions of corporate finance & controlling, investor relations & corporate communication, corporate development and operations, mergers and acquisitions, Human Resources, IT & business solutions, corporate audit and corporate legal & compliance.

The reporting structure comprises the four following segments: Design, Build, Manage and Media & Entertainment. To strengthen the segment focus, a new Executive Board and governance structure was established at the beginning of 2019. This is the first time that there has been an assigned Executive Board member or Segment Manager for each of the four segments who works closely with the brands within the segment. This approach reflects the strategic target of better combining the brand companies’ expertise within the customer-oriented segments, leveraging synergies and developing segment strategies for the respective customer groups or overarching approaches.

The brands are active on the market as independent companies within their segment, while also moving within a strategic corridor agreed to by the holding company and the Segment Manager. The holding company and the Segment Managers facilitate exchange between the brands and initiate strategic projects involving several brands, some of which are cross-segmental, thereby creating synergies in the portfolio. Regular reporting and ongoing dialog ensures a high level of management efficiency.

Please refer to the Annex on page 98 for a detailed overview of the Group’s legal structure.

Business activities

The four segments of the Nemetschek Group offer a diverse portfolio comprising graphical, analytical and commercial solutions that enable a continuous workflow in the lifecycle of construction and infrastructure projects. Customers include architectural and design offices of all sizes, structural planners, engineers of all disciplines, planning and service providers, construction companies and their suppliers, process controllers, as well as property, building and facility managers.

Within the planning, construction and administrative process of buildings, the central working method is Building Information Modeling (BIM), a term synonymous with the digitalization of the construction industry. BIM is used to digitally record and connect all design, quality, timing and business requirements and data. This information is used to create a virtual, three-dimensional, semantic building model. Time and cost are added to the simulation as fourth and fifth dimensions. BIM enables efficient and transparent collaboration and an improved workflow for all those involved throughout the entire process of planning, building and managing a property or infrastructure project. BIM is first used virtually in order to identify and correct planning errors even before the actual construction process. The extensive data collected via BIM forms a very good basis for Digital Twins. A digital twin is an image of a building that is created during the planning phase and continuously enriched with updated information over the entire building lifecycle, e.g. on the building construction, the building physics and energetic behavior and the building use. This allows forecasts to be made for changes to the building itself or its use.

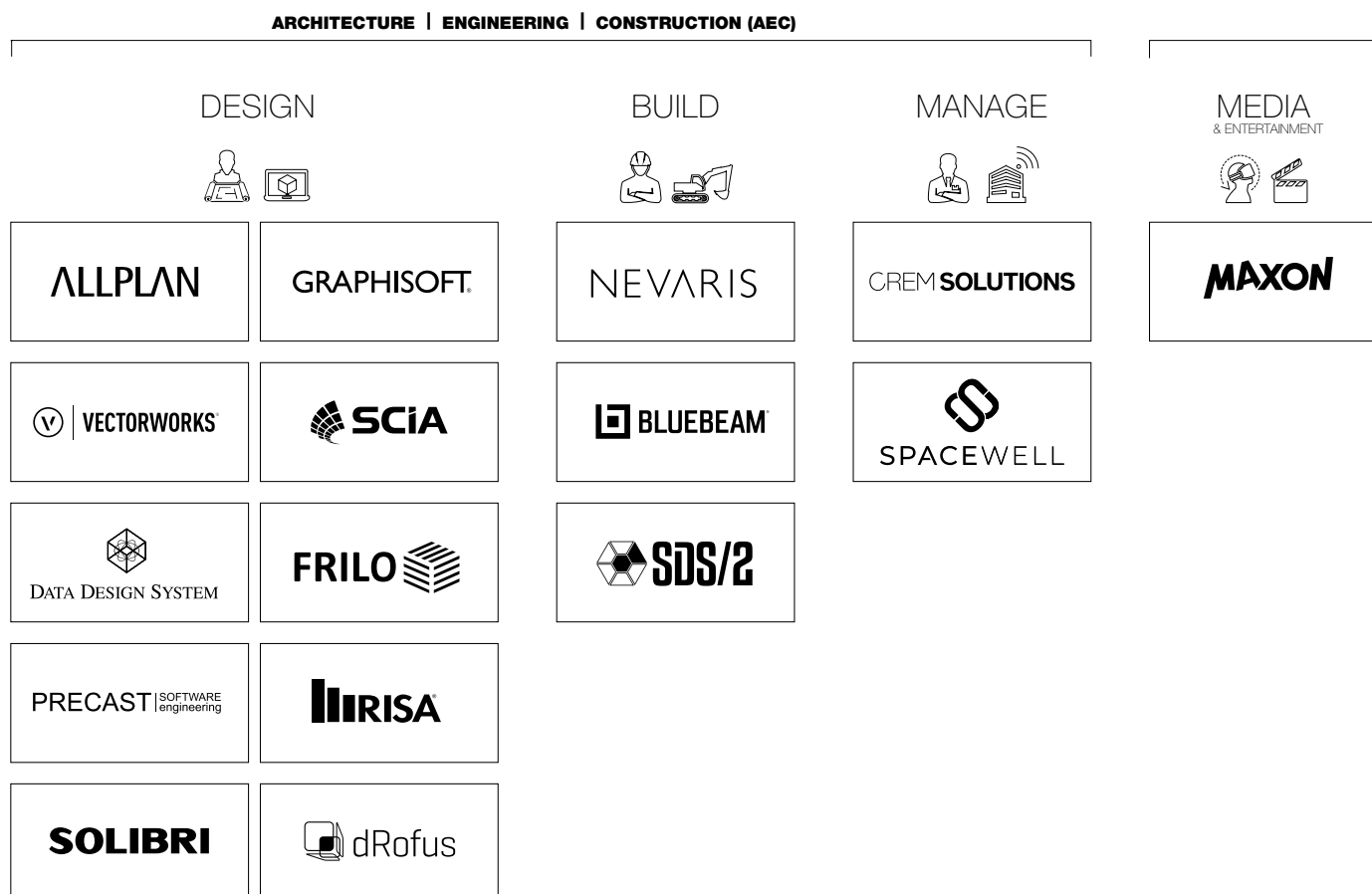
The Nemetschek Group has been following this integrated BIM approach for more than 30 years. The company’s open standard (Open BIM) enables software solutions from the Nemetschek Group to communicate with other software solutions – including those from competitors – via open data and communication interfaces. This allows the seamless transfer and documentation of all information, data and digital models relevant to the construction process throughout all phases of a building’s design and management.

