

7 Outlook 2023

Overall Economic Development

As a globally active company, the Nemetschek Group is influenced by worldwide economic developments and industry-specific trends. These developments may also have an impact on the Group's results of operations, financial position and net assets.

The development of the global economy is currently being influenced by various factors, the potential impact of which is surrounded by great uncertainty. The main factors impacting economic development are currently the high levels of inflation and the associated interest rate hikes, the impact of the Russian war of aggression against Ukraine and the ongoing COVID-19 pandemic. The economic effects of these two crises are similar and – apart from causing suffering for those affected – are leading to supply shortages, restrictions in global logistics chains and price increases, particularly in the energy and raw materials sector. In order to counteract the price increases caused in part by these developments, central banks in Europe and America have put in place monetary policy measures, including a significant increase in interest rates. The rise in prices and interest rates is leading to a reluctance to buy and invest on the part of consumers and companies alike, which has in turn led to a slowdown in global economic growth. In addition to the negative effects and risks, the current situation also offers opportunities. The shortage of energy resources and the rising prices for them, along with price hikes across the board – including in the construction industry – are contributing to the acceleration of digitalization in general, and in the construction industry in particular. Software solutions are helping to plan, build and later manage and operate building and infrastructure projects more efficiently, and with the use of fewer resources.

Beyond these individual influencing factors, the growing efforts and activities of individual economic areas to transition to a more sustainable economy (e.g. the European Green Deal in the European Union) may also bring about significant changes in the economic environment and, depending on the industry, have a positive impact on economic development. Similarly, changes in trade relations, such as the trade conflict between the US and China, are holding increasing importance for the development of the global economy.

Overall, both the International Monetary Fund (IMF) in its World Economic Outlook – Update published on January 31, 2023 and the German Council of Economic Experts in its Annual Report 22/23 published on November 9, 2022 for the year 2023, assume a further slowdown of the global economy. While the IMF still forecasts an increase in gross domestic product (GDP) of 2.9%, the German Council of Economic Experts only expects an increase of 1.9%.

The following developments are forecast for the regions of significance in which the Nemetschek Group is operationally active:

GDP in the **Eurozone** is only expected to grow by 0.3% (German Council of Economic Experts) or 0.7% (IMF) in 2023. Development in Germany is particularly affected and GDP growth is expected to stagnate at 0.0% in 2023, according to the German Council of Economic Experts. The IMF expects Germany's economic output to grow slightly by 0.1%. For the **US**, the German Council of Economic Experts expects slight growth of 1.4% in 2023, while the IMF expects growth of 1.0%. For **Asia** – for which both institutions predict the highest global growth for 2022 – the German Council of Economic Experts forecasts an increase in GDP of 4.7%. It anticipates growth of 5.8% for China. In its latest forecast, published in January 2023, the IMF foresees economic growth for China at 5.2%.

Overall, the uncertainties associated with the above forecasts are great and depend above all on the further development of political and economic conflicts, crises and conditions. Any occurring or increasing risks or deterioration in conditions may have a negative effect on the development of the global economy. Equally, a resolution of the war in Ukraine, a faster end to the pandemic or an improvement in the general conditions may also have a positive impact on the global economy, which is also important for the relevant industries and regions of the Nemetschek Group.

Sources: German Council of Economic Experts, Annual Report 22/23 dated November 9, 2022 and International Monetary Fund, World Economic Outlook Update dated January 31, 2023.

Sector-Specific Development

Construction Industry

2022 was marked by soaring interest rates in the regions with the most important construction markets for Nemetschek. The slowdown in the global economy and sharp increases in material and energy costs, particularly as a result of Russia's war of aggression against Ukraine, had an additional negative impact on new construction activity in particular. As a result of these developments, as in 2022, the following years 2023 (+0.2%) and 2024 (0.0%) will see a further inflation-adjusted sequential decline in growth momentum in the construction industry in **Europe**, according to the experts at Euroconstruct (as of October 2022).

In contrast to the previous year, the **German** construction industry, which is particularly important for the Nemetschek Group, is expected to see slight overall growth in 2023 (+0.4%) once again and therefore stands just above the average for the Euroconstruct countries (+0.2%). The growth is mainly due to the resilient development of the renovation market in building construction (+1%), while a slight decline is expected for new building construction (-0.2%). Across Europe, the highest growth rates are expected in Slovakia (+3.4%), Spain (+2.7%) and Ireland (+2.5%). In contrast, the sharpest decline in construction output is expected in Sweden (-6.6%), after strong growth in the previous year, and in Hungary (-6.6%) and Finland (-3.5%).

