TeamViewer AG
Transcript – Q1 2021 Results Call and Webcast

04 May 2021

PRESENTATION

00:00:03 Operator

Welcome to the conference call of TeamViewer's results for the first quarter of 2021. At our customer's request, this conference will be recorded. As a reminder, all participants will be in listen-only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulties hearing the conference, please press * followed by 0 on your telephone for operator assistance. May I now hand you over to Carsten Keller, who will lead you through this conference? Please go ahead.

00:00:33 Carsten Keller

Good morning, and welcome everyone to TeamViewer's Q1 2021 results call. Oliver Steil, CEO, and Stefan Gaiser, our CFO, will take you through our presentation, with the highlights of an eventful fourth quarter, and provide further details on the financials. As it has been announced, following the presentation there will be a Q&A session, as always. And we're looking forward to many of your questions. But before we start, I would like to remind you of the note on forward-looking statements that you can see on this page of the presentation. Now let me hand over to Oliver.

00:01:06 Oliver Steil

Thank you, Carsten. Good morning to all of you. Thanks for joining. Clearly, we believe Q1 was a very eventful – as Carsten said – but also very successful quarter. I think at the same time, we have delivered on a quarter which was a tough comp from last year when we had the extra demand from COVID. And at the same time, a lot was going on to prepare the ground for long-term growth in terms of marketing solution, development, M&A, and so forth.

So I'd like to summarize, first, Q1 highlights. I think first of all, and very importantly, we were beating the tough first quarter comparatives of last year. We saw a strong billings growth of 26% at constant currency, and 22% year-over-year reported growth, beating the tough comps from last year. This is €146.6 million in billings, which is, of course, a new record in the company's history. Also adjusted EBITDA is up by 22% year on year, now €19 million. And this is despite continuous investments in our business. We kept the EBITDA margin virtually unchanged, at more than 60% in the first quarter.

At the same time, next to the operational work on customer retention and growth, we've progressed with some very relevant strategic initiatives, which we believe are very important for our long-term success and our long-term growth. So first of all, on the strategic achievements on the acquisitions, we believe that our integrations are really well on track. By now, due to the acquisitions with Upskill and Frontline, we have a very strong global footprint in the augmented reality space, namely augmented reality-assisted workflows. I think we're one of the leaders in this space, and keep investing there in order to grow that space significantly. And we also have integrated the main product from Xaleon, which we acquired at the beginning of the year. Only three months after the acquisition, we have integrated that product suite into a new product solution, which is called TeamViewer Engage, which is geared to assisted sales and assisted service in a co-browsing, co-chatting world that we see more and more, all GDPR-compliant with highest data privacy standards, so a new functional area that we've moved into through the acquisition of Xaleon. So those are on the acquisition side.

The other big initiative is the marketing and brand building, which we wanted to do, given that we now have a significantly broader solution portfolio. We've announced that we entered two landmark sports partnerships, with Manchester United, and the Mercedes racing teams in Formula 1 and Formula E. And we are currently preparing the official launch of both partnerships, as well as the overall team setup, to continuously make best use of those partnerships. There's a lot of activations that will go on in these partnerships. We have a significant amount of rights, media assets and player/driver access that we can use, because there's a lot of prep work going into these two partnerships that are due to be launched during the next month.

In order to have even more leadership on the branding and marketing side, we have hired a new CMO, Lisa Agona. We have created a new brand, a new management board position for this, which I think underlines the relevance of the marketing function going forward. Lisa will be driving the global brand building and also bring the sports partnerships to life together, of course, with our global teams, which we have in the different regions.

We have added another senior enterprise software executive to our leadership team, very importantly. Enterprise is an important growth pillar for us. So we have a new president of the Americas, Patty Nagle, who just joined the senior leadership team to accelerate the expansion into the enterprise segment, into the channel business as well, specifically in the Americas regions or North and South America. Overall, we invested a lot in our enterprise business. We now have over 2,000 enterprise customers, and we serve them with digitalization solutions really across the entire value chain.

A few more highlights on Q1. Over the last 12 months, the subscriber base grew by 17%, to now more than 600,000. Of course, this has to be seen in the context of the very significant subscriber additions during the first quarter 2020, driven at the time by the first wave of the global lockdown. So this compares to this subscriber growth. And I would say that the sales teams and the retention teams over the last month have really done a phenomenal job. They're very close to the customer cohort that we gained last year Q1, and were really able to retain a good amount of the billings across all customer segments. So we're very pleased with this development.

Net retention rate therefore remained very solid at 100%, demonstrating, I think, the expansion potential within our subscriber base. Clearly, we have some subscribers downselling a little bit or reducing the amount of licenses, but at the same time, we were able to compensate for this, and this even with the significant negative FX effects. So we're very pleased with this one. In addition, the usual strong cash conversion. And we've significantly strengthened our liquidity position with a €300 million promissory loan note whose interest is linked to the ESG management score, which is compiled by Sustainalytics. We thereby embedded sustainability also into our funding optimization plan that has commenced last year, while further reducing, of course, our average cost of debt. So, very good development there as well. Despite adding some net debt to the balance sheet, our net leverage came down slightly to 1.6x adjusted EBITDA compared to 1.7x at the end of Q4 2020. So a lot was going on operationally, strategically, the balance sheet optimization. So, as Carsten said, a very eventful and very successful first quarter of the year.

If we continue, I'd like to take a closer look at the enterprise business because it's important. It's an important growth driver. I think you're always asking for disclosure on how this business develops, so we have a few more facts. During the first quarter, we have won additional 173 enterprise customers with an annual contract value of €10,000 or more. We're now serving more than 2,000 enterprise customers around the globe, which gives us a significant platform to drive use cases across the entire value chain and also to promote our expanded solution portfolio across all industries. We have added further blue chip customers in very attractive sectors such as industrials, healthcare, life science and also logistics. And we also have worked with existing clients to address more use cases, which ultimately drives ACV expansion in this segment, mostly by upgrading from the core license – so corporate, premium corporate, to our Tensor product – or by extending the existing installations with our augmented reality products Frontline and Pilot. So often these installations start relatively small as proof of concepts, but then, if the customer is successful and happy, there's a very natural built-in growth paths, which we are also seeing happening.