At the same time, Open BIM means that the Nemetschek Group is able to contribute to further establishing this digital method of working as an industry standard. With its Open BIM software solutions, Nemetschek enhances the quality of the construction process and improves the workflow and cooperation of all those involved, making project work more efficient while also ensuring greater cost and schedule reliability. The goal of sustainability is also taken into account through precise planning and efficient use of resources. The Nemetschek Group’s solutions thus lay the

foundation for integrated planning, implementation and management in the AEC industry. These solutions increase quality and efficiency in the construction process, sometimes substantially.

Segments

The Nemetschek Group organizes its activities into four segments: Design, Build, Manage and Media & Entertainment. These segments act as performance indicators for the Nemetschek Group. The 16 brands under the umbrella of the Nemetschek Group are allocated as follows:



Design segment

With the Design segment's solutions, customers are able to carry out their tasks across all phases, from planning and design right up to factory and construction planning. The portfolio particularly features Open BIM solutions for computer-aided design (CAD) and computer-aided engineering (CAE), which are used in 2D and 3D building design and imaging. These are complemented by BIM-based planning and data management tools, as well as solutions for quality assurance and control and for avoiding errors and conflicts during the planning and construction phase.

Customers include architects, designers, engineers from all disciplines, structural engineers, specialist planners, landscape designers, as well as developers and general contractors.

Build segment

In the Build segment, the Nemetschek Group offers integrated complete 5D BIM solutions from the bidding and award phase, to invoicing, budgeting, scheduling and cost calculation. This also includes commercial ERP solutions for construction-related accounting and PDF-based workflow solutions for digital work processes, collaboration and documentation, as well as BIM solutions for steel structures.

Customers include construction companies, developers, building supplies, as well as general contractors, planning offices, architects and civil engineers.

Manage segment

The Manage segment provides solutions for all commercial processes in property management. It also offers modular and integrated software solutions for property, facility and workplace management (IWMS, integrated workplace management system). Furthermore, Nemetschek provides an intelligent smart building platform that uses Internet of Things (IoT) sensors and big-data analysis to improve productivity and efficiency for building managers.

Customers come from all areas of property management, including facility managers, property managers, banks, insurance companies and globally active property companies.

Media & Entertainment segment

In the Media & Entertainment segment, the Nemetschek Group offers solutions for rendering models, 3D modeling, animation or visual effects.

