

Combined Management Report for the 2020 Financial Year

About This Report

The management report of Nemetschek SE and the Group management report for the 2020 financial year have been consolidated. The corporate governance declaration in accordance with § 161 AktG is published on the website ir.nemetschek.com/en/corporate-governance. The corporate governance declaration can also be found in the chapter [«< To our Shareholders >>»](#). The consolidated financial statements prepared by Nemetschek as of December 31, 2020 are in compliance with the International Financial Reporting Standards (IFRS), applicable as of the reporting date, as well as with the requirements of the German Commercial Code in connection with German Accounting Standards.

1 Group Principles

1.1 Group Business Model

Organization

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

Nemetschek SE, headquartered in Munich, is a strategic holding company with 15 brands operating in four segments. The term “brands” is understood to mean subsidiaries of Nemetschek SE. Nemetschek SE is responsible for the central functions of corporate finance & tax, controlling, investor relations & corporate communication, corporate development and operations, mergers and acquisitions, Human Resources, IT & business solutions, corporate audit and corporate legal & compliance.

The reporting structure comprises the four following segments: Design, Build, Manage and Media & Entertainment. In order to strengthen the focus on the segments in the long term, since the beginning of 2019 each of the four segments has been assigned an Executive Board member or Segment Manager who works closely with the individual brands within the segment. This approach reflects the strategic target of better combining the brand companies’ expertise within the customer-oriented segments, leveraging synergies and developing segment strategies for the respective customer groups or overarching approaches.

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

The legal corporate structure is presented in the notes of the consolidated financial statements on page 124.

Business activities

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

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

Ideally, the digital-physical connection should be bidirectional, meaning that the digital twin can cause changes in the physical object, and these changes are registered in the virtual copy. As a result, information and implications from each phase of a building’s lifecycle – whether related to cost, durability, or user experience – can be applied to other phases. Ultimately, these insights can help architects, engineers and building managers design and operate higher performing buildings. This accumulation of data, also in conjunction with artificial intelligence (AI), is called Building Lifecycle Intelligence (BLI).

The Nemetschek Group has been following this integrated BIM approach for more than 30 years. The company’s open standard (Open BIM) enables software solutions from the Nemetschek Group to communicate with other software solutions – including those from competitors – via open data and communication inter-

faces. This allows the seamless transfer and documentation of all information, data, and digital models relevant to construction throughout the building's entire creation and operational cycle.

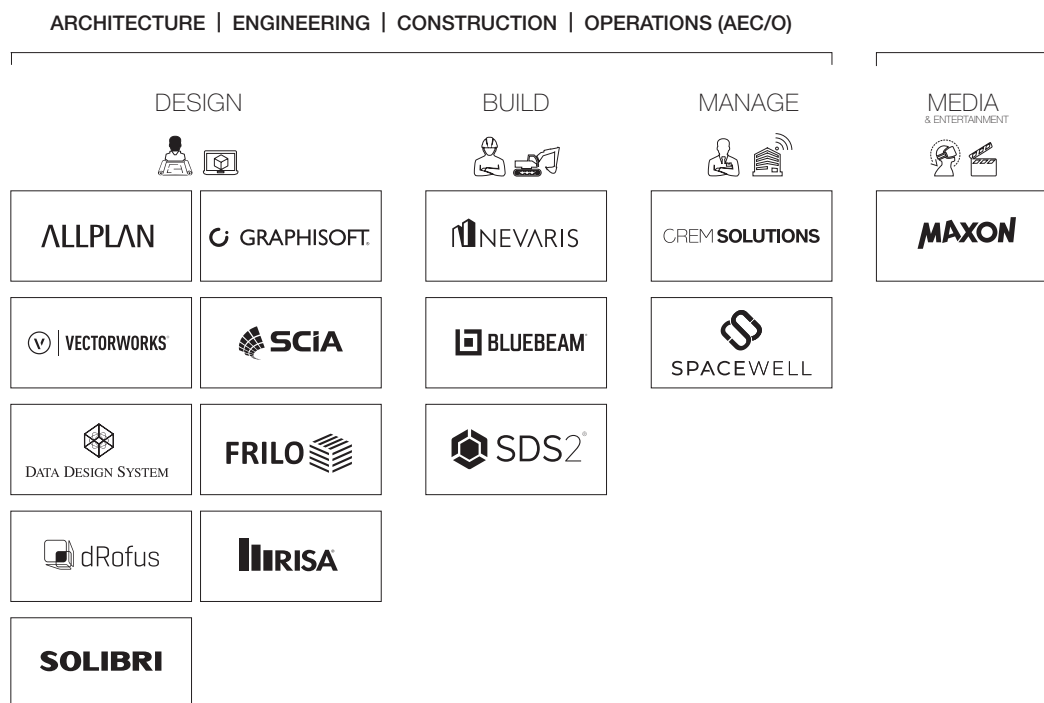
At the same time, Open BIM means that the Nemetschek Group is able to contribute to further establishing this digital method of working as an industry standard. With its Open BIM software solutions, Nemetschek enhances the quality of the construction process and improves the workflow and cooperation of all those involved, making project work more efficient while also ensuring greater cost and schedule reliability.