So overall LTM enterprise billings grew 90% year on year, now nearly €59 million by the end of the first quarter. And there has also been a notable shift towards larger customers, which I think shows the quality of the solution portfolio and the stickiness of customers. As you can see on this slide on the right, in the pie chart the portion of contracts now with an ACV above €50,000 is increasing, is now 7% higher, at 41%. And also the number of contracts with more than €200,000 has increased that clearly testament to the very successful up- and cross-selling. So we see that movement of customers becoming more than €10,000 and then growing up over time, which I think is something we have been discussing since the IPO, that this is our goal. And it works, actually, very well. Just to give you another example, our most valuable customer now has an ACV of more than €1 million, which is a very, very significant improvement since the pre-IPO times. In pre-IPO, the biggest customer was around €300,000, if I remember correctly, but that was a single outlier. So I think these numbers show that our investments and the strategic growth initiatives to further increase the enterprise really have paid off. And also, clearly, we are in the middle of some mega trends, which help us in growing the business. Ultimately, everything, the way we work is changing in all industries. Digitalization is on the rise, and that's something which drives our demand more broadly.

If we turn to the next page, you can see a selection of the deals that we have closed in the first quarter, coming from new as well as also existing subscribers. I think that's important. Again, we were able to print a good amount of larger Tensor and also Frontline tickets. Just a few examples. First on the list is a leading provider of mechanical and electronic security systems with more than 16,000 employees. They're using TeamViewer in different areas. Their goal was to implement a group-wide remote support solution for more than 14,000 managed devices, that is centrally managed and that can also easily cope with their increasing capacity needs going forward. So they really wanted to have a scalable solution. The Tensor suite is what they chose. It provided exactly that scalability, plus also convinced the client with its security features, and the seamless integration with Microsoft Intune. That's really a recurring theme: security, scalability, integrations with other enterprise solutions, which help us win these businesses against competition. Clearly with this rollout, this intensifies the relationship with a large customer, and it creates the stickiness that we go for and significant room for further upsells in the future.

Another large global player in industrials has deployed a combination of Tensor and Pilot, and that's to address a variety of use cases. On the one hand, it was benefiting from the Tensor integration with Salesforce – again, the example of the integration with other software products. And with this product, so the Tensor– Salesforce integration, they are supporting all their internal sales agents running Salesforce. And then the other piece of the solution, Pilot, is externally used to guide technicians in the field when maintaining electrical systems that their customers have in place today. And as we already did with some of our other enterprise customers, we are in the process of testing a Pilot integration into their own app as a white-label solution. So more and more customers are rethinking the way they engage with their customers. And they use part of our solutions, integrated into their proprietary apps, to be able to deliver remote services and remote connectivity.

I think if you look at it, what really stands out today is the variety of industries that we can successfully penetrate with our sales reps. And as you can see, we have been winning customers across very attractive sectors, including also financial services now, where we have very high security standards. And our numerous integrations play a crucial role there, as I said before. And also in some of the industries – for example, health care, life science – there's typically a large range of OTs, so operations technology devices, that require a super stable and high-performing connections, so it is coming more and more clearly in line with our strategy.

Frontline augmented reality, as you can see, have shown very good traction, of course, in areas like logistics, where, for example, Ubimax has been coming from, but also increasingly in other verticals, which is very nice. It proves that we are on the right strategy. I think augmented reality-enabled workflows are really penetrating the enterprise world across industries and company sizes. And, therefore, we feel very strongly that we have acquired the right companies and are betting on the right technology and the right area.

I think we have a few, even more specific examples as we continue. One example is Mitsubishi Electric. It's the central Eastern European division of Mitsubishi, as you know, a worldwide leading manufacturer of electronic devices. They use TeamViewer Frontline to provide customer support for the industrial automation systems. These systems, for example, include devices such as industrial control, system drives, robots and the likes. They're using smart wearables or any other standard mobile devices. And Mitsubishi customers can receive augmented reality-powered remote guidance when troubleshooting the equipment, or they can have Mitsubishi experts running training sessions for their own people. So, very interesting use case and a very good example of augmented reality-enabled field support, installation support. For their customers, so for Mitsubishi's customers, this means faster training, clearly lower error rates and maximizing machine uptime – needless to say, super important for manufacturers from food, aerospace, automotive industries that rely on business-critical factory equipment. So it reduces downtime, improves service quality, reduces number of errors. Just a significant improvement of the overall customer service of these types of companies, like Mitsubishi.

The other example is the Bühler Group, a global manufacturer of process technology for the food/feed mobility industries, more than 12,000 employees. They use our Tensor suite for remote maintenance and commissioning of its machines. With secure and efficient remote access to its systems, Bühler can react quickly in the event of a malfunction, support its customer in real time, and thus provide production capacity worldwide for urgently needed foodstuff, for example. So they actively manage the uptime of their machines and equipment for their customers. The company has the option of configuring and commissioning their systems remotely. For example, in the case of geopolitical changes or so in crisis areas, or during the current pandemic, where they can't travel, they can really run these commissionings, configurations remotely using our technology, which is clearly something which more and more companies go to. So, by digitalizing their support processes, Bühler Group can actually fulfill supply agreements without interruption, ensure product cycles at customers in over 140 countries, and thus contribute to the security of supply of a quarter of the world's population on the food side. And in addition to Tensor for device connectivity, Bühler also uses our augmented reality solution on smart glasses. They use it for knowledge transfer, trainings on construction sites and in manufacturing. And once again, this reduced travel time and it contributes more to sustainability and their sustainability footprint.

Now, before I hand over to Stefan, I also would like to spend a couple of minutes on exactly this topic – sustainability. It’s a topic that is deeply rooted in our product DNA since day one, and where we have set ourselves ambitious goals. So if we go to the next slide, as you can imagine, our solutions portfolio does not only drive our commercial success. It actually also represents the basis for our strong commitment to sustainability and ESG, when we connect people and when we connect devices worldwide, and also actually free of charge for private use. And this has a very significant climate aspect, clearly. And therefore we have incorporated that into our sustainability agenda. So the most important point, of course, is companies, people using our solutions, they reduce travel, and that enables companies to limit their carbon footprint, thus contributes to avoid 37 megatons of carbon emissions per year, which has been calculated by an independent research institute. So a very, very significant reduction of carbon emissions if customers, companies move their processes to doing more remotely. So that's number one, the very, very positive impact of our products everywhere where they're being used. And that's why we drive this forward.