The software solutions are used worldwide for visualizing architecture, as well as in numerous film, television, advertising and video game productions and in medicine, product design and infographics.

In addition to architects and designers, customers include the international media and entertainment industry.

Please see item 3.3 for information on all relevant indicators for the four segments.

Locations

Nemetschek SE is headquartered in Munich, Germany. The Group's 16 brands market their solutions worldwide from a total of 78 locations.

NEMETSCHKEK LOCATIONS WORLDWIDE



Drivers, market and competition

Growth drivers

The construction industry is shaped by the growing world population, increasing urbanization and the associated rising demand for housing. The rising volume of construction around the world over the past few years and the fact that buildings are responsible for more than 40% of global energy consumption demonstrate the importance of this industry. But in terms of digitalization, the construction industry is far behind other key sectors such as the automotive industry. At around 1.5% of revenue, IT expenditure in the construction industry is still low compared with other industries, which invest an average of 3.3% of their revenues. The growing demands for efficiency, quality and ecology in the construction industry mean that there is a need to catch up as well as potential for development. This represents great market potential for Nemetschek. IT expenditure in the construction industry is expected to increase significantly in the next few years.

Optimizing the interaction of all processes through systematic digitalization will offer the industry a more than 20% increase in efficiency by shortening construction times, improving quality and lowering costs. Large parts of this transformation can already be implemented efficiently using existing technologies, thanks to the world's leading BIM method.

The Nemetschek Group benefits from several drivers in its three core segments of the AEC industry:

- » **Digitalization** in the construction sector remains weak. Catch-up effects and increased investment in industry-specific software solutions that control processes more efficiently and therefore increase quality and reduce costs and time expenditure are becoming more and more important.
- » **State regulations** that require or make the use of BIM software mandatory for state-financed construction projects are paving the way for further growth of the Nemetschek Group worldwide. Alongside the USA, the UK and the Scandinavian countries are particular pioneers in Europe when it comes to BIM regulations and the use of BIM-enabled software solutions.
- » The rising use of software over the entire building lifecycle is required by the BIM regulations to enable a model-based and **continuous workflow**. Starting with the transition from 2D software solutions to model-based 3D BIM solutions, through the increased use of solutions for cost and time calculation and collaboration to products for the efficient use of buildings, the Nemetschek Group brings its solutions to all phases of the construction lifecycle and meets the requirements of an integrated workflow.

Overall, the digital transformation in the AEC market will continue to lead to increased demand for solutions that ensure digital workflow in the various disciplines of the Design, Build and Manage segments. These market conditions provide the Nemetschek Group with a suitable framework for its further growth. It should

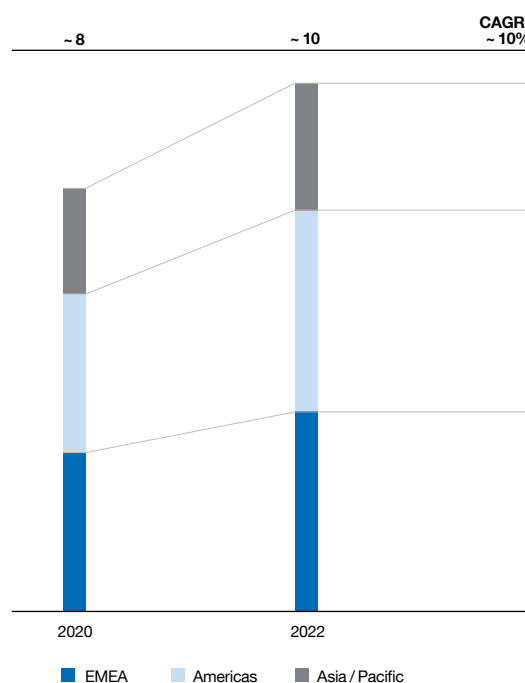
be noted that the degree of digitalization and the drivers have different effects on the respective segments. In the Design segment, the markets are already being penetrated by software solutions. Here, the Nemetschek Group sees the transformation from 2D to 3D solutions as a key driver. But the situation is different in the Build and Manage segments where digitalization is still less developed, so that investments in software solutions will play a strong role in driving the market.

Source: Accenture Strategy – Demystifying Digitization; IT Spending: From Value Preservation to Value Creation.

