

Softline

Q1 2022 Trading Update

Conference Call Transcript

16th Aug 2022 / 8:00 a.m. GMT

Corporate Participants

Sergey Chernovolenko – Chief Executive Officer

Roy Harding – Executive Director

Artem Tarakanov – Chief Financial Officer

Steve Salter – Global VP Investor Relations

PRESENTATION

Steve Salter:

Thank you, and good morning everyone... We hope you've had an opportunity to review a copy of the press release and supporting materials for our Q1 2022 trading update... these are all available in the investor relations section of Softline.com.

I am joined on the call today by our Chief Executive Officer, Sergey Chernovolenko, our Chief Financial Officer, Artem Tarakanov, and Executive Director, Roy Harding. Roy will make some opening comments before Sergey provides an update on the highlights of our first quarter 2022, followed by a business update, and review of our 3-dimensional growth strategy. Artem will provide an update on our Q1 financials, and our business outlook for the second quarter, and we will also have time for Q&A at the end of the presentation.

As a reminder, some of our comments today may contain forward-looking statements that are based on assumptions and therefore subject to risks and uncertainties that could cause the actual results to differ materially from those projected. Our commentary will also include adjusted financial measures, which are non-IFRS measures. These should be considered as a supplement to and not a substitute for IFRS financial measures.

Now let me turn the call over to Roy.

Roy Harding:

Thank you, Steve, and good morning, everyone, thank you for joining us today on our Q1 trading update.

Before we get to the details of our performance in Q1, I would like to address the recent announcement we made outlining our intention to proceed with a demerger of our Russian and non-Russian operations.

Over the past few months, I led a review of strategic options that was prompted by the fact that our Russian and non-Russian businesses increasingly differ in operations, priorities, and go-to-market strategies. The dynamics in the two different markets have now evolved to such an extent that the board has decided to create two independent companies. This will allow the companies to better serve customers, capitalise on different growth strategies, and optimise value.

The underlying driver is our commitment to protecting the interests of all of our shareholders, our people, our vendors, and our customers.

- We very much appreciate the trust and support of our shareholders... the ongoing geopolitical events have had a disproportionate influence on Softline's market value, and the upcoming changes are designed to ensure a path to a rational valuation of both companies that reflects their strong profitable growth and fundamental value. We are totally committed to protecting the interests of all of our shareholders.

- For our employees, the change will enable them to benefit from our Long-Term Employee Partnership Programmes in both companies, therefore allowing the newly formed independent entities to continue attracting and retaining the most talented professionals. This will support the owner-operator culture of both companies.
- For our vendors, the two new companies will be in a better position to execute their go-to-market strategies with all regional and global vendor-partners.
- And for our customers, the demerger will allow both companies to enhance the provision of digital transformation and cyber security solutions and services to existing and new customers in the geographies where Softline operates.

There is significant market opportunity, and the two independent companies will be better placed to help accelerate their customers' growth strategies based on the respective market dynamics.

We are now well underway with the execution of the process which Sergey is now leading as our Chief Executive Officer. I am very proud that I will continue to support the business, both as a board member, and also with strategic M&A integration, which is a key to the success of our growth strategy.

We will provide a detailed shareholder circular as soon as possible, and following that, we will be seeking shareholder approval. As I said before, we appreciate your continued trust and support, and we will keep you updated with our progress.

With that, let turn the call over to Sergey

Sergey Chernovolenko:

Thank you, Roy, and I would like to thank you for your great service as CEO through this recent period of significant change in our markets, and I am pleased that we will continue to benefit from your expertise in the future. We have continued to deliver strong business results through this time, and we now have a clear road map to our future success in the new market reality.

It is an honour for me to now lead Softline Group during this extremely important business period in our history. I feel strong support from the Softline Board of Directors, and I will use all my knowledge, experience and personal energy to make the Group's transition effective, successful and people-oriented.

Let me also thank every one of our Softliners around the world for the great focus and effort to deliver a strong Q1 and keep momentum throughout Q2. I know the current market and economic challenges have put a lot of pressure on, and not only from a business perspective. I very much appreciate your dedication to our goals, values and dreams.

Today I would like to briefly share with you what we are doing in the next 90 days.

