

**TeamViewer SE**  
Q4 & FY 2023 Earnings Call  
7th February, 2024 | 09:00 AM CET

Transcript

**Speakers:**

Oliver Steil

Michael Wilkens

Bisera Grubestic

Bisera Grubescic

Thank you, Operator. Good morning, everyone, and welcome to TeamViewer's preliminary Q4 and full-year 2023 earnings call. My name is Bisera Grubescic and I have joined TeamViewer as Vice President of Investor Relations only last week, so at the beginning of February. I would like to take this opportunity to emphasise that I am looking forward to engaging with all of you present in today's call, of course, but also further strengthening TeamViewer's relationship with our investors and analysts.

I am sitting next to our CEO, Oliver, and CFO, Michael, who both will update you on our business and financial performance 2023 and will also provide you with the outlook for 2024. As always, the presentation will be concluded by a Q&A session.

Please note that you can find the important notice and the APM disclosure on slides two and three. With that, I hand it over to Oliver to kick off the presentation.

Oliver Steil

Thank you. Welcome, Bisera, very glad to have you onboard. Good morning, ladies and gentlemen. Warm welcome to our preliminary Q4, full-year 2023 earnings call. Let's jump straight into our highlights on slide five.

Overall, we are concluding a very successful year with strong momentum in Q4. We achieved results at and above our targets. Furthermore, we once again proved the strength of TeamViewer's business model, with its broad diversification across customer segments, use cases and geographies. Let me start with a look at the 2023 financial year.

Our revenues saw double-digit growth with 11% year-over-year, so €627 million, and adjusted EBITDA grew even stronger by 13%. This resulted in an EBITDA margin of 42%, which exceeded our guidance. On the back of our continued share buybacks, we were able to significantly increase our basic EPS by 81% year-over-year. Looking at the fourth quarter, our billings exceeded the already very strong prior-year quarter, with an increase of 8% on constant currency. This strong momentum in Q4 gives confidence in our ability to perform and execute in a back-end loaded enterprise software environment.

Speaking about the enterprise business, we saw good momentum in the fourth quarter. The successful conversion of our pipeline led to a 23% constant currency billings growth year-over-year. This success is important, as the rest of the year was a bit weaker in terms of enterprise growth. Especially in the fourth quarter, our partnerships with Microsoft, SAP and Siemens paid off, and contributed strongly to our enterprise business.

Moreover, I'm particularly pleased that the reorganisation in the Americas region is showing tangible results now. In the

important fourth quarter the region returned to double-digit billings growth, the strongest growth of all regions from a quarterly perspective. This was driven by convincing deals in the enterprise space, as well as good web shop results. At the end of 2023, we doubled down on our commitment to the digital transformation of the industrial working environment by strategically investing in Sight Machine and Cybus, two pioneering companies for smart factory solutions. We are ensuring that TeamViewer is at the forefront of the convergence between information and operational technology.

Last but not least, we are long-term committed to shareholder return. In the fourth quarter we launched a new share buyback programme with a total volume of up to €150 million until the end of 2024. We want our shareholders to participate in our highly cash generative business. The programme is scheduled to be completed within 2024.

Summing it up, we are very pleased with our 2023 performance and the strong year-end finish. We are succeeding in our core business, benefiting from our strong partnerships in the enterprise space, and strategically investing in new areas, such as smart factories.

Let's now take a closer look at our SMB and enterprise billing split over the last 12 months. You can see that the SMB business in the higher value bucket, with contract volumes between €1,500 and €10,000, experienced the highest growth rate with an increase of 14%. Last year we put particular focus on improving and developing our SMB product and third-party integrations. This enabled us to expand existing customer contracts, win new business and assert ourselves against competitors. In addition, monetisation campaigns and continuous improvement of the web shop experience supported SMB revenues.

Looking at the enterprise business, the highest bucket with contracts above €200,000 recorded the strongest increase with 22% within the last 12 months. This is a very encouraging development compared to the levels we have seen at the beginning of the year. It also shows that while our enterprise business is supported by up-sells from the SMB segment, we are closing a significant number of large deals independently. Pipeline conversion has been particularly strong at the end of last year.

Let's now turn to our regional performance. For 2023, we saw a good development in revenues and billing across all regions. Our Americas region saw 12% constant currency billings growth in the fourth quarter and grew strongest in that timeframe. This can be seen as a sign of first success of the reorganisation initiated

at the beginning of 2023. Clearly our investment in great new talent and the new leadership under Georg Beyschlag are starting to pay off here. Our Americas team have closed some very promising enterprise deals in the fourth quarter, which I will highlight in just a minute. Also on a full-year basis Americas saw strongest regional revenue growth of 12%.

