
6 Outlook 2021

Overall economic development

As a globally active company, the Nemetschek Group is also influenced by worldwide economic developments and industry-specific trends. These developments also have an influence on the future earnings, financial and asset situation of the Group.

The global economy is expected to recover in 2021 from last year's recession caused by the Covid-19 pandemic. In its Annual Report 2020/2021, the German Council of Economic Experts expects gross domestic product (GDP) to increase by 5.1% in 2021, while the International Monetary Fund (IMF) in its World Economic Outlook Update published in January 2021 even expects growth of 5.5% in the same period.

The following developments are forecast for the regions of significance for the Nemetschek Group. GDP in the **eurozone** is expected to grow by 4.9% (German Council of Economic Experts) and 4.2% (IMF). According to the German Council of Economic Experts, GDP in Germany is expected to grow by 3.7% again in 2021, while the IMF sees growth in Germany at 3.5%. For the **USA**, the German Council of Experts expects growth of 3.8% in 2021, while the IMF expects growth of 5.1%. For **Asia**, the German Council of Economic Experts forecasts GDP growth of 6.8%. **China** is once again expected to be the driving force in the Asian economic area with forecast growth of 8.9%.

Overall, the uncertainties associated with the above forecasts are great and depend above all on the further course of the pandemic. The estimates are based on the assumption that social distancing will remain in place during 2021, but may be relaxed over time through improved treatment options and vaccine availability and successful vaccination strategies. Additionally, the projections assume that potential lockdowns will not reach the magnitude of those seen in spring 2020. There are a number of developments surrounding the virus outbreak that could have a significant impact on the economic cycle. On the one hand, for example, new infection waves, possible mutations and associated lockdowns may negatively impact contact-intensive industries in particular, but also the economy as a whole. On the other hand, further and faster advances in medical treatment and widespread availability and acceptance of vaccines may generate positive effects. In Europe, the economic recovery has been interrupted since November 2020 by a new wave of infections, to which individual countries have responded with different measures. Overall, however, the impact is likely to be less drastic than in spring 2020, as the global recovery, driven in particular by developments in Asia, is still intact and no significant disruptions in supply chains have occurred to date.

Beyond the pandemic, there are still high uncertainties regarding important political developments and their potential impact on future economic development. Trade relations between the USA and China are worthy of mention here. Moreover, the practical implementation of the United Kingdom's exit from the European Union (EU), as well as the change of government in the US may also have an impact on the global economy.

Sources: German Council of Economic Experts, Annual Report 2020/2021 and International Monetary Fund, World Economic Outlook Update (January 2021).

Sector-specific development

Construction industry

Uncertainty regarding the development of the Covid-19 pandemic and its impact on the construction industry will continue in 2021. Nevertheless, the experts at Euroconstruct expect the European construction industry to recover with growth of around 4% in 2021. This positive trend is expected to continue in 2022 (3.5%) and 2023 (2.4%). This means that the pre-crisis level of around EUR 1,700 billion in total construction output in 2019 is expected to be reached again in Europe in 2023. However, a look at the major economies reveals a more differentiated picture. Although Germany recorded the lowest decline in construction output at -1.6% in 2020, experts also expect a slight decrease of -0.2% in 2021 and low growth of 0.4% and 0.2% in the following years. Accordingly, the level of German investment in 2023 will not exceed that of 2019. This also applies to Spain, while France, Italy and the UK should have higher investment levels by 2023 than in 2019. The highest growth rates in Europe for 2021 are expected in France (13.6%), the UK (12.6%), Belgium (8.7%) and Ireland (8.1%). On average, the European construction industry is forecast to grow by 4.1% in 2021.

In the USA, construction output is forecast to decline by -9% in 2021 and by -7% in the following year. The construction industry is not expected to grow again until 2023. This forecast depends on many individual factors, such as the decision on further aid and economic stimulus packages, the development of the trade conflict with China and possible economic policy corrections by the new president.

In Japan, the government continued to support the construction sector with public-sector orders in 2020. However, this is not expected to continue in 2021, with the result that the construction industry is expected to contract by -8.9% according to current forecasts.

Urbanization in China's cities is also expected to continue in the coming years. The new five-year plan for 2021-2025 focuses on the development of metropolitan regions and city clusters. In the infrastructure sector, further major projects are planned for the expansion of air freight logistics. Investments in Big Data, 5G and artificial intelligence, among other things, are also to be stepped up.

Following the slump in the construction industry in India in 2020, the sector is expected to experience a strong upturn and grow by 11.6% in 2021. This growth will particularly be driven by an infrastructure program with planned investments of EUR 1.3 trillion by 2025 and investments in social housing.

Sources: Euroconstruct – Summary Report, Winter 2020; FMI – North American Engineering and Construction Outlook, Q3 2020; GTAI – Branchen, Bau, USA, October 29, 2020; GTAI – Branchen, USA, Machtwechsel in Washington, January 15, 2021; RICE – Quarterly Outlook of Construction and Macro Economy, October 2020; GTAI – Branchencheck, Bauwirtschaft, Japan, December 28, 2020; GTAI – Branchenanalyse, Bauwirtschaft, China, December 12, 2020; Global Data – Press Release, India's construction industry, September 9, 2020; GTAI – Branchencheck, Indien, December 11, 2020; GTAI – Branchen, Tiefbau, Indien, July 13, 2020.