In the **US**, construction is expected to develop modestly in 2023 (-1%) and 2024 (-3%), mirroring development in the European construction industry. While a sharp decline is expected in residential building construction at -7% (-9%) in 2023 (2024), the development of the non-residential building sector is estimated to be significantly more robust in the next two years at +4% and 0%.

Sources: 94th Euroconstruct Summary Report Winter 2022; North American Engineering and Construction Outlook Fourth Quarter Edition (September 2022).

Digitalization in Construction

Digitalization in the construction industry is less advanced than in other industries. The reasons for this are the high degree of fragmentation, non-serial production processes and low profitability in the construction industry. Nevertheless, a large number of players in the construction industry view digital transformation as a key competitive advantage and strategic priority. The expanding regulations (including for sustainable construction), high material costs, the ongoing shortage of skilled labor and the Covid-19 pandemic are driving and accelerating existing trends such as digitalization in the medium to long term. Accordingly, the Nemetschek Group is operating in a market that remains dynamic and offers great growth potential in the coming years. The increasing establishment of an open standard for data exchange, which creates compatibility between different software solutions and thus promotes the increasing establishment of BIM, will have a particularly positive effect. The driver behind this development is the international non-profit organization buildingSMART, which promotes digitalization in the construction industry.

Sources: www.buildingsmart.org; IFS (Oct. 2020) – Understanding construction and engineering spending on digital transformation; InEight (July 2021) – Global Capital Projects Outlook – Optimism and Digitization; McKinsey (June 2020) – The next normal in construction; McKinsey (Feb. 17, 2017) – Reinventing construction through a productivity revolution; Verdantix (Dec. 2020) – Market Overview: AEC Software.

Company Expectations

Despite the ongoing geopolitical crises and the associated uncertainties, the Nemetschek Group aims to successfully continue its corporate strategy geared towards sustainable and profitable growth and to invest in internationalization and the development of new and innovative solutions. It will also continue to drive forward its key strategic areas within the four segments.

The Executive Board is carefully monitoring the further development of the current uncertain general economic situation in order to be able to make adequate decisions within the framework of the growth strategy.

Key Strategic Areas

Subscription/Software as a Service (SaaS)

The overriding goal of the Nemetschek Group is to further increase its recurring revenues, in particular by offering subscription as well as SaaS solutions. Some brands have already largely converted their offerings to subscription and SaaS, while other brands are in the process of doing so or are planning to do so.

Rental models are particularly helpful in that they allow Nemetschek to tap into new customer groups, as many customers would like to use the software flexibly and without a one-off, sometimes very high, license fee. Within the four segments, the offer and implementation of rental models are at different stages of progress. With this move, the Nemetschek Group is addressing the different needs of customer groups, in accordance with their area of application and region. Furthermore, the revenues from the rental models also offer more predictable and resilient revenue streams for the Nemetschek Group. In order to present the future growth momentum and success of the ongoing business transition to subscription-based and SaaS models, and thus also the recurring revenues, more transparently, the Nemetschek Group implemented an annual recurring revenue (ARR) indicator at Group level in the course of the 2022 financial year. [<< 1.3 Corporate Management and Governance >>](#)

In the Design segment, brands such as RISA already generate a large proportion of their revenues from subscriptions. However, the majority of revenues for the Design brands still comes from license models and software service contracts. In the future, it is planned to continue expanding the range of rental models in the Design segment, which is partly to target new customers and to provide them with a high degree of flexibility.

In the Build segment, Bluebeam, the brand with the highest revenue, still generates the majority of its revenues in the US, but has also grown significantly outside the US over the past two years. It began transitioning to subscription and SaaS during the third quarter of 2022. In order to make the range of rental models as attractive as possible, Bluebeam has expanded its offering with cloud features for the first time in order to offer customers added value. Bluebeam Cloud is only available as a SaaS, which also provides an incentive for existing customers to switch. Nemetschek firmly believes that this will increase customer benefit and accelerate growth in the medium and long term.

In the Manage segment, the Spacewell brand already offers subscription and SaaS solutions. This approach will continue in the future.