Internally, we've also set goals to cut emissions of our own operations by at least 50% until 2030 at the latest. Clearly, our own footprint is very, very small compared to the carbon footprint of many of our large customers, so the biggest lever is clearly to reduce and help reduce the footprint of our customers. Internally, it is mostly linked to our data centers, but we are also working on this.

Besides the environmental initiatives, we also foster a culture of diversity and equal opportunity. And I think this is reflected already in the workforce from 70 nationalities. It's 34% female ratio, which is actually quite high for a German-based tech company. Of course, it should be better and should grow from here, but I think it's a good start, if we compare to other companies in our peer group. Of course, we have gender pay equality. And I think this is also the reason why we've been able to attract and retain talent quite nicely over the last years. But of course, we shouldn't stop there. We've given ourselves targets to promote diversity on all levels really, and leadership. The leadership level is an important one. We have 29% of women in management positions, as well. We've given ourselves a target of 33% there and we're very well on track. We are actively promoting women for leadership roles internally. And we have set up a broad leadership development program where we have an over-representation of women as well, in order to really drive this from the top. And on the senior management level, we have made progress earlier than expected. Stefan and I are very happy that Lisa Agona has joined the management board as our new CMO in April. I think, with her experience, she will play a crucial role in turning TeamViewer into a global tech brand, and drive all marketing initiatives. And of course, last but not least, in the supervisory board, we are fully aware that it doesn't end there. And the supervisory board is also actively working on the diversity agenda.

So I think our ambition level and achievements, they get the attention of various ESG rating agencies, which is a good thing. And of course, we can always improve, and we should improve, and we have a clear agenda to improve. But we have already received some very favorable scores based on the disclosure we did. And also with the increased level of disclosures with the annual report 2020 and now clearly defined goals, we do see further improvement potential in those ratings. So, very successful steps forward on this front as well. So all in all, a very successful quarter. And Stefan is going to lead you through the financial results now in more detail. Stefan.

00:23:21 Stefan Gaiser

Thank you, Oliver. Good morning, everyone, and a very warm welcome from my side as well. Now let's dive into our Q1 financials. On that slide, you can see 26% constant currency growth and 22% reported growth. Q1 '21 was clearly our best ever quarter, beating a very tough comp from last year. Of course, first quarter 2020 was fueled by a spike in demand during the first wave of the global lockdowns. And also we didn't face the much weaker US dollar that we have today currently. So I think, against this backdrop, delivering such a growth is actually really great achievement by our sales and retention teams. And as Oliver already mentioned, we stayed very, very close to the March and April cohorts, engaging with them early on, and thereby successfully retaining those subscribers. This is reflected in an unchanged subscriber churn rate compared to Q4 2020. And that actually applies across the customer spectrum, including a significant amount of enterprise accounts, as you've seen from Oliver's slides, that turned to us last year to make a push in remote working and digitalization. The retained subscribers amount to 437,000 compared to 514,000 at Q1 2020, and thereby represents a subscriber churn of 15%, which is completely unchanged compared to Q4 2020. I think that's a really good result.

As anticipated, there has been, of course, some rightsizing and proper procurement procedures of corona-driven subscribers adapting to the new environment. On the other hand, we saw a very nice ACV expansion in the enterprise segment and a general shift of ACVs of 250,000 and more. I think on balance, we were clearly able to compensate the gross churn and the higher downsale with up and cross-sale and therefore record the net retention rate of 100%, which includes significant negative FX headwinds as well.

Now, at the peak in this corona-driven extraordinary demand largely occurred between mid-March and April 2020, some slipping even into May, with the exception of most APAC countries where it started earlier, the temporary headwind on NRR will really continue into the second quarter, also reflecting these continued FX impacts and some pull-forward effects in Q1 to early on secure effective retention of our customers. Therefore, we expect the net retention rate to reach a low in the first half of 2021, with upside thereafter, when those negative impacts will fade out. And the positive impacts from selective price increases, as we talked about, will fully kick in in the second half of the fiscal year. Also, just a quick one, you should know that our net retention rate calculation is now based on reported billings, so that you can fully reconcile the numbers. And it's not based on billings, net of payment, defaults or bad debt anymore. I think that makes it easier for external readers as well.

Turning to page 11, let's take a look at the regional highlights. The Americas and EMEA again led the pack with 28% and 27% constant currency billings growth above last year's outstanding Q1. APAC has been a little slower in the first quarter. Let me talk about that, but first to the Americas. Clearly, America has significant FX headwinds, as we talked about, but underlying growth was very healthy, with good performance across all sales channels, a bit of a softer start in Q1 following a very strong Q4 2020 finish. But then the team really rallied once again and produced another quarter of really strong billings growth. So, kudos to the entire America sales team. Also with the Upskill acquisition, we made a great step forward strategically. It significantly strengthens our US footprint, with additional offices across the US, and also expanding our enterprise customer base. I think in particular, it's a strong boost to our enterprise OT business, providing potential to build pipeline and accelerate up- and cross-sell in the augmented reality field going forward. And speaking about enterprise business OT, we appointed a very experienced and proven enterprise software executive with Patricia Nagle, who is now at the helm of the Americas business, and she will drive our growth initiatives with a particular focus on larger enterprise deals and partnerships.

Moving on to EMEA, nearly customer retention was the main focus overall, but especially in our European home turf, which benefited the most from the corona extra demand in 2020. I'm super happy with what our sales retention teams have achieved. I think they stayed extremely close to the corona cohort from last year. I think we had overall a really good grip on our churn rates and proactively worked with our customers to rightsize subscriptions with intelligent packaging, and thereby retaining our subscribers. And as you could see in the enterprise numbers Oliver presented earlier, this resulted in a ACV expansion, moving customers from the below €50k to the above €50k pocket, and also the above €200k deals grew nicely. Our largest deal is now significantly above €1 million – a very significant upsell from this customer in Q1 2020. I think it's very pleasant to see and confirms our strategy to move into the enterprise space.

Moving on to APAC, the dynamics in APAC remain pretty heterogeneous, as we have many different countries with their own characteristics and momentum. While last year in Q1, EMEA and America saw a spike in demand only in March, APAC, of course, following the pandemic experienced the corona impact for almost the entire quarter, obviously adding to a higher base effect in year-on-year growth for the APAC region. Japan saw that impact later in April and May. I think, given our increased product portfolio, our enterprise sales teams expansions, they are now very well equipped to build a strong pipeline. And we also do see that, but at the same time, I think even more than in the other two regions, the brand building and a step-up in marketing is required and should really help our troops significantly to accelerate growth going forward.