Our largest region, EMEA, reported good results for the full year, with revenue growth of 10% and billings up 9% on constant currency. In the fourth quarter, revenue grew even stronger. This is particularly noteworthy because Q4 of the previous year was already very strong, if you recall. The results were driven by an excellent enterprise pipeline conversion and strong contribution from our tech partnerships.

Lastly, APAC reported revenue growth of 8% for the full year. The fourth quarter was affected by a weaker macroeconomic environment and came in with 5% growth. On a billings basis it was our strongest growing region over the full year, with encouraging new enterprise customer wins and Frontline use cases growing 14% on constant currency.

We've talked a lot in the past quarters and years about how TeamViewer is growing in the enterprise sector and is really providing solutions for a broad range of use cases and industries worldwide. That's why I brought this slide today, to give you a glimpse into some of the enterprise deals, which we closed or renewed in the fourth quarter.

In the first row, there are four deals from EMEA, the second row is from the Americas and the third one is from APAC. Regarding the deal size, most of these are from the highest and second-highest enterprise buckets. The customers range from multinational corporations to leaders in their national markets, to innovation leaders in the particular industry. We can see that we really cover many industries, from engineering, pharmaceuticals and mining to retail, food and beverage to the social and healthcare sector.

In addition, we cover use cases along the entire value chain, from traditional IT support to remote access into OT devices to warehouse packing and aftersales support and maintenance.

It might be interesting if I highlight just a few of these deals. In the upper-left corner, this is one of Europe's largest engineering companies. They use TeamViewer Tensor to remote into machines at their customers' facilities for fast troubleshooting. We renewed this deal in Q4 and the new deal volume now makes them one of the largest customers overall.

In the second row there's a US customer from the food and beverage sector wholesale business. It is a net new deal, also

very high, six-digit volume. They use TeamViewer Tensor for multiple use cases, including IT helpdesk, but also vendor support and remoting into OT devices, such as food industry refrigerators.

In the third row I would like to highlight a deal from the mining industry in Indonesia. The company performs daily checks of mining equipment and trucks with TeamViewer Frontline. The workflow for checks is running on Smart Glasses, meaning the technician is guided through the inspection and at the same time can perform the necessary tasks hands-free. The procedure is accurately documented and saved, thanks to an integration into the existing backend.

Bottom line, I think this slide helps to understand how broad our business has become in terms of industries, regions and use cases.

I would also like to give an example of how we collaborate with our global tech partners to jointly win new customers. This is a deal that we closed in Q4 with our partner Siemens. The customer is a leading aerospace company with global presence. The customer was looking for a solution to improve remote training and skill development for technicians in around 100 locations worldwide. What we do with Siemens here is we provide this customer with an immersive, interactive 3D solution. It combines Siemens' advanced digital twin capabilities and TeamViewer's spatial computing capabilities that bring the 3D data to life.

Technicians worldwide can access these models via their tablets to do the remote training. We help the customer to avoid travel and speed up onboarding by ensuring that all technicians receive the same advanced, high-quality training and onboarding globally. Obviously, this is very important because the aerospace industry is one of the most complex ones from an engineering perspective and, at the same time, one with many strict regulations.

Additionally, we are in times of skilled labour shortage and retirement of the Baby Boomer generation. That is affecting all industries and increases the need of faster onboarding and development of new staff. Together with Siemens, we help this customer to maintain the same high standards in this demanding industry and take its training to the next level from a technological perspective.

Another topic I'm really excited about is our new spatial support app that we've launched only end of last week, together with the arrival of Apple's new spatial computing headset, Vision Pro, in the US. Since their announcement in fall last year, the whole tech world has been waiting for these devices to be available in

store. I really have to say, the Vision Pro immersive experience is a step change in the industry. I'm proud that we are among the first vendors that have an app ready from the get-go. Moreover, our app is targeting the B2B enterprise space, and let me explain how it works.

Imagine a service technician who needs to repair or maintain a complex object or any type of machinery and is stuck in the process. He or she uses TeamViewer's spatial support app on an iPhone to capture detailed 3D models of the device that needs to be supported. In a shared session, a remote expert using the spatial support app on Apple's Vision Pro can then interact with the precise visual models captured on the iPhone. Together, these two then have a synchronised 3D experience with the expert guiding the on-site technician via annotation and 3D elements through the repair or maintenance process. This is bringing a new level of fidelity, visual depth and detail to aftersales and field service support scenarios. Ultimately, it addresses labour shortages and the need for easy knowledge transfer, by bridging the gap between on-site challenges and remote expertise.