Digitalization in construction

Digitalization in the construction industry is less advanced than in other industries. The reasons for this include the high fragmentation and low margins in the construction sector. However, there are indications that a new phase of digitalization has begun. The Covid-19 pandemic may now lead to a radical change in the entire industry and further accelerate existing trends such as digitalization in the medium to long term. Accordingly, the Nemetschek Group is operating in a dynamic market with 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, has a particularly positive effect. The driver behind this development is the international non-profit organization buildingSMART, which promotes digitalization in the construction industry.

Sources: Vertandix – Market Overview: AEC Software, December 2020; McKinsey – The next normal in construction, June 2020; McKinsey – Reinventing construction through a productivity revolution, February 17, 2017; IFS – Understanding construction and engineering spending on digital transformation, October 2020; www.buildingsmart.org

Company expectations

Despite the continuing Covid-19 pandemic and the associated uncertainties, the Nemetschek Group aims to continue its business policy geared toward sustainable and profitable growth and will invest in further internationalization and the development of new-generation solutions. It will also continue to drive forward its strategic initiatives 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.

Internationalization

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 markets in Europe, the Nemetschek Group focuses on regions in Asia, including Japan, as well as on the USA. The USA 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 experienced an above-average development. The US market will therefore continue to play an important role in the implementation of the growth strategy.

Further internationalization is also an important growth driver for the Nemetschek Group, because the existing brands in the USA and Europe mutually enrich each other in their expansion.

Networking, sales approach and new-generation solutions

With the introduction of the current Executive Board and management structure, the focus on the existing four segments was strengthened in 2019. Since then an Executive Board member or Segment Manager has been assigned to each of the four segments and works closely with the brands within the segment. He strengthens brand cooperation and networking so as to reduce the complexity resulting from the diversity of brands. In the past financial year, a Group-wide customer relationship master agreement was negotiated for the first time, on the basis of which global customer relationships are to be recorded and thus made accessible to all brands and Group companies. In addition, cross-brand and cross-segment customer support is to be strengthened by means of overarching key account management. With this further development of sales, Nemetschek takes into account the strategic target of better combining the brand companies' expertise within the customer-oriented segments while at the same time targeting larger customers.

We also aim to use innovative solutions to make the workflow in the construction process more efficient, to target new customer segments, to support the cooperation of the brand companies in their international growth strategies and to share best practices within the Group. For example, in the 2020 financial year, two cross-brand development projects were successfully implemented in the Design segment and the solutions developed were launched on the market. This internal cooperation will continue in 2021. At the same time, Nemetschek is focusing on future topics that will shape and change the construction industry. These include topics such as machine learning, artificial intelligence (AI), and the use of Internet-of-Things (IoT) devices and sensors.

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 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 and tunnel construction.

Rental models (subscription / software-as-a-service) and sales approach

The brands of the Nemetschek Group will continue to offer their customers a high degree of flexibility when purchasing software. Customers can choose between the classic license model, including the service contract option, and flexible rental models (subscription or software-as-a-service). Rental models in particular make it possible to tap into new customer groups, as many customers want to use software flexibly and without a one-off license fee. In the four segments of the Group, the offer and implementation of rental models are at different stages of progress. In doing this, the Nemetschek Group addresses the different needs of customer groups, depending on discipline and region.

In the Design segment, brands such as dRofus or RISA already generate a large part of their revenue with rental models. However, the major portion of revenue still comes from license models and software service contracts. This is also due to the regional focus on Europe and these customers' reticence regarding rental models. In the future, it is planned to continue offering rental models as an alternative in the Design segment, which is mainly to target new customers and to provide them with a high degree of flexibility.

In the Build segment, the top-selling brand Bluebeam, which continues to generate the majority of its revenue in the USA, will increasingly migrate to rental models in the second half of 2021. To make the range of rental models as attractive as possible, the brand will offer customers added value with new features.

In the Manage segment, the Spacewell brand already offers rental models. This approach will continue in the future.

In the Media & Entertainment segment, the Maxon brand started the migration to rental models in the third quarter of 2019. It now generates more than 50% of revenue with rental models, with contribution from the recently-acquired and already integrated brands Redshift and Red Giant.

The strategic objective is to increase visibility and predictability with the successive increase in recurring revenues from rental models, while still maintaining close customer contact and increasing customer satisfaction.

Growth – organic and inorganic

The organic development of the Nemetschek Group will continue to be supplemented by value-adding acquisitions with the objective being to close gaps in the Group portfolio and thus to extend and round off the technological expertise in the workflow of construction processes. A further goal of acquisitions is to further increase the Nemetschek Group's market shares in the international markets.

Thanks to high cash flows and the solid balance sheet, the Nemetschek Group has the financial resources to finance its planned future growth organically and inorganically through acquisitions, cooperations and partnerships. As in the past, acquisitions are possible due to current cash flow, the liquidity portfolio and borrowing capital.

