

Avanquest Software 2008/2009 Strategy: Avanquest weaves its web on the Internet

After a 2007/2008 FY devoted to changing
the size of the group,
Avanquest reinvent itself to quickly re-establish
a profitable growth dynamic

A 2007-2008 year of consolidation:
Total sales: €116M – Estimated operating income - €1.2M*

La Garenne-Colombes, France – May 14, 2008

By its acquisition of Nova Development, Emme and Software Paradise in 2007, Avanquest Software has reached the “Top 10” in worldwide publishers of consumer software.

Today Avanquest Software is presenting its new strategy to ensure that this change in size leads to growth and profitability.

While 2007 was certainly a year of change, for Avanquest, it was also a year of macroeconomic change (declining worldwide growth, sharp drop in the dollar, a clear decline in the European Retail software market) and of technological change with a rapidly evolving software industry (increasing Internet-PC-mobility convergence). This is the perfect time for Avanquest to take advantage of those changes and reinvent itself!

The Internet, as an engine for profitable growth and synergy among all the Group’s businesses, is at the heart of this new strategy.

This focus is based on **two essential facts**:

- The Internet is revolutionizing technology, habits and behaviors. It is the main engine driving growth in software publishing, in both product design and market access.
- Avanquest Software was able to tap into the full potential of this channel thanks to its successful positioning in e-Commerce for the last four years in terms of growth (from €3M to €15M in total sales).

R&D, sales, marketing: in each segment of the value chain, the Internet has a place in the Group’s new dynamics.

In this perspective, several different strategic directions are outlined:

- **Focusing internal developments on a more narrow list of high-potential lines** in order to expand the portfolio of existing bestsellers while investing in new products that will lead future growth, such as: software combining on- and off-line features, convergence of Internet-mobility-multimedia applications, development of new generations of technologies (WPS for classic

* Unaudited figures

applications, Flex and Silver Light for online applications). This more selective approach will be associated with a rigorous plan to shorten development times and lower costs;

- **Regain OEM growth** by launching new software solutions (Digital Frame Manager, Fix-It, System Suite Essentials...), new applications with Internet operators and Internet access providers, and the extension of a new “Software as a Service” business model, based on the model experimented for 12 months in the USA.
- **Developing Corporate sales internationally** by setting up an international catalog for direct sales to companies based on our Software Paradise platform, and by deploying, as a complement, a corporate portal specifically for resellers to support indirect sales locally.
- **Consolidating our market shares and going from Retail to e-Retail**
 - 1) By implementing a policy of selective development of lines, based on the Avanquest North America model, including agreements with refocused third-party publishers to promote acquisition of potential bestsellers, while taking advantage of a selection of software developed in-house
 - 2) By developing a proactive approach towards e-retailers in all territories, and by implementing direct-to-consumer sales on all continents as a complement to our Web store
 - 3) By developing a low-risk “casual games” strategy benefitting from strong demand on growth platforms (PC and DS Nintendo consoles)
- **Speeding up e-Commerce sales** in synergy with the other distribution channels. To support this takeoff in sales, investments will be made in three key directions that will make it possible to develop a **true next-generation e-marketing strategy**: cyber-marketing (development and expansion of the customer base), viral marketing and e-PR (creating dedicated teams, trial versions and free downloads...), business development (designing specific products, developing affiliation programs, setting up specialized portals...).
- **Creating a true community on the Web** that will reinforce Avanquest Software’s spread all around the world. This community will be conceived as an “Avanquest Software Café,” a place for exchanges over the Web to strengthen Avanquest’s relationship with its customers. When it is launched, it will rely on the Group’s user base of more than 10 million subscribers and will be a growth engine, with loyal, participating users. The objective will be to establish a community spirit and services designed to be “A Breakthrough in Living with Technology”.

By exploiting new trends in the world of the Internet, this new strategy will allow profitable growth in the Group’s sales in every channel and every territory.

2007-2008: a fiscal year marked by an unfavorable economic environment

The 2007-2008 fiscal year (the 15-month financial year from January 2007 through March 2008) does not reflect the benefits of this new strategy. This financial year needs to be viewed as a transitional period making it possible to create the outline for the new Group, despite an unfavorable economic environment. Major advances have been achieved in consolidating the acquisitions made in 2007 and in developing synergies: organizational streamlining, pooling of catalogs, the launch of new titles, and signing significant new OEM agreements.