We are very much focused on continuing to deliver strong business results in every country of our presence and in line with the commitment to our shareholders. We are executing on our demerger plan with great discipline:

- to split the Russian and non-Russian business into two independent companies – Softline Russia and Softline Global
- to ensure our strong market positions in both companies are maintained
- to continue Softline Global being listed in London, and prepare Softline Russia so the future leadership team can define options for Softline Russia with focus on the interest of the shareholders and employees
- to continue a long-term partnership with employees for sharing future success of both companies
- to realize all of this with no redundancies... continuing on our growth path in line with our 2022 Plan... strengthening further our expertise and our team.

Our company success depends fully on our people, their capabilities, motivation and constant development.

I am confident we will execute well on all strategic tasks, and we will not let the current market challenges take away what all our people have built together up until today.

Now let me turn to Q1 in a little more detail.

We are pleased with our performance in Q1, reflecting particular strength in our strategic growth initiatives.

- We now have 8,400 employees in Softline, which is an increase of 44% over Q1 last year... and we continue to attract and retain the best people which is a fundamental lever in how we differentiate in the market
- We are pleased with the strong gross profit growth of 25% this quarter
- We delivered very strong turnover growth of 44% in constant currency in our international business, which now represents more than 50% of our total business
- We saw continued momentum in Services, with turnover growth of 81%, and 137% gross profit growth
- We also saw strength in Hardware, with 42% growth this quarter
- We continued to strengthen our vendor relationships with existing vendors, as well as expansion with new vendors
- We continue to receive recognition, for example highlighted as a visionary in the 2022 Gartner Magic Quadrant for SAM Managed Services... as well as the Partner of the Year with Microsoft in a number of geographies

Digital transformation remains as the key imperative for our customers as we partner with them in driving business outcomes from cloud, software and data, all while ensuring IT resilience and security. Given our global footprint, this does play out differently in our markets, and as we have said before, our growth strategies have evolved differently based on the dynamics we see in Russia and elsewhere...

Our International business is already at scale, with more than \$1B in turnover. The story is one of significant growth, bigger, Faster, as we help to accelerate the digital transformation of our customers' businesses, connecting over 75,000 enterprise customers across a comprehensive range of industries with several hundred best-in-class IT vendors as well as our own services and proprietary solutions.

We now have 3,800 talented professionals globally, transacting in more than 50 countries with significant growth potential. We are addressing the entire range of our customers' IT needs, positioned at the centre of the digital transformation megatrend.

We are focused on the emerging markets to capitalise on their significant growth potential on the back of the accelerated digital transformation trend. We also see better and more effective access to talent in the emerging markets, as well as being able to address the requirements of the developed markets. I'd like to highlight a few areas where we are particularly well positioned competitively.

- Growth with Microsoft as well as developing relationships with other leading vendors. In the last two years alone, we obtained six of Microsoft's Partner of the Year awards in different countries around the world outside Russia. By matching vendors' capabilities with our services in an efficient way, we create, deliver, continuously develop, and secure for our customers the entire digital infrastructure required for their digital transformation.
- A key focus for growth for us is around multi-cloud capabilities. This matches the focus of modern organisations to achieve efficient agility with cloud technologies.
- Another key growth driver is digital transformation (DX) services. We continue building our portfolio of digital transformation services on a strong foundation. These services not only include software and application modernization and development services, but also cybersecurity services, big data and AI/ML services, SAM services, capabilities to build industrial Internet-of-Things systems as well as DX training offerings.
- Further growing the capability of our sales force to upsell and cross-sell also represents significant opportunity for us. Entering the customer with Microsoft products and solutions, delivering multi-cloud capabilities and digital transformation services, allows us to upsell and cross-sell solutions of other vendors, as well as our core services.
- Our sector is going through significant transformation... local players are facing a strategic choice for their future – their negotiation power with vendors, customers and employees is reducing. We have considerable experience in acquiring smaller players in local markets, with a long track record of successful M&A. This allows us to enter local markets faster and to grow acquired businesses at accelerated pace using our vendor relationships, platforms, and service capabilities and eventually taking advantage of attractive valuations.
- Our people are our biggest differentiator, and we continue to invest in their development. Last year, we received five Great Place to Work awards on four continents outside Russia. These awards confirm our commitment to the well-being and success of our people. This commitment together with our focus on transparent governance form the foundation of continued dedication to the principles of ESG and to being great employer.

Let me illustrate how we can bring all of this to help our customers.