With that exciting new use case, I hand over to Michael for the financials.

Michael Wilkens

Thank you, Oliver. Good morning and a warm welcome to all of you, also from my side. I'm looking forward to presenting our preliminary financials for the fourth quarter and the full year of 2023, as well as our outlook for the new financial year 2024.

On slide 12: our full-year 2023 revenue increased by 11% to €627 million. Billings grew by 9% on constant currency to €678 million. As we have continued to point out during the year, we were faced with significant currency headwinds throughout 2023. For example, the average US dollar to euro exchange rate in 2023 was €1.08 compared to an average of €1.05 in 2022. As you will remember, this FX rate of €1.05 also formed the basis for our full-year 2023 guidance. Based on this guided FX rate, our revenue increased by 12% and the billings by 9%. That being said, I can confidently say that we fully delivered on our guided revenue range of €620 to €645 million, based on our guided FX rate and on a reported basis.

ARR increased by 8% to €650 million and our net retention rate came down by 3 percentage points to 104%. This was also primarily driven by FX headwinds of almost €13 million. Despite increasing investments, in particular in R&D, our adjusted EBITDA was up 13%, increasing even faster than the revenue and, thus, leading to an improved adjusted EBITDA margin of 42%. This corresponds to a further 1 percentage point margin increase year-over-year and a 2 percentage point beat on our

guided margin, underlining our best-in-class margin profile.

Our levered free cash flow grew by very strong 16% to almost €200 million. Looking ahead to the current financial year, I want to briefly point out here that this strong growth was supported by a positive one-off cash effect in 2023. Even adjusted for this effect, our levered free cash flow would have grown slightly above our expectation. I will explain this and the effect on our full-year 24 cash flow later in more detail.

With 31% growth to €0.88, our adjusted EPS grew significantly stronger than our adjusted EBITDA, which is not least also the result of our significant share buybacks. This to me is clear proof that our capital allocation strategy supports our shareholder value creation.

Throughout the next three slides we will focus on the quarterly development of our group results, as well as our SMB and enterprise business. After a look at our main financial KPIs for the full year of 2023, I will now explain the details of our strong fourth quarter results for the group and the SMB and enterprise business.

Our total Q4 billings developed even stronger than last year, with a respectable 8% constant currency growth on top of a very high compare. As you can see from the bottom-right chart, we generated €19.4 million in new billings in Q4, which represents a significant year-on-year uptick of 36%. Our total Q4 billings growth was equally driven by up- and cross-selling to existing customers and by new customer wins. Revenue increased by a solid 8% to around €163 million in Q4. As you can see on the top-right chart, we again delivered a very strong adjusted EBITDA margin of 38%. Let's continue with a closer look at the performance of our SMB business on the next slide.

SMB revenue increased by 6% in the fourth quarter and 8% for the full year. At the same time, our billings grew 3% on constant currency against the very strong previous year's quarter. On that basis, SMB finished the year with a 9% constant currency growth. As you can see on the right side of the slide, ASP increased by around 6% year-on-year, which reflects the full annualised positive effect of our revised pricing policy that we put into motion in Q4 2022. With this full-year pricing cycle, you will notice a minor quarter-on-quarter drop in Q4 2023. As the market leader for remote connectivity solutions, we remain confident though about our pricing power. Moving forward, we expect annualising pricing effects at a normalised rate of around 3 to 4% across the base.

Our customer count increased by roughly 1% year-on-year, while churn remained at a stable level, with only marginal changes over the course of the year. By the way, please keep in



mind our SMB subscriber count as well as churn will no longer be adjusted for the discontinuation of our business in Russia and Belarus from Q1 2024 onwards. Given that we have now entered the second financial year after our exit from these markets, the corresponding effect has faded out.

Let us continue with a more detailed look at our enterprise business. As Oliver already explained in the beginning of this presentation, based on many new use cases, we again saw a fantastic Q4 execution in enterprise. We even topped last year's exceptionally strong year end, with a 23% constant currency billings growth. As you might expect, we have projected a somewhat flatter development given this high base, but we were able to win almost every lead in the pipe of our service offering. This outstanding achievement is further backed by the fact that we grew our enterprise customer base by around 14% to now almost 4,200 customers around the globe. This was also driven by the previously mentioned strong net upsell from the SMB business into enterprise of around €17 million throughout the year.