Turning onto page 12, our financials and cost structure. No major surprises there. GP margins remain comfortably above 90%. That's also what I expect for the full year. Clearly, infrastructure is proven to be very scalable and is frankly the key reason for our very stable and attractive GP margins. We talked a lot about our growth strategies in the past, comprising meaningful investments across all functions. Clearly over the last 12 months, we have grown our number of employees very substantially, by more than 40%. with significant additions to salesforce and R&D. Clearly we continue to invest there, but we also mentioned at the time of the guidance for 2021 that we want to step up our marketing approach, and better position and present our enlarged solution portfolio. And therefore, our discretionary marketing spend has significantly increased, as you can see from those numbers. So on one hand, we continued with all these investments, while on the other hand, we retained the adjusted EBITDA margin at very high levels of 61%, as we saw scale effects in G&A and some lower bad debt expenses compared to Q1 last year.

And this high profitability, as always, is converted into very strong cash flows, as you can see on the next slide, in net cash from operating activities. Reported net cash is somewhat lower than last year, solely due to our higher tax payments, completely in line with our plans, and because of an increase in net working capital. This increase was solely caused by the significant marketing partnerships prepayments. So at the end of Q1, we made a significant prepayment here, which will then be expensed in starting Q2 and fully effective starting in Q3 and Q4, as well as company bonus payments for 2020. So without those items, the change in trade net working capital was actually cash flow-positive by more than a million. So underlying levered free cash flow momentum remains very strong. Given lower CapEx, as we talked about, and significant less interest paid for borrowings and lease liabilities, the impact on the levered free cash flow, which obviously excludes M&A, was less pronounced. And our cash conversion remained very high, with 62% of EBITDA converted into levered cash flow.

On the next page, you can see that this free cash flow we generated was more than enough to fund our bolt-on acquisitions, while at the same time also improving our cash position, as you might have heard or read. During Q1, we also used the very attractive conditions in the debt markets. And we continued our funding optimization program, which was already initiated last summer, and therefore has successfully amended the syndicated loan facilities. In February, we raised €300 million by way of a widely distributed and ESG-linked promissory note, which was then complemented by a very attractive four-year €100 million bilateral loan in March. If you add all of this together, those transactions, we have an average interest margin of 1.1%,and therefore, have been able to reduce our cost of debt significantly, even further.

So we've raised roughly €400 million of debt in the last quarter. Around €50 million has been used to repay the drawn portion of the RCF. But with cash of €437 million at quarter-end, we have a very comfortable liquidity position now, which we will use to execute on our growth plan or accelerate it, if and when opportunity arise. So with those financings, we could not only lower our average cost significantly, but also smoothen and extend the debt maturity profile, as is illustrated on the next page. As you can see, with only very minor scheduled repayments in the next three years. And therefore we can deploy the cash for growth, while also retaining the opportunity to deleverage. Leverage is now at 1.7x, or it was at 1.7x at the end of 2020. It's now down to 1.6x, despite a small increase in the net financial debt. So for the time being, we feel very comfortable with our cash position here and the net leverage of 1.5x to 2x. And clearly any form of [inaudible] returns is currently not on the agenda.

So what does this all mean for the remainder of the year? Obviously, we only have one quarter under our belt now. But following this very strong first quarter, beating the tough comp from last year, we are confident that we will meet our ambitious targets and therefore confirm our 2020 outlook, with reported billings in the range of €585 up to €605 million assuming a USD of 1.20. Full-year revenue should be in the range of €525 and €540 million, as the different revenues related to billings in Q1 will now be released during the remainder of the year. And therefore, the gap between revenue and billings will be less pronounced in the remaining quarters. And in terms of profitability, we expect an adjusted EBITDA margin between 49% and 51% for the full year. So with that, that concludes our presentation and now we will hand over to Q&A.

Q&A

00:34:56 Operator

Thank you. We will now begin our Q&A session. If you have a question for our speakers, please dial 01 on your telephone keypad now to enter the queue. Once your name has been announced, you can ask the question. If you find your question is answered before it is your turn to speak, you can dial 02 to cancel your question. If you're using speaker equipment today, please lift the handset before making your selection. One moment please for the first question. The first question is by George Webb of Morgan Stanley. Your line is open.

00:35:33 George Webb (Morgan Stanley)

Good morning, Oliver and Stefan. A few questions from me, please. Firstly, as you said, heading into Q1, I think retention was a focus for a lot of people. You touched on it a little bit, but can you give us a little bit more color on the discussions you were having with your COVID cohort customers, so to speak, in that first quarter and how difficult or not it was to drive those renewals? And where you did see capacity downsizes, was that perhaps where you were bought as a backup solution, rather than as a primary solution?

Secondly, on the enterprise side, slight tick down in Q1 on quarterly new customer additions versus how you were running out in Q3, Q4 last year. Can you just talk a little bit about how that fit versus your internal expectations? How the pipeline's looking in practical terms, without any constraints in Q1 around sales teams, perhaps focusing on renewals versus new business?

And then just lastly on margins, can you talk about the phasing of marketing investments through this year, and how much of that we should expect to come through in the second quarter versus third and fourth quarters? Thank you.

00:36:42 Stefan Gaiser

Okay. Thanks, George. So with regards to COVID cohorts, clearly, the entire organization was extremely busy in March and April, reaching out to the customers who joined us last year, I think the key focus was clearly more on retention and less on cross- and up-selling, pitching the entire solutions portfolio. I think, overall, we're very pleased with the results, also evidenced by the continued low subscriber churn of only 15%. So no uptick there. Clearly, when engaging with those customers, what we saw is, as we also told you, is that many of those customers obviously bought in haste during the March–April timeframe last year. They didn't negotiate any prices. They bought maybe more capacity than they needed. And as we said, we expected a lower net retention rate from those cohorts. And that's exactly what happened. I think the great success is that we've been able to retain those customers. I think it was, with the benefit of insight, a very, very good move from us not to increase prices during last year's times of need. I think that clearly helped us to retain those customers now. I think it would have been easy to ask for higher prices last year. We didn't do so, but nevertheless now we have to make concessions here and there because many of the customers have now gone through a proper procurement process, and some rightsizing of their capacity needs. But I think fundamentally, it was pretty much the same throughout all regions, better procurement discussions with our customers, intelligent pricing. And therefore we've been able to effectively retain a significant amount of those customers, which is a great result from my perspective.