In Costa Rica, we helped a government organization with a cyber security strategy together with Microsoft, in which Microsoft 365 E5 was implemented for all of its users. We migrated its public DNS to Azure and started using our own product - Total Voice for their contact center telephony. The client's basic internal services were reestablished. Through Total Voice, the client was able to provide answers to its external clients in a faster and more efficient way. In less than 1 week, emails were migrated to the cloud using Microsoft Office 365. We implemented the client's public DNS in Azure ensuring high availability of the service.

In Columbia, we are working with one of the largest companies in the telecommunications sector in Colombia, with more than 100 years of operation that has revolutionized telecommunications throughout the country. Within its strategic plan is the digital inclusion of all citizens contributing to their well-being and making Colombia a more productive territory. In order to advance its objectives, we are partnering with our customer as a strategic ally for the development of a Microsoft Azure solution.

This includes the support, maintenance and monitoring of the Microsoft Azure Platform, Support in migration, transfer of knowledge to the client's staff, workshops and webinars on new Microsoft technologies and, and consultancy for improvements in the environment, which allows generating new opportunities for innovation and growth for both parties. We are helping in the development of intelligent territories, and optimizing and elevating the effectiveness of digital services.

In EMEA, with DigiTech we are helping B.Tech, the largest retail chain of household appliances and consumer electronics in Egypt, with Data Center migration to Azure, and Sterling OMS migration to Redhat Openshift on Azure. We are also helping Selah El-Telmeez, the largest K12 educational books publishers, with a Cloud migration for 60 curriculums.

In India, we have been working with Chatgen, a firm that develops and supplies complete chat bots as a Service for their clients. Softline and Chatgen have a strong relationship where we have been working on number of Azure Transformational Cloud Services spanning various deployment and consulting services.

Another example is our work with Hindustan Times, on a 360-degree Software service for Adoption of M365 workloads, and providing seamless training for the end users in order to enhance the Consumption of M365 workloads. We are also delivering workshops to HT Media which helps them to define business priorities that drive hybrid work.

In Russia... Our business also represents more than \$1B in annual turnover, where we are [the] market leader, the story is one of rapid transition to new models... where we are more established, and focused more on the market share gains vs the hyper growth we see elsewhere. We are already best positioned to support customers with a more local portfolio of products, and we are in a very competitive position to benefit from the transition.

- We are present in 22 cities, allowing us to be close to our customers, and this is complemented by a number of platforms that allows greater efficiencies.
- We operate in all vertical industries, and in the commercial and public sectors, and we bring innovation and know how as we help customers to make the transition.
- We have the most extensive portfolio in the market, historically focusing on software and cloud, the most dynamic sectors of the Russian market going forward.
- At the same time, we have advanced relationships with key local technology vendors prominent in the new market. We have already invested significantly in building and testing alternative stacks for customers looking to move away from global vendors.
- We have a very experienced team of 4,600 talented professionals focused on retain and further gaining customer trust and therefore leadership in the changing IT market
- The market is going through a similar consolidation like elsewhere, and we are experienced in benefiting from that landscape.

These factors make future Softline Russia a truly unique player in the sector. Let me illustrate this and the importance of industry depth with what we are doing for our customers...

- We worked with one of the largest metallurgical companies in Russia on the implementation of an integrated industrial safety system for a metallurgical plant. Softline Digital developed a comprehensive video analytics system for real-time industrial safety in the plant's cylinder shop area. A module was implemented to notify employees about the occurrence of production emergency situations. The solution was implemented with the help of a UWB-based positioning system, which includes tags and anchors and a video analytics system consisting of a video camera and an analytics server. The system made it possible to monitor the location of employees and ensure compliance with industrial safety rules on-site.
- Working for a major Russian coal mining and processing company. The Russian Softline Digital team has developed a personnel positioning system for open-pit mining operations, which allows real-time tracking of the movement of employees, as well as maintaining historical reporting. The system made it possible to monitor the location of employees and ensure compliance with industrial safety rules on-site. Management will be able to monitor the personnel operations and respond to emergencies in a timely manner.
- And we implemented a project in Central Asia to help build a smart city security system. The entire infrastructure of the city video surveillance system and photo and video recording of traffic violations has been designed from scratch. The technology reduces crime and enables the authorities to respond effectively to threats and take measures to eliminate them.

Our M&A strategy is an important aspect of our 3-dimensional growth strategy. Acquisitions help us to scale faster geographically, to increase our skills, and expand capabilities that we bring to our customers. As you will have seen, we have very active over the past few years with a targeted approach on our key strategic objectives.