Our net retention rate of 106% improved compared to Q3's level, but is down compared to 12 months ago. This development was mainly driven by FX headwinds and slightly softer enterprise growth in the first quarters of the year. Revenue increased by 19% in Q4 and even stronger by 24% on a full-year basis. Let me summarise. 2023 saw another strong year-end finish in enterprise and we are also confident to carry this momentum into the new financial year.

Let's now delve into our 2023 cost base. Our total recurring costs consisting of cost of goods sold and total Opex increased by 9% or €25.3 million on a full-year basis. As you can see, most cost buckets grew more or less in line with our revenue growth of 11%. There are two notable exceptions. First, R&D costs increased by 18% or €9.8 million, on the back of our continued investment into strategic initiatives for future growth. Second, this was largely offset by significantly lower other costs, which saw a reduction of 87% or €9.3 million, mainly driven by a significant reduction of bad debt, as well as hedging gains. With our total cost base growing slower than our revenue growth of 11%, our adjusted EBITDA saw a strong increase of 13%. With this, the corresponding margin increased further by 1 percentage point year-over-year.

This leads me to slide 17. Despite increased adjustments for non-recurring items, our net income increased significantly stronger than adjusted EBITDA by 69%. And our basic EPS even stronger by a significant 81% in 2023. Our non-recurring items increased by 19%, which is mainly the result of our ongoing employee share programme. We are convinced that this



is a highly effective and an efficient form of remuneration that also strengthens the entrepreneurial spirit of our employees and, thus, has a positive impact on our business.

With this, our unadjusted EBITDA increased by 12% year-on-year. Net income and EPS were driven by positive development in three buckets. First a significantly slower growth of only 3% in depreciation and amortisation driven by reduced Capex. Second, 29% lower financial/FX results, resulting from base effects of one-offs as part of our refinancing in 2022. Third, our improved tax scheme, as well as prior-year one-off effects led to a 32% reduction in paid income taxes. With these one-off effects our 2023 full-year tax rate improved significantly at 23%.

As you know, we are planning to optimise our tax scheme through a profit and loss transfer agreement between TeamViewer SE and the Regit Eins GmbH. Subject to the required resolution by our annual general meeting, we expect a sustained tax rate in the low 30s for 2024 and beyond. This is a significant improvement from our historical low 40s level before. With these drivers in mind, our net income increased significantly to €114 million and our unadjusted earnings per share increased to €0.66 for the full year of 2023. Adjusted EPS, which mainly adjusts for non-recurring items and PPA amortisation, increased by 31% to €0.88.

Let us now look at cash flows on slide 18. Our levered free cash flow grew by 16% to almost €199 million in the full year. Our 2023 levered free cash flow was positively impacted by one-off tax return of €6 million in 2023. Adjusted for income taxes, our pre-tax levered free cash flow grew by 12% to around €244 million over the past 12 months. We were again able to achieve a very high rate of cash conversion of 76%, up 1 percentage point from 2022. Our pre-tax cash conversion even amounted to 94%. This is a testament to our very strong cash generating business. Our cash flows were further supported by Capex reduction of around €3.2 million, given that we run a well-invested office setup and infrastructure.

Finally, our interest payments and our income taxes remained largely stable. For income taxes, the effect of our higher earnings before tax was offset by the mentioned €6 million tax return. Please note that you may find further details on our tax expenses and rates in the appendix of the presentation on slide 30. As for interest paid, our slightly higher interest rates from the 2022 refinancing were compensated by overall reduced debt levels. I will further elaborate on our debt management on slide 19.

Throughout 2023, we have utilised our strong cash conversion in line with our capital allocation framework. On the back of an operating cash flow of around €230 million, we have utilised

more than €160 million for share buybacks. In addition, we have repaid debt with a volume of €100 million. After all of this, and additional combined cash outflow of around €56 million for interest payments, Capex and others, we still had cash and cash equivalents of €72.8 million per end of 2023, which we consider a very comfortable level, given our strong cash conversion.