Sustainability is also taken into account through precise planning and the efficient use of resources. The Nemetschek Group's solutions thus lay the foundation for integrated planning, implementation and management in the AEC/O industry (Architecture, Engi-

neering, Construction and Operation). In addition, a structure can be efficiently rebuilt even years later because its details are precisely documented. The result is an increase in quality and efficiency in construction, management and renovation processes, which in some cases is significant.

Segments

The operational implementation of the Nemetschek Group's business model is carried out via the four segments: Design, Build, Manage and Media & Entertainment. The operational business is controlled via these segments, in which the 15 brands of the Nemetschek Group are integrated. At the end of 2020, the brands Precast and Allplan from the Design segment joined forces under the umbrella of Allplan for an integrated offering in the field of engineering and construction.



Design segment

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

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

Build segment

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

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

Manage segment

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

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

Media & Entertainment segment

In the Media & Entertainment segment, the Nemetschek Group offers solutions for creating 2D and 3D digital content. These

include rendering models, 3D modeling, animations or visual effects. The software solutions are used worldwide for visualizing architecture, as well as in numerous film, television, advertising and video game productions and in medicine, product design and infographics.

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

The key figures of the four segments are detailed under [3.3. Results of Operations, Financial Position and Net Assets of the Nemetschek Group](#).

Locations

Nemetschek SE is headquartered in Munich, Germany. The Nemetschek Group's 15 brands market their solutions worldwide from a total of 78 locations.

NEMETSCHKEK LOCATIONS WORLDWIDE



Drivers, market and competition

Growth drivers

The construction industry is shaped by the growing world population, increasing urbanization and the associated rising demand for housing. The rising volume of construction around the world over the past few years and the fact that buildings are responsible for around 36% of annual global energy consumption demonstrate the importance of this industry. But in terms of digitalization, the construction industry is far behind other key sectors such as the automotive industry. Studies show that the construction industry in Europe has a digitalization level of only 7%. The growing demands for efficiency, quality and sustainability in the construction industry mean that there is both a need to catch up and potential for development. This represents great market potential for Nemetschek. IT expenditure in the construction industry is expected to increase by around 13% in the next few years.

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

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

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

- » Furthermore, the topics of **sustainability** and **environmental protection** are becoming increasingly important in the planning, construction and operation of buildings. This is particularly true for the construction sector, as buildings and the construction industry are responsible for a total of 36% of annual energy consumption and 40% of total CO₂ emissions. A more energy- and resource-efficient way of working throughout the entire construction process, including the subsequent use phase, is therefore a critical factor in achieving the climate targets set by policymakers (e.g. European Green Deal). Intelligent BIM software solutions for more sustainable and resource-conserving construction, as well as more efficient building operation, form an indispensable basis for this.

Overall, the digital transformation in the AEC/O market will continue to lead to increased demand for solutions that ensure digital workflow in the various disciplines of the Design, Build and Manage segments. These market conditions provide the Nemetschek Group with a suitable framework for its further growth. It should be noted that the degree of digitalization and the above-mentioned drivers have different effects on the respective segments. In the Design segment, the markets are already being penetrated by software solutions. Here, the Nemetschek Group sees the transformation from 2D to 3D solutions as a key driver. But the situation is different in the Build and Manage segments where digitalization is still less developed, so that investments in software solutions will play a strong role in driving the market.

Source: 2019 Global Status Report for Building and Construction, DESI Report 2018.

Market and competition

The Nemetschek Group is a globally leading company in the AEC/O software market. In 2020, the global AEC/O software market amounted to around EUR 11 billion. Estimates assume that the market will grow by an average of 10% per year until 2023.