In Q1 we expanded our presence in the Middle East and Africa through the acquisition of UAE based Seven Seas Technology. Seven Seas Technology is a leading system integrator and Information and Communications Technology solution provider. In partnership with major technology vendors such as Microsoft, the company provides medium and large enterprises with collaborative, multi-cloud strategies. Seven Seas has 15 Gold competencies with Microsoft as well as several advanced specialisations, Platinum Cloud Solutions Provider status with HPE, Cisco Gold Integrator and others. This combination of partnerships together with an extensive services portfolio sets SST apart in the regional market. SST's 300+ ICT trained and certified professionals serve large and medium businesses across a number of sectors including civil aviation, government, oil & gas, banking & finance, hospitality, healthcare, education and retail. Seven Seas Technology has a demonstrable track record of delivering innovative solutions and managed services in vertical industries, especially using solutions from our joint strategic technology partner Microsoft. The team's expertise in these areas makes them a great fit with our goals as a global digital transformation solutions provider. The customers and talent in the region will certainly benefit from SST joining forces with such a global player as Softline.

We continue to work on a strong pipeline, going through negotiations and due diligence. We feel good about what we see for the coming year in M&A... and we expect to make further announcements in the near term

I am very proud that Softline was recognised as a visionary in the 2022 Gartner Magic Quadrant for SAM Managed Services. Our ITAM strategy with a strong connection with FinOps and Application Modernisation is resonating with our customers. This approach will help organisations worldwide to

strengthen their IT processes and investments. We believe this recognition by Gartner is a great achievement, and we are proud to celebrate this with our teams around the world.

We continue to benefit from very strong vendor relationships, and this quarter, Microsoft recognised Softline Vietnam and Softline Cambodia with the Partner of the Year Award, for excellence in innovation and implementation of Microsoft's solutions.

Embee was also recognised with the Microsoft India Area Award 2022 – MWP Partner of the Year. This acknowledgement emphasised Softline's leading position in the market, and comes after Softline India was recognised by Microsoft as the leading Cloud Solution Provider (CSP) in India early this year.

We are so proud to have been recognised by Microsoft for assisting businesses in these crucial markets with Cloud services, cyber-security solutions and more. Vietnam, Cambodia and India are each incredibly important countries for us, and growth within the APAC region is central to the global strategy of the wider business. More opportunities are created by technology, and Softline assists our customers in accelerating sales, boosting profits, and operating efficiently and securely in the digital economy. Softline is proud to be working with Microsoft to deliver digital infrastructure to developing countries and emerging markets. As Microsoft have said, now is the time to go beyond 'digital transformation' to focus on the 'digital imperative'. The case for doing this has never been more urgent or more clear, and we are well positioned to help our customers with the digital change with implementing solutions including AI and cyber-security.

Now let me turn the call over to Artem who will provide an update on the numbers...

Artem Tarakanov:

Thank you Sergey, and thanks to all of you for joining the call.

Our results in the first quarter showed continued profitable growth, and we were pleased with particular strength in our strategic areas of focus. I will now go through the unaudited financials in more detail.

- We delivered turnover of \$545 million dollars, an 8% increase year over year which includes a 2% negative impact for FX.
- Turnover was driven by strength in our International business, with growth of 44% in constant currency.
- Gross profit was \$78M, up 25% year over year, and a very strong turnover based margin of 14.3%. This was driven by particular strength in Services.
- We delivered adjusted EBITDA of \$3M, which reflects the significant investments we are making for future growth, as well as the negative headwinds on currency. These investments include people, motivation and retention... continued company diversification into Services... corporate governance... systems such as CRM, ERP and digital platforms... and new geographies.

Overall, we continue to build on our strong foundation for growth.

Looking at turnover by geography...

- We were pleased with the broad-based turnover growth across all regions outside of Russia.
- Our business in Russia declined, due to the pace of vendor migration... with the Microsoft ramp down happening much faster than expected.

- With our global positioning, we delivered growth across the majority of geographic regions, and we continue to see strong market potential as we focus particularly on expansion in the emerging markets.

Looking at turnover by segment.

- Software and Cloud grew 1.4% which reflects the impact of Russia. Underlying that performance, we see continued demand for digital transformation, and Software and Cloud growth was strong at 30% in our international business.
- We saw strength in Hardware, with 42% growth, and very strong demand from our customers
- Services grew 81%, which includes the impact of acquisitions that have helped us to further strengthen our services portfolio.