Now, with regard to the enterprise, I think exactly the same here. Focus was clearly on retaining those customers, as you might remember, George, during Q1 of last year. I think we added more than 500 customers in that region of more than €10,000. So it was really a step change in our enterprise footprint. I think the focus was clearly on retaining those customers. And the same kind of discussions in terms of rightsizing, different packaging, and so forth, took place there. Well, I'm actually very pleased with the momentum, and that we've been able to retain those customers and adding more enterprise customers on top of that good result there, frankly. Pipeline build is very encouraging. It includes also pipeline with regard to our entire solutions portfolio, so TeamViewer Engage, TeamViewer Frontline. And those typically have higher ASP numbers associated with them, like typically 500,000 and above that – well, not typically, but we see more of those deals in the pipeline as well. And that's what we need. So I think the pipeline momentum is very good. Clearly we need to close them, but generally speaking, I'm very pleased with the enterprise progress. And I think once we have navigated post Q1 and Q2 retention, we can focus on re-accelerating growth again.

Margins developments: the two partnership which we announced, they will kick in pretty much in Q3, a little bit in Q2. Clearly Formula 1 has already started and the official launch of our partnership will happen in the May timeframe. So we're going to start expensing some of that in a second quarter, but the full effect will start in Q3 onwards, basically.

00:40:06 George Webb

That's very helpful. Thank you. Just a follow up. You mentioned Frontline on the enterprise side. I mean, that feels like the sort of business where a return to face-to-face meetings and getting back on the road will be something that can certainly aid that new business process. And is that how you're thinking about it? Are you expecting that, as you see restrictions unlock, particularly in Europe, that that business can accelerate?

00:40:29 Stefan Gaiser

I don't think that any lift of lockdowns will have a negative impact on our business, because clearly customers have now experienced the impact and the benefits of solutions which help you to digitalize your business processes and avoid [inaudible]. So I think that momentum will stay intact. I don't see any negative impact there. And I think the return on investment you actually get from our solutions, from deploying our solutions, goes way beyond just reducing [inaudible], right? I mean, the time to serve your customers and, frankly, reaction time to maintain your operations is becoming so critical nowadays, that your return on investment is very attractive.

00:41:27 Operator

The next question is by Stacy Pollard of JP Morgan.

00:41:31 Stacy Pollard (JP Morgan)

Hi, thanks very much. Do you mind talking us through your expectations for the seasonality this year, for both billings and revenues? So just on the billings, Q2, I guess, closer to 20%, and then sort of really lifting towards the upper end of the 20% to 40% range in the second half. And then on revenues, obviously you're targeting 90% of billings for the year. So just maybe explain a little bit more the lower rate in Q1, and then how you see that developing through Q2, Q3, Q4.

Second question, kind of a follow up on the net retention rate, can you break up the components? Sometimes you've done that 10% churn. Maybe what effects, what upsell or downsell? And then can you just give us what it might have been under the old definition, as well? And then finally – sorry, that's a lot – in the longer term, what would you say your target is? So not for the full year 2021, but really, the longer term.

00:42:35 Stefan Gaiser

Yeah, sure. Just writing down your questions. So in terms of phasings billings and revenue, let me start with billings first. Clearly, now Q1 behind us, Oliver mentioned very well. I think Q2 will be the same kind of intense engagement with our customers, obviously focusing on retaining those customers early on. So I would expect to be Q2 as tough as Q1, in the sense of beating prior year comparisons. So I would expect Q2 ought to be in the low 20% growth range, maybe a bit tougher than Q1, because we also in Q1 made sure that we engaged with the COVID cohorts in April and May early on, and therefore secured those retentions early on. Therefore, that led to a little bit of a pull-forward effect into the first quarter. So, in a nutshell, I think Q2 will be pretty much the same as Q1, maybe with tougher, because also the net retention rate will be probably seeing its low in the second quarter. Why is that? We have continued headwinds on the net retention rate in the second quarter, i.e., the rightsizing of subscriber packages, as I talked about, will continue in the second quarter. The pull forward effect, obviously, and the negative FX headwinds will remain in the second quarter. So all of those headwinds will stay intact in the second quarter. And the positive NRR impact will only kick in in Q3 and Q4. We talked about the price increases, the selective price increases, which we have started to initiate end of 2020. However, we've obviously excluded all COVID customers from these price increases, and therefore very little positive impact on our NRR in the first half, more pronounced in the second half. So that's why we expect a low NRR in Q2 and then after increasing again.

With regard to the breakdown of our gross churn, gross churn, i.e., the value we lost from lost subscribers remained stable at 10%. I think that's very good overall, actually pleasantly surprising. And we've been able to compensate that gross churn by up- and cross-sell. FX was roughly three percentage points, so a significant impact over the last 12 months. And under the old definition - actually, I didn't run those numbers, but as you can see from our comparison, the numbers are usually pretty much the same, maybe a percentage point’s difference or so. But I would expect they are pretty much the same. And where do we see NRR longer term? Now, longer term, as you said, clearly post 2021, I think given our increased focus on enterprise business and higher contribution from the enterprise business, it should increase substantially. By how much? I think that's a bit tough to see right now. I think I need to personally experience and finish 2021. And then I think we [will] have a better picture on our NRR development in the long term.

00:45:45 Stacy Pollard

Thanks. A very quick follow up. You mentioned last quarter, I think, that enterprise billings—now, technically, in the last 12 months, I think it's still 12% of total, but you'd mentioned how you’d exited the quarter in terms of new billings or something. It was it was a much higher rate. And I guess I was trying to figure out where we currently stand on that.

00:46:08 Stefan Gaiser

I think that's pretty much unchanged overall. I think in terms of new billings it was around 20%–25% in Q4. Clearly, Q4 was very strong for the enterprises. I think across all channels, frankly, it was a very strong finish to last year. Maybe this year a bit less than Q1 on the enterprise because we've been focusing so much on retention of enterprise customers now.