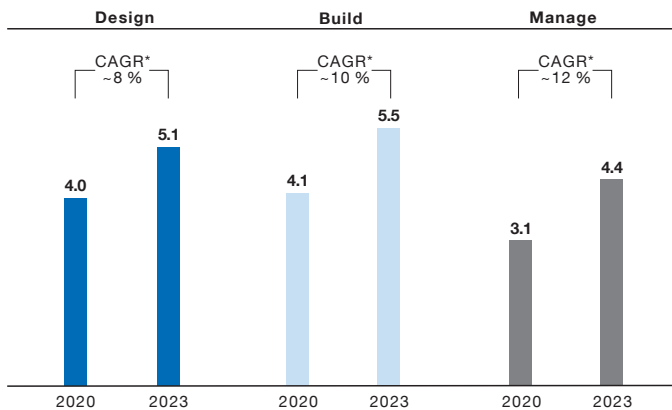
The Design market segment has a historically higher degree of maturity, as digitalization in this area started earlier than in the other market segments. An average growth rate of around 8% is expected here for the period 2020-2023.

At around 37%, the Build market segment accounts for the largest share of the overall market. This is expected to grow from EUR 4.1 billion in 2020 to EUR 5.5 billion in 2023, corresponding to an average annual growth rate of around 10%.

The Manage market segment is the most dynamic, with an average annual growth rate of around 12% up to 2023. In 2020, the market volume in this segment was around EUR 3.1 billion. According to estimates, it is expected to grow to EUR 4.4 billion by 2023.

GLOBAL AEC/O SOFTWARE MARKET

End-user expenditure in EUR billion



*) Compound Annual Growth Rate.
Sources: Cambashi BIM Design Observatory, Nemetschek Research.

The AEC/O software industry has increasingly consolidated over the past decades. The Nemetschek Group is also actively driving this process through acquisitions. Today there are only a few globally positioned vendors facing a large number of small, locally active companies. Therefore, depending on the segment and region, the Nemetschek Group faces competition from different companies.

1.2 Targets and Strategy

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

#1: With its software solutions, the Nemetschek Group supports digitalization along the entire construction lifecycle – from the planning and construction phase to the operating and renovation phase. This strategically integrated approach makes it possible to bundle and focus investments and expertise on the customer-oriented segments and thus offer end-to-end support for customers in the construction lifecycle. At the same time, the Nemetschek Group's solutions enable the workflow in the construction lifecycle to be improved thanks to their end-to-end approach.

#2: With four market segments under the umbrella of a strategic holding company, the group structure enables the Nemetschek Group to bundle the competencies of its 15 brand companies in the best possible way in the customer-oriented segments of the AEC/O industry and in the Media & Entertainment area. This structure is intended to increase the benefits and added value for the customer. The focus here is on the integration and cooperation of several brands in order to offer

an integrated and more networked range of solutions. The objective is to further improve cooperation between the various professional groups in the construction industry and to make this cooperation more efficient. The brands are "experts" in their specific customer segment, and therefore have a high level of expertise in their respective market segment. The segment and brand approach ensures that market changes can be quickly recorded, analyzed and evaluated and that customer requirements can be responded to promptly. At the same time, they benefit from synergies at segment and group level with regard to internationalization, the exchange and sharing of best practices, cross- and co-selling as well as development activities.

In order to address the broadest possible customer base, this approach is supplemented by a customer-oriented go-to-market model. In addition to the existing small and medium-sized customers, the Nemetschek Group intends to increasingly gain large and internationally active companies as customers. This is to be achieved primarily through the bundling of solutions and the use of key account management. The focus is also on reducing the complexity resulting from the diversity of brands. On the one hand, internal processes are being streamlined and simplified. This includes harmonizing the internal back-end systems in the areas of Human Resources, ERP (Enterprise Resource Planning) and CRM (Customer Relationship Management).

#3: Open BIM. Nemetschek's clear commitment to Open BIM and the associated open interfaces increases interoperability, collaboration and communication with different disciplines along the construction lifecycle. In addition, the integration of competitors' software programs is also possible, substantially extending the circle of users. 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), or the use of Internet-of-Things (IoT) devices and sensors. These topics are part of the Nemetschek Group's development activities.

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

Internationalization

As part of the implementation of its growth strategy, Nemetschek focuses on the three large regions of Europe, North America and Asia. In recent years, Nemetschek has continually expanded its market position outside Germany and at the same time strengthened its position in the target sales markets. In 2020, around 76% of Group revenue was generated outside of Germany (previous year: 75%). The USA is the world's largest single market for