Looking at Gross Profit by segment.

- We are particularly pleased with Services... with 8.8% share of turnover and strong growth, it represents a key driver of profitability with 49% share of Gross Profit... and exceptional strong gross profit growth of 137%

Moving onto some other key metrics.

Net debt/adjusted EBITDA was 1.34x. This excludes IPO proceeds.

The Cash position as of 30 June 2022 was \$369.2M.

For other metrics, our financial tables can be found in our supporting materials, and we have provided a factsheet of key metrics by quarter, which we think is helpful for investors.

Now turning to our business outlook.

As a reminder... in the near term, we plan to provide guidance for the next quarter only. We will continue to review the situation, and will provide longer term guidance at the appropriate time.

For Q2 FY2022, we expect year-over-year turnover growth of at least 15%. To provide some context:

- In our global business outside Russia, we expect year-over-year growth of at least 30%, and while this includes the impact of some continued uncertainty in the Rest of Eurasia region, this represents a very strong level of growth.
- In Russia, we expect reported growth to be flattish year-over-year based on the continued uncertainty in the market. This includes a positive impact from FX of about 7%. This should be viewed in the context of the transformation of the Russian IT market where IDC estimates that there will be at least a 25% decline in Information Communication Tech Spending in 2022/2021, and a 36% decline in Information Technology.

As it relates to Gross Profit overall for Q2, we expect year-over-year growth of at least 20%.

Additionally, we expect to deliver positive adjusted EBITDA for the group, including in the Russia operation.

We remain focused on delivering on Q2 and driving continued profitable growth for the full financial year 2022.

Let me turn the call back to Sergey.

Sergey Chernovolenko:

Thanks Artem... before we open up for Q&A, let me summarise a few key points.

Our focus in Q2 remains on executing against our growth strategy... and all countries and operations delivering on our plans. We expect significant progress with our Strategic Initiatives deployment, and we do not expect the demerger process to slow or change the course of any of our initiatives. We are now at full speed on execution.

We are navigating these times with discipline, continuing to deliver on the commitments we made at IPO... and as a key part of that, delivering on our acquisition strategy.

As Roy mentioned, our intent is to create two leading independent companies which will allow them both to better serve customers, capitalize on different growth strategies, and optimize value. The underlying driver is our commitment to protecting the interests of all of our stakeholders.

The board and my leadership team have a clear understanding on what's going on in the markets from a short to long term perspective. We believe in the course of our actions, we built our plan with our people, our shareholders, our vendors, and our customers in mind and we will succeed well.

Finally, let me thank every one of our people for all you do every day to make our Company even stronger.

With that, I will turn the call over to the operator who will provide instructions for the Q&A.

QUESTION & ANSWER SECTION

Operator:

We will shortly begin the question and answer session. As a reminder, participants can submit written questions using 'Ask a Question' button on the webcast page. To ask a question on the phone line, please press star and one on your telephone. If you then decide to withdraw your question, simply press star two. We will now pause for a moment to assemble the queue. We'll take our first question from Anna Kurbatova from Alpha Bank. You are now live.

Anna Kurbatova – Alfa Bank:

Good morning, everyone. Can you hear me?

Sergey Chernovolenko:

Yes. We can hear you.

Anna Kurbatova:

Hello? Yes. Thank you. Well, it would be great if we could go a bit deeper into this Russian number of turnover decline of 23%, in dollar terms, because I see when we also compare the Forex movements during the second quarter 2022 and second quarter '21, it looks like the decline, in ruble terms, was

around 30%. So would be great to understand a bit more in terms of maybe what industry sectors or what type types of clients, large or middle and smaller. Or types of products suffer most from that exit of international vendors. So any breakdown, from your side, which would understand us better the nature of this final figure. And the second question would be about the guidance for Russia for the second financial quarter. So do we understand correctly that with the flattish forecast or estimate, in dollar terms, you expect that some kind of normalization trend will be already in place in the second quarter? With maybe accelerating sales of local software and hardware? Do we understand correctly this message so that you would target flattish growth in Russia in the second quarter? Thank you very much.