Market and competition

According to the British market research institute Cambashi BIM Design Observatory and our own research, the global AEC market, measured in terms of end-user spending, is expected to grow from around EUR 8 billion (2020) to approximately EUR 10 billion in 2022. This represents a compound annual growth rate (CAGR) of around 10%. All regions worldwide will benefit from this, with Americas and EMEA likely to show stronger growth than the Asian markets, according to market studies. The Nemetschek Group is one of the world's leading vendors in the global AEC market with a global market share of around 10%.

AEC SOFTWARE MARKET: END-USER EXPENDITURE IN EUR BILLION



* CAGR: Compound annual growth rate.
Sources: Cambashi BIM Design Observatory and own research.

The Nemetschek Group has actively participated in the consolidation of the AEC industry over the past decades through its acquisitions. Today, there are only a few globally positioned vendors facing a large number of small, locally active companies.

The Nemetschek Group faces competition from different companies in all of its segments.

1.2 Targets and Strategy

As in the previous year, the strategic positioning of the Nemetschek Group is based on three key characteristics. These three characteristics apply to the medium term and form the basis of the company's strategic approach:

- #1:** With its software solutions, the Nemetschek Group supports digitalization along the entire construction lifecycle – from the planning phase to the operating phase. This strategically integrated approach makes it possible to bundle and focus investments and expertise on the four customer-oriented segments, rather than serving different industries as many competitors do.
- #2:** With four segments and 16 brands under the umbrella of a strategic holding company, the Group structure allows the brands a high degree of autonomy. The brands are “experts” in their specific customer segment, and therefore have a high level of expertise in their respective market segment. At the same time, they benefit from synergies at segment and Group level with regard to internationalization, exchange and sharing of best practices, cross- and co-selling as well as development activities. The segment and brand approach ensures that market changes can be quickly recorded, analyzed and evaluated and that customer requirements can be responded to promptly.
- #3:** Open BIM. Nemetschek's clear commitment to Open BIM and the associated open interfaces increases interoperability, collaboration and communication with different disciplines along the construction lifecycle. In addition, the integration of competitors' software programs is also possible, substantially extending the circle of users.

The key growth drivers for the Nemetschek Group are internationalization, which goes hand in hand with the corresponding sales strategy, and innovations taking place at brand and segment level. The growth strategy is aimed at growing organically faster than the market average and strengthening this growth through acquisitions.

Internationalization and sales approach

As part of its growth strategy, Nemetschek focuses on the three large regions of Europe, North America and Asia. In recent years, the Group has continually expanded its market position outside Germany and at the same time strengthened its position in the target sales markets. In 2019, around 75% of Group revenue was generated outside of Germany, compared with 73% in the previous year. The USA is the world's largest single market for AEC software, and also represents a key sales market for the Nemetschek Group.

The Group has outperformed this highly competitive and expanding market in recent years and now generates 34% of its revenue there (previous year: 32%). The brands in the USA and Europe mutually support each other in their expansion. The good market position of the US companies makes it easier for European Nemetschek brands to expand abroad and vice versa.

BIM regulations also play a major role in the strategic focus on the regions mentioned above and the respective countries. In some countries, the use of BIM software solutions is already mandatory for state-funded projects, such as in the USA, the UK, Scandinavia or Japan. These countries offer excellent general conditions for Nemetschek.

Sales in the brand companies are handled directly by the company's own sales teams and indirectly via resellers and distribution partners. Both sales channels have proven their worth and are used flexibly depending on market conditions.

The Group offers its customers a high degree of flexibility in obtaining the software. It operates a licensing model, which includes the option of a service contract or a rental model (subscription or Software as a Service). With rental models, Nemetschek can tap into new customer groups, as the customer can use the software flexibly and without a one-off license fee. Nemetschek will continue to offer both options in the future, regardless of whether customers request individual solutions or implement large projects. In doing so, the Nemetschek Group is demonstrating its respect for the various needs of customer groups depending on discipline and region.

The Group also relies on greater cooperation between the sales teams of the respective brands, for example by using joint sales channels (cross- and co-selling measures).

Innovative solutions

Around a quarter of Group revenue is invested in research and development each year, and thus in the new and further developments of the solution portfolio. In each segment, the respective brands draw up a roadmap for the next three years as part of the budget process. This roadmap notes and presents the strategic product developments, which are then verified in regular review meetings with the respective Segment Manager.

The brands have their own development departments. There are also cross-brand development centers, e.g. in India, to which the brands have access.

In addition to the further development of the individual brands, the Group's strategic focus is on cross-brand development projects in the segments and strategic initiatives that extend across the segments.

The digital transformation in the construction industry and the path towards a networked construction lifecycle go hand in hand