Currently, the focus of acquisition activities is on the Build and Manage segments, as the Nemetschek Group does not yet cover all competencies and target regions in these segments and the level of digitalization is lower compared with the Design segment.

Investments and liquidity

As in previous years, operating cash flow in 2021 should increase Group liquidity and provide sufficient scope for planned investments in development, as well as sales and marketing by the individual segments.

Important cost items for the Nemetschek Group include personnel expenses and other operating expenses. The Nemetschek Group will continue to recruit additional experts worldwide in a targeted manner in 2021 and therefore expects a sustained moderate increase in personnel expenses. Other operating expenses, including selling expenses, will also tend to rise in 2021 regarding the further planned international expansion. In individual cases in the context of the ongoing uncertain business environment, investment planning for 2021 is to be reexamined and assessed.

Dividends

The shareholder-friendly dividend policy of Nemetschek SE based on continuity is to be continued in the coming 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 the expected development

Outlook for the Nemetschek Group

In the corona year of 2020, the Nemetschek Group showed it has a robust and crisis-resistant business model. Due to the significantly increasing share of recurring revenues from service contracts and rental models such as subscription, which now account for around 60% of group revenues, Nemetschek has increasing planning security. In addition, the international positioning of the group and the targeting of different customer groups across the four segments offer a broader risk diversification than in the past. Added to this is the very solid financial structure of the Nemetschek Group with an equity ratio of around 47% and high cash generation.

In our forecast for the business, we assume that the global economy and that the global economy – as forecast, for example, by the German Council of Economic Experts and the IMF – will grow by a mid-single-digit percentage in 2021. Here it is assumed that effective vaccines and further medical progress in combating the coronavirus will mean that the restrictions still in place at the beginning of the 2021 financial year will ease over the course of the year so that there will be no further significant restrictions in global supply chains.

However, with reference to the development of the construction industry, we generally regard 2021 as challenging. For individually important regional submarkets such as America, parts of the Asian economic area and also the home market of Germany, various sources are forecasting a market decline in the construction industry. This could have a negative effect on the willingness of market participants and thus our customers to invest. However, our forecast assumes that this development will be overshadowed by a further growing need for digitalization in the construction industry. At the Group level, we are aiming to further increase the share of recurring revenues.

In general, it should be noted in the forecast that the development of the exchange rates that are relevant to the Nemetschek Group influences the revenue and earnings development of the Group and could therefore also have an impact on the achievement of the forecast. Key foreign currencies that are important for the Group are in particular the US dollar and the Hungarian forint. The forecast for 2021 was prepared on the basis of constant exchange rates.

Taking account of general economic and industry-specific conditions, the Executive Board is cautiously optimistic for the 2021 financial year. On the basis of constant exchange rates and the current brand portfolio, it is anticipating revenue growth to be in the high single-digit percentage range. The EBITDA margin is expected to be in a corridor of 27% – 29%.

These forecasts are subject to the express proviso that the global economic and industry-specific conditions do not deteriorate significantly compared with the assumptions underlying the planning, particularly with regard to the further course of the Covid-19 pandemic.

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 similar. 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.

7 Other Disclosures, Remuneration Report

7.1 Corporate Governance Declaration

The corporate governance declaration in accordance with Section 289f and Section 315d of the German Commercial Code (HGB) is part of the combined management report and is published on the Nemetschek SE website at ir.nemetschek.com/en/corporate-governance. In accordance with Section 317 (2) sentence 6 of the HGB, the auditor’s review of the disclosures pursuant to Section 289f and Section 315d of the HGB is limited to whether or not the disclosures have been made. The corporate governance declaration can also be found in the 2020 Annual Report in the chapter [«< To our Shareholders >>](#).

7.2 Explanatory Report of the Executive Board on Disclosures Pursuant to Sections 289a and 315a of the HGB

This section contains the disclosures pursuant to Sections 289a (1), 315a (1) of the German Commercial Code (HGB) together with the Explanatory Report of the Executive Board pursuant to Section 176 (1) sentence 1 of the German Stock Corporation Act (AktG) in conjunction with Article 9 (1) letter C (ii) of the SE Regulation.

(1) Composition of subscribed capital

As of December 31, 2020, the share capital of Nemetschek SE amounts to EUR 115,500,000.00 and is divided into 115,500,000 no-par bearer shares.

Different classes of shares do not exist. All shares entail the same rights and obligations. One vote is granted per share and is decisive for the shareholders’ share in profits.

(2) Restrictions affecting voting rights or the transfer of shares

There are no restrictions in the Articles of Incorporation relating to voting rights or the transfer of shares. Restrictions on voting rights may exist based on the provisions of the German Stock Corporation Act (AktG), for example in accordance with Section 136 AktG and based on the provisions of capital market legislation, in particular in accordance with Sections 33 et seq. WpHG.

(3) Interests in capital exceeding 10% of voting rights

The direct and indirect interests in the subscribed capital (shareholder structure), that exceed 10% of the voting rights, are shown of the notes to the annual financial statements and the notes of the consolidated financial statements of Nemetschek SE.