I forgot to mention or explain the revenue phasing. That was another part of your question. Clearly, Q1 revenue and billings, the gap is wider than the 90%. Why is that? Because obviously a significant amount of billings occurred in the second half of March. Therefore, very little to no impact on revenue. That will reverse, actually, in Q2 to Q4, where we will see a significant amount of revenue contribution from those Q1 billings. And therefore the gap will be less than 90% in the remaining quarters. And overall the 90% guidance of revenue compared to billings is still intact. It's pretty much the same phenomenon as we saw last year in Q1.

00:47:24 Operator

The next question is by Bastian Benrath of FAZ.

00:47:39 Bastian Benrath (FAZ)

Good morning, I have two questions regarding the marketing activities of TeamViewer. So, given all the opportunities laying in it, there also has been a backlash. The stock price plunged by 16% when you announced Manchester United as sponsoring. So two questions to that. First of all, do you have any comments on this? And second of all, can you please describe why do you see these brand-building activities now as important for TeamViewer in its current situation? Thank you.

00:48:10 Oliver Steil

Yeah, obviously can't comment on the share price. I think you'll see the stabilization since then. Why is it important? We have a much broader solution portfolio now. We've invested into our own product development and into M&A. And I think we've said at the time of the announcement that positioning the brand globally for these new solutions, for all industries and across the entire value chain. We believe it's a good moment in time to develop that brand and improve the positioning there to increase the growth potential, especially in the enterprise segment.

00:48:51 Bastian Benrath

Okay, right. So can you maybe, just as a quick follow up, would you be able to describe what kind of new customers you want to address through this sponsoring, with your bigger solution portfolio?

00:49:07 Stefan Gaiser

Well, I think it clearly helps us to gain more visibility across all customer segments, right? I mean, that's why we do these marketing partnerships, to really elevate us from a marketing perspective and gives us visibility across all customer segments. That's why we closed both of those partnerships, the Man United, as well as the Formula 1.

00:49:35 Operator

The next question is by James Goodman of Barclays.

00:49:39 James Goodman

Good morning. Thank you. Maybe just first on the customer that you called out now over a millions a year in billings. It's a big step up. It's interesting, maybe you could just tell us a little bit about when you sign them, what industry, what use case, maybe what volume, just to bring that one to life a bit. Was that something you signed in Q1 of last year or an older customer?

And then just a couple of quick ones from me. Just on the price rises that you've spoken to again on the call so far, can you quantify any effects in the quarter from price rises versus what the effect might be on the group growth in the second half, so we can sort of factor that as a step up into the growth rate into the full year? And maybe if there's any behavioral change you've seen from those where you have changed the prices?

And just finally on APAC, is there still an effect there from the change in revenue recognition around defaults that you mentioned last quarter, or is that fully flushed through now there's an underlying growth rate in APAC? Thank you.

00:50:49 Stefan Gaiser

Sure. Let me get started. So the use case of this customer is actually a very nice one. It's a significant customer in the retail sector. They use our software, and pretty much the entire solutions portfolio, including our Pilot augmented reality solution, remote management, and our enterprise product called Tensor across, now, I think, a third of the organization give or take, to remotely manage their IT infrastructure, but also a little bit of their OT infrastructure. They were also very keen to use our augmented reality solution to provide AR-based support for their organization. That was actually a deal which we closed already in Q1 2020. I think we talked about that back then as a deal, the biggest deal in the history of the company, significantly north of €0.5 million. And now that customer has continued with the rollout of our software, and therefore they needed more capacities across the entire solutions portfolio. Now, that deal is significantly more than €1 million. So I think it's just very nice to see and pleasing to see that we are able to win those large customers. And once we win them and they fully deploy our software, they add more capacity and start with global rollouts. I think it's fantastic for the company and important for the company to see that we are able to win those large deals, and that we should have more of those large deals going forward, ideally.

Then, in terms of the price increase and the impact, when we put that in place starting end of Q4, we clearly said – when we discussed it with our sales and retention teams – that we need to make this a very bespoke price increase, that we need to exclude certain countries and certain customer cohorts, clearly need to exclude the cohorts which joined us during 2020, and really base it more on those customers who have been with us for many, many years and who haven't seen a price increase for four to five years. I think, in a nutshell, it probably relates to 50% of our subscriber base, maybe give or take, depending on the countries and so forth. The impact in Q1 is fairly small, because clearly the COVID cohort is completely excluded. I think, in a nutshell, maybe one percentage point or so in Q1 on net retention rate, but not more than that. The impact will be more pronounced in Q3 and Q4 because clearly Q4, James, that's the time of the year when a significant amount of long-standing customers who have been with us for many, many years, come up for renewal. So that’s where the impact should be most pronounced. But even so, the price increase is typically around 3% to 5%, depending on products and so forth. So I think it's still a very modest price increase after four to five years of zero price increase.

And then Asia, the impact on the cash accounting there. Underlying gross would have been a bit better, but not a whole lot. So I think most of that impact has actually been washed through in Q4. So it's slightly depressing underlying growth rates in APAC, but not resulting in a fundamentally different picture.

00:54:09 Operator

The next question is by Ben Castillo-Bernaus of Exane BNP Paribas.

00:54:15 Ben Castillo-Bernaus (Exane BNP Paribas)

Hi. Good morning. Thanks for taking my question. Just one from me, which is, you picked out your global footprint in the augmented reality assisted workflows space, I just wondered, who are you seeing from a competition perspective here? Are you displacing incumbents or is this a first-purchase, pure greenfield opportunity? And if there is competition with other vendors, are the conversations you're having with potential customers pricing-based? Is it finding the right product solution? Just helping bring that to life a little bit would be helpful. Thank you.

00:54:49 Stefan Gaiser

Good question. It's mostly really new installation. So I think this is augmented reality-enabled processes and workflows really gaining traction across industries, where you have lots of manual work, frontline work, and then really industry by industry going through. So most of these discussions are not related or not centered around pricing, but really, as you say, what is the right solution, the right devices, the right workflows, where to start, how to make it work, cloud deployment, on-premise deployments, bandwidth requirements, link into backends, integrations with ERP systems, and the likes, and the likes. So this is the discussions we’re having. Clearly, in the augmented reality field there is lots of movement. But I think, through our acquisitions, we've really acquired a leadership position there. The other player I would name that is credible in this field is probably PTC and then, of course, the large hardware providers, and lab developers, glasses developers like Microsoft, Google, Apple, but that's more from a hardware side. So the workflow side, I would say, we have a leading position. And then, as I mentioned, probably PTC also.