Sergey Chernovolenko:

Anna it's Sergey. First of all, thank you very much for the question. I would start with a point that the market in Russia and environment in Russia is, at this moment, more predictable, if we compare with beginning of Q1. And it's clearly because Q1, the market faced big storm to understand what needs to be done. To find the way to navigate through this storm. And now it's come into real actions. And what we see now is that the market is clear where to go. And obviously some uncertainty in the market in Q1 impacted some areas. And at the same time, I just would like to say that the dynamics of the market in Russia, I hold them fast. And the market transition is happening at a quicker pace than we anticipated in the beginning of Q1. At the same time, we are happy how we as a company navigate. At the same time, you just made a reference to our Q1 results in Russia and I would say our results and decline we see in Q1 in our turnover is better than analytics predicted.

If I may make a reference to IDC. IDC predicted that overall IT business will go down around 36%. And we saw in Q1 a little bit faster paced for some international vendors to squeeze performance in Russia.

For example, Microsoft, in the course of Q1 announced of quite significant downsize of structure in Russia, which delayed some deals. And I would say that overall, yes, turnover was down. At the same time, I was very pleased that our overall gross profit margin improved by four points. And we managed to deliver quite solid profitable, Solid gross profit and adjusted EBITDA for the course of Q1. And making a bridge to Q2. As I mentioned that the market is, at this moment, quite stabilized. Customers from analyzing stage started to come to implementation because, as you can imagine, if you need to change your systems from one provider with whom you worked for many years to another one, particularly when we talk about the systems, it requires thorough analysis and bold decisions from the customer side.

At this moment, we see that customers more and more coming to actual realization. We have quite good pipe in many areas, including services, which is growing. And we believe that our results will demonstrate good improvement quarter to quarter. What is reflected into our guidance. And Artem, would you like to add something as for the Forex impact or maybe some ideas from your side?

Artem Tarakanov:

Yeah. Thank you, Sergey. So I will comment further on our estimation for Forex effect for Q2 for Russia. So we estimated on the level of 7%-8% versus Q2 last year. So we expect that it will be in the range of 63/65 rubles per dollar this quarter versus 74/75 last year. So, Anna, you're absolutely right there is a Forex element. In our case and, in dollar terms, we expect flattish growth year over year. And I think, that's a good signal at this point. And hopefully in Q3, our Q3 will continue to recover and will show growth. So that's I think the framework as of now. And let me let pause, Probably you have some follow up questions or comments on that.

Anna Kurbatova:

Thank you very much. It's all clear. Thank you.

Operator:

The first written question has been submitted via the webcast page. "Can you talk about your investments? What are you investing in organically and through M&A?"

Sergey Chernovolenko:

Let me take this question. First of all, I would like to say that in spite of some headwinds we faced in Russia territory, our plans and plans to develop our company stay unchanged. Only the phasing changed and this means investment in some territories may be slow down. But, overall, I just would like to confirm that what we communicated at our IPO date at the end of October last year, stays and we're moving fast. We're making significant investment for our future growth in territories where we believe to build our capacities. Middle East, Latin America, Asia Pacific, Central Eastern Europe and we maintain our professional talent in Russia as well.

And we invested quite significantly in a second half of last year because we set IPO level that support some portions, a visible portion, of our IPO fund will go to organic growth focusing on system modernization, ERP systems modernization, marketing, digital platform creation, talent increase, particular focus on service. And here, I just would like to say that I'm very proud that our services capacity now, it's at around 4,000 people and overall company talent increased 44%. If we come compare quarter one to quarter one all year. And we are very pleased to see that outcome of this investment because our customer reach increasing the pipeline is growing in regions where we invest in.

And actually, we invest in all regions where we stay. And as for organic growth, as I mentioned, we made quite significant investment and we believe that within the Q2 course. This will bring us very visible, gross profit outcome and profitable outcome. And plus business growth.

As for M&A, it's our essential part of the strategy. Three-dimensional strategy. And we keep all of you informed only, almost on a monthly basis, with our wins. The same we did in Q1. And our pipe is growing and transferring. And in near future we'll continue informing you. And where we invest. We invest in developing our services capabilities. And just a good example of what we shared with you, sometimes before we acquired Umbrella company, very professional services company, in India for AWS. We reported to you, Seven Seas. It's a very good transformational technology company in Middle East, and it'll give us opportunity to boost our presence there. And our footprint and presence in this strategic region for us is growing nicely. And we will continue. We will continue execute what we promised at our IPO level. And I'm very pleased how we navigate here.

Operator:

We'll take our next question from Stanislav Yudin from ITI Capital. Please go ahead.