In the Media segment, the Maxon brand began the migration to subscription in the third quarter of 2019, which is now almost complete. The Maxon ONE product suite bundles all features into one attractive offer for its creative users. In the meantime, Maxon has almost completed its transition to subscription, and the acquired and previously integrated brands have also contributed to its success. The success of the transition is additionally reflect-

ed in its strong growth and high profitability and in the significant expansion of the Maxon brand's customer base.

The strategic objective is to increase visibility and predictability as well as customer lifespan with the successive increase in recurring revenues from rental models while still maintaining close customer contact and increasing customer satisfaction through faster innovation.

Innovative Solutions (Cloud Infrastructure, Digital Twin)

The Nemetschek Group is focusing on future topics that will shape and change the construction and media industries. New technologies such as artificial intelligence (AI), digital twins, robotics, automation and the use of Internet-of-Things sensors will further change the AEC/O markets in the future and at the same time increase market potential. The Nemetschek Group has recognized these areas and addressed them both with its own developments and with investments in start-ups. Augmented and virtual reality will also change not only the AEC/O industry, but also the media and entertainment market. The Nemetschek Group has become significantly stronger in the Media segment over recent years, due in part to the acquisitions of Redshift, Red Giant and the acquisition of the Pixologic business operations. The comprehensive range of solutions now covers all five key areas of application from modeling, animation, rendering, and painting to sculpting. As a result, Nemetschek has significantly expanded its client base. With the expanded portfolio, Maxon has already established a good position in the large 3D animation market, as well as the emerging metaverse market. Another crucial factor is the strategy described in [<< 1.2 Targets and Strategy >>](#) to develop an AEC/O-wide cloud infrastructure in order to leverage synergies in the portfolio and create a basis for all of the brands. In the medium term, all relevant Group brands are to be integrated into the cloud platform so that the benefits can be scaled accordingly. The creation of the newly established Digital Twin business unit represents a first initiative of the cloud infrastructure, which can be accessed by all brands. In 2023, the developed horizontal, data-centered, open and cloud-based platform will be introduced on the market with the aim of adding more efficiency and sustainability to the construction life cycle. The digital twin as a common solution platform for the Design, Build and Manage segments also enables new customer groups and market segments to be tapped.

Furthermore, the Nemetschek Group will continue to invest around one fifth of its revenues in the form of research and development expenses in the designing and improvement of innovative solutions.

Go-to-market Approach and Internationalization

With its innovative solutions, the Nemetschek Group continues to make construction workflow processes more efficient and to address new customer segments. To this end, it promotes and continuously expands the cooperation and mutual support between the brand companies, in particular with regard to their international growth strategies and the sharing of best practices within the Group. In the Design segment, for example, it is not only the "smaller" brands that benefit from the mergers that have taken place within the Group, enabling them to take advantage of the presence and sales strength of the internationally-oriented brands Graphisoft and Allplan. In particular, this integrated product portfolio now enables them to address the needs of integrated, multidisciplinary customers in an even more targeted way. Cross-segment key account management is being further expanded in order to promote this development and thus tap further growth potential. On the one hand, existing customers receive a more comprehensive service offering and, on the other hand, this should enable the Group to better respond to the customer group of integrated, multinational and multidisciplinary companies in particular.

Even before the Covid-19 pandemic, it was evident that there was increasing investment in the public sector and especially in infrastructure measures. This development has been reinforced by the pandemic, which is also partly due to the different aid and economic stimulus programs of individual governments. The Nemetschek Group would like to further expand its activities in this segment focusing in particular on technically complex solutions such as bridge construction.

The overarching goal of the Nemetschek Group is to achieve further internationalization and to realize disproportionately strong growth in the regions outside of Germany. Since the Group brands mutually benefit from each other in their expansion – especially in the US and Europe – further internationalization represents a significant and promising growth driver. In addition, the Nemetschek Group would like to significantly expand its presence in the Asia/Pacific markets. As a company that is globally active in the AEC/O industry, the Nemetschek Group is focusing on those markets that currently offer the greatest potential and which have already made BIM mandatory, or are in the process of establishing BIM standards. In addition to the markets in Europe, the Nemetschek Group would like to focus in future even more strongly on Asia/Pacific regions, including Japan and Australia, and on the US, in order to leverage the growth potential available there. The US is the world's largest single market for AEC/O software and for the Nemetschek Group a significant but competitive sales market in which the company has so far experienced an above-average development. The US market will therefore continue to play an important role in the implementation of the growth strategy. The same applies to the media & entertainment sector in which the Media segment is active. Europe, Asia and the US are key regions here too.