00:56:12 Ben Castillo-Bernaus

That’s helpful. I just have one quick follow up. Obviously, you only acquired Ubimax last summer, so COVID was already in place there. But do you get a sense that the demand from customers here in the space is accelerating as a result of COVID? Are they telling you that there's been a step change or an acceleration in their intention to?

00:56:31 Stefan Gaiser

No, I wouldn't say so, necessarily. I think the whole COVID situation has kind of brought the attention towards remote work, central work, digitalization in some markets. Especially Central Europe, and I would say especially Germany, I think the requirement of becoming more digital has come front of mind. In other markets, less so. So I would say in this specific segment, COVID impact is less important from the positive side. What is, of course, not helpful, is the fact that we can't travel, can't see customers, hard to showcase, promote the solutions. So once travel restrictions are lifted, I think that will improve also the pipeline built in this space.

00:57:29 Operator

The next question is by Gianmarco Conti of Deutsche Bank.

00:57:35 Gianmarco Conti (Deutsche Bank)

Hello. Hi. Thank you very much, Oliver and Stefan. I have a couple of questions on my end as well. Could you perhaps give some color on why is the difference in revenues and billings more pronounced this quarter and how exactly do you reconcile the difference? From my understanding, billings are recognized as such when the realization of them turning into revenues in the future is probable. So how do you actually define probable realization? Does this new definition mean that more goes into retention versus new sales? If you can provide some tangible example here, that would be amazing. Thanks.

00:58:11 Stefan Gaiser

So on revenues/billings, that's very straightforward. So we recognize billings once you have basically a contract with the customer, or the customer has paid us, or we consider likelihood of payment is very high. And then those billings will be recognized as revenue from the day when the subscription contract starts. So if you have a subscription contract which starts first of March, and you bill a certain amount, you start recognizing that amount over the 12 months period each day, so to say. Now, the gap between revenues and billings in Q1 is more pronounced than in other quarters for the following reasons: because a significant amount of our billings in Q1 occurred in the second half of the first quarter, as a result of the COVID extra demand, which we saw in 2020. So once we renew those contracts, those billings are generated in the second half of March. And then you only start realizing a few days of revenue in that quarter. Now, in the second quarter, obviously, that will turn around because you don't have any billings anymore from those customers, but you start fully recognizing those revenues. And therefore the gap between revenues and billings will be lower in Q2 through Q4. And that's exactly what we've also seen in in 2020.

00:59:40 Gianmarco Conti

Right, that makes sense. Yeah, that definitely helps. But the definition, it doesn't really mean that more goes into retention with those new sales, right?

00:59:53 Stefan Gaiser

Sorry, that's a different topic you are asking, probably about the amended net retention rates. In the past, actually at the time of the IPO, we debated whether we should stay at net retention rates pre- or post-bad debts. And at the time of the IPO, we had bad debt in the region of 4% to 5%. So we decided to go for the more conservative option and take into account bad debt payment defaults and only calculate net retention rate after taking into account bad debt. Now, we've significantly improved our cash collection processes and so forth. And hence bad debt is in the region of 3%. That's where we'd like it to be in the long term, maybe even lower given that we are becoming more enterprise-y. But now that that number is becoming lower, we said it's actually easier for the outside world to fully reconcile our NRR. And that's why we now moved it on gross billings, and also eliminated some complexity around the various billings split, around migration, and OEM customers, and so forth. And I think the benefit is now that everybody can fully reconcile our NRR numbers from our billings splits going forward. But fundamentally, the numbers are not materially different. I think in the past, it would have been higher to a certain extent, but not materially different.

01:01:07 Gianmarco Conti

Right, right. Okay. Just one last follow up. I know you've mentioned before about churn being 10%. Could you perhaps clarify, was that subscriber church or value churn in the quarter?

01:01:20 Stefan Gaiser

Yeah, sure. Subscriber churn is 15%, one five. That was always a bit higher because we see a higher churn from subscribers at the low end and less churn from subscribers with higher ASV. So there's always a little bit of a delta between subscriber churn and gross churn. But subscriber churn remained stable at 15%. That was exactly the same at the end of Q4. And gross value churn, i.e., all of the euro billings we lose from customers ultimately leaving TeamViewer, has been very stable at around 10%. And that was also the same in Q1. I think that's overall a very pleasant development, that we were able to keep that value churn at 10%.

01:02:08 Operator

The next question is by Victor Cheng from the Bank of America.

01:02:13 Victor Cheng (Bank of America)

Morning, all. Oliver, Stefan, thank you for taking my questions. If I may, on the enterprise billings you disclose today, if my calculations are correct, it seems to suggest that enterprise billings account for about 12% the last 12 months' billings. My impression is that enterprise as a percentage of billings is a bit higher. Just checking if I'm missing something here.

And also, secondly, are you able to provide any color on monetizing the non-paying commercial user base? How much of a tailwind you're expecting from this into Q2, given this was paused in Q2 last year?

And then just a quick follow up on NRR. You mentioned just now that Q2 will be as tough, if not tougher. Should we be expecting 100% NRR for Q2 and then improvement in the second half?

01:03:09 Stefan Gaiser

Sorry, Victor, the first part, I didn't quite get. The enterprise is 12% of overall billings, but your question around that, I didn't quite understand. Can you repeat, please?

01:03:16 Victor Cheng

My impression is that enterprise should be closer to 15% to 20% of new billings. So just trying to reconcile that number here. Or is that 12% the ongoing rate?

01:03:30 Stefan Gaiser

Sorry. Now I get it. So the 12% is of total billings, correct. And typically, as percent of new billings, the enterprise business is higher, yeah. But I think as for all other customer segments, we've also seen in the enterprise segments the rightsizing and proper procurement processes in place, which led to some downsale in that space on that customer segment, pretty much what we've talked about. And therefore the overall enterprise contribution did not increase. Frankly, last year's Q1, it was a step change in our enterprise contributions. So I think keeping it that level was actually a good result, from my perspective. And now we can grow it from there again.