This brings total sales for the fiscal year to €140.2M. For the last twelve months, the turnover amounts to €116.2M, slightly below the previous target of the Group (€120M). This situation is the result of the sharp drop in the US dollar and British pound against the Euro (an impact of almost €2M on the revenue of the last quarter alone) and the decline of the European retail software market, especially in the product categories where the Group has a dominant market position. The French and German business units have been the most impacted by this difficult market environment.

This counter-performance should not eclipse the excellent dynamics of the US retail activity, the Corporate and the e-Commerce channels all **posting a double-digit growth rate**.

In thousands of Euros	January- March 2008*	Accumulated total April 2007 – March 2008* (12 months) (1)	Accumulated total January 2007 - March 2008* (15 months) (2)	Accumulated total January - December 2006
Software Sales	24.490	106.994	129.050	45.643
Sales of Services	1.881	8.845	10.717	5.385
Other sales	18	390	435	662
Consolidated sales	26.389	116.229	140.202	74.335

(1) A twelve month period including the activities acquired beginning 2007.

(2) Data not directly comparable because of the change in scope: the total from January 2007 to March 2008 corresponds to the fiscal year 2007/08 which is an exceptional 15-month fiscal year and which integrates 14-month activities of Nova et 12-month activities of Emme.

Impacted strongly by the drop in the US dollar and English pound, which are the currencies of the most performing subsidiaries of the Group, and by the poor performances of the French and German subsidiaries during the last quarter, the Group is now expecting a negative operating income (before non-recurring items) around €1.2M* for the last 12-month period.

Otherwise, the structure optimization and product line rationalization, deeper than initially foreseen to ensure a profitable growth for the years to come, will translate to non recurring expenses now estimated around €5M.

2008-09 Profitable growth a priority

The Group has produced profitable growth in 21 of 24 years of publishing and has maintained solid fundamentals and a confident outlook. After two years of investments that have enabled Avanquest Software to join the ranks of the “Top 10” software publishers in the world, the company will concentrate on organic growth and profitability.

For 2008-2009, Avanquest Software is forecasting sales in the range of €115M to €120M and an operating income (before non-recurring items) of 4% to 6%. These figures include the negative US dollar and British pound impacts on sales of about €9M (the average budget rate is €1 = \$1.6). At a constant exchange rate, organic growth would be between 7% and 12%.

The operating income, again positive, will reflect the reduction in costs and evolution of the business model.

The operating income should improve over the next years. The Group is confident of its ability to add two more points each year to its operating margin with a revenue target between €125M and €135M and an operating margin of 6% to 8% for fiscal year 2009-2010 and a revenue target between €135M and €150M and an operating margin of 8% to 10% for fiscal year 2010-2011.

Today, Avanquest Software is on track to focus on internal growth and, with the implementation of its new strategy, to enter a new stage of growth and profitability.

* Unaudited figures

About Avanquest Software

Avanquest Software is one of the world's leading software publishers, marketing up to 1,500 software titles developed in-house or by developer partners via multiple sales channels on three continents – North America, Europe and Asia. Avanquest Software addresses the general public through its Retail, Online and Direct-to-Consumer channels; businesses through the Corporate channel; and key players in mobile telephony and IT through OEM (Original Equipment Manufacturers) licenses. With 650 employees and approximately 200 engineers in Research and Development distributed between France, China and the United States, the company is committed to constant innovation. Listed on Euronext (ISIN FR0004026714) since December 1996, Avanquest Software is part of Eurolist, SBF index 250. Additional information is available at <http://www.avanquest.com> or <http://about.avanquest.com>.

Your contacts

Thierry Bonnefoi, *Analysts/Investors Relations*

Tel.: +33 (0)1 41 27 19 74 – E-mail: tbonnefoi@avanquest.com

Tuba Kocaefe, *Press Relations*

Tel.: +33 (0)1 41 27 19 96 – E-mail: tkocaefe@avanquest.com

Christine Sauvaget, *Communications & Press Relations*

Tel.: +33 (0)1 41 27 19 82 – E-mail: csauvaget@avanquest.com



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