Acquisitions and Investments in Start-ups and Ventures

The sustainable and organic revenue growth of the Nemetschek Group will be supplemented by future value-enhancing acquisitions. One of the goals here is to fill gaps in the Group portfolio and to expand or round off the Group's technological competence in the construction process workflow. Another is also to increase the market share of the Nemetschek Group on the international markets through the successful implementation of acquisitions. We will also continue our strategy of investing in start-up companies and ventures in the future, because product excellence and innovative strength are key to being able to offer architects, engineers and facility managers, as well as creatives in the media industry, real, technological added-value in the future. Our investments in, and support for, young companies and ventures have a catalytic effect on our own innovative power.

Thanks to its high operating cash flow and very solid balance sheet structure, the Nemetschek Group has access to financial resources that enable it to implement the planned future growth through acquisitions, cooperations and partnerships. As previously, the financing of acquisitions can be seen in the ongoing cash flow, the available liquidity reserves, the taking on of debt capital and the possibility of issuing new shares.

Focal points and objectives of the Nemetschek Group's acquisition activities are described in detail under [<< 1.2 Targets and Strategy – Acquisitions >>](#). In addition, the activities carried out in connection with acquisitions and divestments in the 2022 financial year are described in detail under [<< 3.2 Business Performance in 2022 and Key Events Influencing the Company's Business Performance – Acquisitions/Divestments >>](#) as well as in the notes to the consolidated financial statements under [<< Acquisition of Subsidiaries >>](#).

Business Structures and Processes (Business Enablement)

One of the strengths of the Nemetschek Group is the entrepreneurial freedom of its 13 Group companies, which allow the brands to position themselves particularly closely to their respective end markets and customer groups. The complexity resulting from the variety within the brands has already been greatly reduced in previous years by, among other things, grouping the individual brands into segments. This and subsequent optimization of business structures will unlock synergies, with the ultimate aim of increasing operational excellence, i.e. improving the company's ability to continuously optimize the value chain in terms of efficiency and effectiveness. At the same time, further harmonization, optimization of internal processes and partial centralization, especially in the support functions, should enable the brands to focus even more strongly on the development and distribution of solutions and to further deepen customer relationships in the future. This also includes, for example, the harmonization of the internal back-end systems in the areas of Human Resources, ERP (Enterprise Resource Planning) and CRM (Customer Relationship Management).

We will continue to review the strengths and potential for improvement of our corporate structure and processes in the future and will adjust our structures accordingly if necessary. The focus is on customer value and the reduction of complexity across all segments.

Investments and Liquidity

In addition to investments in start-ups and acquisitions, the Nemetschek Group will continue to invest in its organic growth. As in previous years, operating cash flow in 2023 should help increase Group liquidity and furthermore provide sufficient scope for planned investments in development, as well as sales and marketing within the segments.

Significant cost items for the Nemetschek Group include personnel expenses and other operating expenses. In order to continue pursuing its growth strategy, the Nemetschek Group plans to recruit additional experts worldwide in a targeted manner in the 2023 financial year, in accordance with future macroeconomic developments, and to retain existing employees. The Company therefore expects personnel expenses to increase moderately in the 2023 financial year. Other operating expenses, including selling expenses, will also increase in 2023 in respect of planned and ongoing international expansion. In individual cases, key elements of the investment planning for the 2023 financial year are to be re-examined and re-assessed in the context of the ongoing, extremely unsettled, macroeconomic environment, taking account of the potentially changing conditions. The Nemetschek Group is continuing its investment policy in order to implement its corporate strategy aimed at profitable growth.

Dividends

Nemetschek SE's shareholder-friendly dividend policy, which is geared towards continuity and sustainability, shall be continued in its existing form over the next few years. Taking into account the respective overall economic development as well as the economic and financial situation of the company, the Executive Board plans to continue to distribute around 25% of the operating cash flow as a dividend to the shareholders and thus allow them to participate appropriately in the economic success of the Group.