In terms of the tailwind FTP in Q1 or January for 2021, we would like to use our free-to-paid campaigns more regularly running in the background, frankly. I think clearly in 2020 we paused it the first six months and then reignited it in Q3 and Q4. But it was obviously a very special year, for many reasons. Usually we would like that to run very smoothly in the background, contributing a couple of millions each quarter. I think that’s also much more digestible internally, from a process perspective, from a sales perspective. And that's exactly what we've been doing in Q1 and what we plan to do for the remainder of the year.

01:04:53 Oliver Steil

So there's no extra tailwind in Q2 due to the one-year anniversary, because the free-to-paid campaigning actually works earlier. So it’s more like between four, five, six months or so of tenure of these free users. So don't take the large cohort that came in the Q2 last year and extrapolate the free-to-paid, because they have been either monetized, or not monetized because we deliberately chose not to monetize them last year. And some of them, of course, went away because then they weren't in need of the solution anymore, or they are now part of a licensed large enterprise, when enterprises bought a license to enable their workers to use the license constantly.

01:05:39 Stefan Gaiser

And then your third question was NRR. How do I see that in Q2? Yes, I do see that dipping below 100% because we have continued headwinds, as I've just explained, from FX and the rightsizing of our contracts from the COVID customers. Those two headwinds will disappear in the second half of 2021. And also in 2020, in the second half, the positive impact of the price increase will fully kick in. So therefore, I'm still comfortable with keeping that retention rate at 100% or above, slightly above, for the full year, but in Q2 probably it will be below 100%.

01:06:26 Operator

The next question is by Hannes Leitner of UBS.

01:06:30 Hannes Leitner (UBS)

Thank you. I have two short questions. Could you please talk about the contribution by Ubimax and Upskill, especially around billings? And then on the enterprise billings, it seems that the sequential growth seems entirely driven by those two products, so maybe you can address that. And then also looking at the cohort analysis you provided, it seems year over year, the lowest segments that tend to 50k enterprise billings, they declined. Maybe you can talk there a little bit, what are the impact factors here? Thank you.

01:07:11 Stefan Gaiser

Sure. Ubimax and Upskill-- first of all Upskill was a significantly smaller acquisition compared to Ubimax. Ubimax was clearly emerging as the leader in that space. And as you can see also from our cash flow statement, we paid around €20 million or so, excluding any variable components, for the acquisition of Upskill and Xaleon. So it's significantly smaller than the Ubimax acquisition. In terms of contribution overall, it's a couple of percentage points, two percentage points give or take, from those acquisitions. And also, we just closed Upskill late in Q1. And TeamViewer Engage, obviously, was a start-up which we acquired without any material billings contribution so far, but very good pipeline build overall, so very promising for us.

In terms of the 10,000 customers, clearly what also happened there is that we've been able to move customers who maybe paid between 10,000 and 50,000, and now upsold them to 50,000 or north of that. So there's been a shift within this cluster, which was quite significant. I don't see any negative momentum in the enterprise space. I think, overall, it's been actually a really good quarter. Clearly, Q1 last year, especially for the enterprise space, was a very, very tough comp. If you take a look at our Q1 2020, I think we doubled the enterprise business, more or less, added 500 customers in that region. So that was extremely successful. And I think keeping those enterprise customers and adding on top of that was actually a really good result of our enterprise sales team.

01:08:54 Hannes Leitner

Yeah, but also you suggested that the enterprise growth is purely driven by Ubimax, Upskill, Frontline. That's not the case.

01:09:02 Oliver Steil

No, it's across the board. It's Tensor. It's all solutions.

01:09:12 Operator

The next question is by Mohammed Moawalla of Goldman Sachs.

01:09:12 Mohammed Moawalla (Goldman Sachs)

Thank you. Hi, Oliver. Hi, Stefan. Two for me. First of all, you obviously talked about some of the specific dynamics around the second quarter, around growth, but obviously, you didn't deliver the guidance. You need a significant recuperation in the back half of the year. And I just wanted to understand. I know the comps get less challenging. What gives you the confidence at the various points of your guidance range? And I guess from a visibility standpoint on the enterprise, what is it that you're counting on? Is it, continue upsizing in deals or is it, again, more frequency in use cases?

And then secondly, just on M&A, update us on the pipeline. You've done, obviously, a few smaller deals. But you have said that this is expected to be a point. So, I guess, what's your thinking on M&A currently, in terms of the rest of the year? Thank you.

01:10:26 Stefan Gaiser

Sure. Let me get started with the first one. Clearly, H2 needs an acceleration in billings. Why do we feel comfortable with that? If I take a step back and take a look at our enterprise contribution and the pipeline built, as well as the deal sizes across the entire value chain, that makes me confident on the enterprise pipeline going forward and our conversion. I think it's very good to see that we've been able to grow our pipeline across the entire solutions portfolio, including TeamViewer Engage, including TeamViewer Frontline, our augmented reality solutions, but also Upskill. So I think that is the accelerator for the enterprise business which we've been looking for, and which we have seen coming now. Clearly, that needs conversion, but the customer engagement is very good. Discussions are very good. I think we continue to expand, obviously, our sales team. We've added a significant amount of sales resources during the last couple of quarters. We will continue to add sales resources. And obviously, once they become productive, they generate more billings, and that should result in that acceleration of growth in the second quarter.

I think clearly important is that we need to close larger deals. And I think it's therefore very good, as I mentioned earlier, to see that we are able to close larger deals, north of €0.5 million, then upsell them to seven-digit deals going forward. And that's not even a global rollout. So I think for the organization, especially enterprise, it's important to see that we're able to do so. And we need more of that. But I think, taking into account what solutions we provide and what ROI we provide, we definitely have the right to ask for that kind of money. And we should be able to close those deals in the second half.

And then M&A maybe quickly. Oliver, you want to mention something here?

01:12:22 Oliver Steil

No, I think strategy unchanged: smaller acquisitions, if they augment our solution portfolio. I think same strategy as before, so nothing special to update on this end.

01:12:48 Operator

As a last reminder, if you want to ask a question, please dial 01. Then hopefully the questions come in. So I'll hand back to you for the closing.

01:13:01 Carsten Keller

Thank you very much for all your questions and your interest. As always, if there are any more questions around Q1, also questions around some definition changes that we have done, please reach out to IR. Thank you very much, and we hope to speak to many of you during our roadshow.

01:13:21 Stefan Gaiser

Thank you.

01:13:22 Oliver Steil

Thank you. Bye.

01:13:25 Operator

Thank you, ladies and gentlemen.