Stanislav Yudin:

Yes. Congratulations. Good results. Russian IT market is developed in somewhat different way. Just internationals. It looks like that. And in these terms, could you expect any changes in your Russian strategy? Are you going to go more deeply into software development, for example, or it's not your cup of tea? Or you continue to focus on services as it's the most profitable part of the business? And if I may, previously, we talked that we see some problems with hardware development on the Russian market. Was this problem overcome already? Or it's still the case? Thank you.

Sergey Chernovolenko:

Stanislav, thank you very much for the question. It will help me to articulate what I highlighted during my presentation today. We see that market environment changing. If you compare, for example, Russia, with international, in international, everything is for us stable, unchanged, and only we accelerate the speed and we're moving fast.

In Russia, as any business, we have to develop our strategy based on the market reality. At this moment, and what we used to do in our company, we develop our strategy based on good analytics and analysis on the upcoming future. And also based on the market facts. Let me speak about what is more predictable at this moment. What I do see within the course of another 12 months and what market is looking after at this moment.

First of all, market is looking for contingency of all systems they have. Second, market is now looking for substitution of the products coming from different vendors who are not capable to participate in the business development in Russia. And third, customers looking for services support, cloud support, because there are some challenges going on with product availability, the pricing, and predictability of the product range, and they're looking after outsourcing models, when they buy service. Not necessary, they buy infrastructure or hardware. And plus, another is overall services. When I look at these four dimensions of market development, we build in our strategy. And in many cases, I would say we tune our strategy, not to change completely.

Just to give you example what I mean here, we had a very thorough and deep product portfolio for software, hardware, cloud services before Q1. At this moment, this product portfolio needs to be changed, taking into account the market reality. And I'm very proud to say that we did it very quickly with great discipline and quality. And today's Softline has most advanced overall product portfolio based on local vendors in the country and our main strategy here to ensure that we deliver all this product to our customers and help them to navigate.

Another one. Increase services capacity, which is the big demand of this moment. And we invest in our efforts in this area. By the way, for the last couple of years, we built up a great base for services capabilities in Russia for cloud, for infrastructure, support for digital transformation, and during today messages, we highlighted couple of good examples of our transformational project we implemented in some industrial customers.

And we will continue. We'll continue doing this. And I just would like to highlight that during Q1, it was a period when we built up together with the customers what is required for them. We rebuilt our product portfolio. At this moment, we just increase on the speed to deploy what we see in the market.

Longer term, we will see at this moment, everybody trying to analyze how the market in Russia will look like. The same we do. But at this moment, we clearly understand what will market look like in 12 months time. And I believe we have good source of analytics to understand what can expect us in the period of beyond 12 months. Did I answer the question?

Stanislav:

Okay. Yes. Thank you much. Appreciate it. It was a question also You're getting a small question on hardware, is still the big problem for the rush market or it's diminishing for now?

Sergey Chernovolenko:

Yeah. Sorry, Stanislav. I missed this point. First of all, we're very pleased to share that we demonstrate quite solid and strong growth in hardware area. And we're very pleased to see that hardware from our so-called new product line is growing very fast, including Softline product range we produce by

ourselves. We see a good pipe. At the same time, overall situation in Russia and worldwide situation with supply demand, puts some pressure on. But at the same time we believe that based on the pipe, we feel quite okay moving forward through the year.

Stanislav:

Okay. Thank you very much. Thank you.

Operator:

Another question has been submitted by the webcast page. Sergey, what are your priorities as the new CEO?

Sergey Chernovolenko:

Thank you very much for the question. First of all, my priority is to play in different areas at the same time. The first one, to ensure that our international business is growing at the speed and the strategy we plan and no impact.

Second, to ensure that we demerge our great company into two companies. It's very, very important exercise for us. And more importantly, to ensure that we do everything when we demerge the two companies, looking after our people. Then, to ensure that all our promises we delivered to our shareholders, investors, and our employees at IPO level. We deliver and we continue investments, what we did.

And if I look into my workload, obviously within coming weeks, and today, I'm very busy with the merger task to and taking into account interest of shareholders, invest in our employees. And to ensure that we deliver in line with our promises to the market. And after this, I will focus big time to develop our international business.

Operator:

There are no further questions at this moment. That concludes our question and answer session. I will now hand back to Sergey for closing remarks.

Sergey Chernovolenko:

Thanks everyone for joining the call. I'd like to close by thanking our shareholders, customers, and ecosystem partners for their continued trust and support to our business and all of our people and leaders around the world who are transforming our business while continue to drive value with our customers every day. And thank you. Thank you very much.