General Statement on Expected Development

Outlook for the Nemetschek Group

In recent years, the Nemetschek Group has demonstrated that it has a crisis-resistant and resilient business model. The profitable growth course was successfully continued in both the difficult conditions of the Covid-19 pandemic and the significantly worsening macroeconomic framework – influenced above all by higher interest rates and the Russian war of aggression against Ukraine. The main pillars of this development are the broad risk diversification provided by the varied nature of the Group's segments and a broad regional positioning, along with the fact that around two-thirds of Group revenues are now generated from recurring revenues. In addition, the Company has an equity ratio of around 57.5%, which ensures a high degree of flexibility when financing investment projects and acquisitions.

These strengths give the Company confidence in its ability to continue on its profitable growth path, even in these challenging times, and to continue to grow. In view of the significantly reduced growth forecasts for the global economy, which also affect parts of the construction industry, we currently also see risks that could impair this course in the short term. However, we continue to see that the opportunities in our industry – even in difficult times – outweigh them. Our assessment is supported by the general trend towards digitalization and the key to efficiency increases and more sustainability in the construction sector, which are generated by our solutions. In the medium and long term, the structural and positive global trends, such as population growth and urbanization, remain intact and promise long-term growth potential for the sector, in which the Nemetschek Group would like to secure disproportionately large participation. There is also potential in the Media segment, where we see high demand for content creation solutions, even in economically challenging times. The expansion of the segment in recent years through targeted acquisitions has significantly strengthened our customer base and expertise, giving us reason to be positive.

The forecast for the 2023 financial year is based on the expectations and assumptions regarding the overall economic development described above.

As described, in our forecast for 2023 we assume that the development of the construction industry will be positive overall but slower than in previous years. We continue to view the increasing requirement for digitalization in the construction industry as an additional and key growth driver for our business. This comes in addition to ever higher sustainability standards in the planning, construction and management of buildings.

The media and entertainment industry, in turn, continues to benefit from an ever-increasing demand for high-quality content and animation from artists and creatives, as well as the increasing use of visual effects (VFX) in films, videos and the gaming industry. In addition, Nemetschek continues to see great market potential in the metaverse and the creation of an artificial environment in the form of augmented reality (AR) and virtual reality (VR). With its Media segment and the Maxon brand, the Nemetschek Group is very well positioned on the market to benefit from the future growth of the underlying market.

Despite the outlined macroeconomic and industry-specific conditions, the Executive Board is positive about the 2023 financial year. In the short term, the switch to subscription and SaaS models will have a temporary dampening effect on revenue growth and profitability due to accounting-related effects. At the same time, the shift to subscription and SaaS will lead to a higher customer lifetime value, more predictable revenues and our business is becoming more resilient - even across economic cycles. In the medium and long term, the significant structural growth drivers such as digitalization, decarbonization, and urbanization remain fully intact and have even tended to strengthen as a result of the crises of recent years. On a like-for-like basis and despite the simultaneous conversion of the Bluebeam brand to subscription and SaaS, we expect an attractive revenue growth in 2023. As a result, constant currency revenue growth is expected to be in a range of 4% - 6%. Growth in recurring revenues, represented by the key figure ARR (Annual Recurring Revenue), is expected to grow at a significantly over proportional rate of around 25%. The share of recurring revenues in total revenues is therefore expected to increase further to over 75% by the end of the current financial year. The EBITDA margin is expected to be in a corridor of 28% to 30%.

In general, in addition to a change in the general economic conditions, the forecast must take into account the fact that exchange rate fluctuations and potential portfolio changes due to M&A activities could also have an impact on the development of revenues and earnings of the Group and ultimately also on the achievement of the forecast. For this reason, as in previous years,

the forecast for the 2023 financial year is based on a comparable basis with constant exchange rates and a portfolio that is unaffected by M&A activities. For the SE, positive net income in the mid double-digit million range and positive gross liquidity in the low single-digit million range are expected in 2023.

Notes on the Outlook

This Management Report contains forward-looking statements and information – i.e. statements about future events. These forward-looking statements can be identified by formulations such as “expect,” “intend,” “plan,” “estimate” or the like. Such forward-looking statements are based on current expectations and certain assumptions. They therefore involve a number of risks and uncertainties. Various factors, many of which are outside the control of the Nemetschek Group, could influence the business activities, success, business strategy and results of the Nemetschek Group. This may cause the actual results, successes and performance of the Nemetschek Group to differ substantially from the results, successes or performance expressly or implicitly contained in the forward-looking statements.