To sum this up, we generated shareholder value through successful operations generating strong cash flows. Additionally, we have performed significant share buybacks and, on top of that, we have further strengthened our financial profile through effective debt management. Our revenue leverage ratio came down from 2.1 to 1.8. Let me point out that our 2023 leverage target of 1.8 was based on our legacy billings EBITDA definition, which is exactly the level that we reached per end of 2023. On the bottom-right chart, showing our debt maturity profile, I want to point out that the €85 million promissory notes, which will mature in March, will be fully redeemed and partially refinanced for a new RCF agreement with a total volume of up to €75 million.

One more thing, before I continue with our outlook for the ongoing financial year. Just last Friday, Morningstar Sustainalytics updated our ESG risk rating. With a risk score of 8.6, we are now the leader in the enterprise and infrastructure subindustry. We also continue to be AAA-rated by MSCI ESG ratings. These excellent rating results show that we are best-in-class, not only in terms of margins, but also when it comes to ESG. It will also have a positive effect in ESG-related refinancing in 2024. Please note that you can find a detailed overview of our ESG rating in the appendix on page 32. Slide 20, please.

Let us now focus on the new financial year 2024 and our expectations. After a very successful full year of 2023, with strong momentum in Q4, we are very confident with our outlook for the full year of 2024, despite a continuously challenging macro environment. On the top line we expect revenues between €660 to €685 million, based on the average FX rate of 2023. This top line expectation reflects continued level of customer demand, but also FX headwinds from 2023 billings of around €10 to €12 million. Our guided revenue range corresponds therefore to 7 to 11% growth on a constant currency basis.

We expect to further increase profitability with a targeted adjusted EBITDA margin of at least 43% in 2024, which reflects the reduced sponsorship scope. These effects will, however, be partially offset by the previously mentioned €10 to €12 million FX headwind, with a negative margin effect of around 2 percentage points. Overall, we expect a margin uptick of at least 1%, also on the back of our efficient allocation of resources, while continuing

to invest in the enhancement of our products. Please be aware that there will be back-end loaded margin phasing throughout the year. We will focus on reinvesting in targeted marketing campaigns, sales and R&D projects already in the first half of the year. Savings from the sponsorships will then start to materialise in the second half of the year. Slide 22, please.

On the back of the outlook I just presented, TeamViewer will remain highly cash generative and deliver a continued strong cash flow conversion. As already outlined on slide 18, our 2023 levered free cash flow was supported by a 6 million one-off tax effect. For pre-tax levered free cash flow, which is adjusted for income tax paid and can be considered as underlying free cash flow, we aim for growth in 2024 in the same vicinity as in 2023, which will be around 12%. This allows us to reiterate our compelling capital allocation, which intends to create attractive long-term shareholder value.

First we are investing in organic growth, with a ramp in our R&D capabilities next to continuous screening of tuck-in M&A. Second, the immediate shareholder return with continued share buybacks. Since 2022, we have already completed programmes with a volume of €450 million. And in December last year we have launched another programme with a volume of €150 million until end of 2024. Third, further debt repayment to reduce leverage ratio of 1.3 net debt to adjusted EBITDA. By the way, please keep in mind this refers to revenue-based EBITDA. This capital allocation framework will ensure an equity ratio of around 10%, which we consider healthy for our cash generative business model and asset-light balance sheet. I now hand over back to Oliver, to wrap up our call.

Oliver Steil

Thank you, Michael. Let me summarise today's call on both our fourth quarter and full-year 2023 earnings. I think the bottom line is that we had a very successful 2023 with a strong year-end finish, especially in our enterprise business. This makes us very confident going into 2024. Moving into the new financial year you can expect further top line growth and margin improvement with continued strong cash generation, as Michael outlined earlier. We do remain committed to further investing in our business and also pull all operational levers to lay and expand the basis for the future success of TeamViewer.

With all this in mind, we are convinced that TeamViewer is a highly attractive investment case and we further see the current trading momentum creating an attractive opportunity for investors to buy into this case. We are therefore looking forward to intensifying our investor outreach and interactions in the coming weeks and months. With that, I would like to end our presentation. Thank you all very much for your attention. We now look forward to your questions. Operator, over to you,

please.

Operator

Ladies and gentlemen, at this time, we will begin the question and answer session. Anyone who wishes to ask a question may press star followed one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selection. Anyone who has a question may press star followed by one at this time. The first question comes from the line of Gustav Froberg, Berenberg. Please go ahead.

Gustav Froberg

Morning everyone. Thank you for taking my questions. I have three hopefully quick ones, if I may. Firstly, on the deal pipeline. Like you mentioned on the call, you've closed a lot of deals that were in the pipeline in Q4, maybe even those with a little bit low probability. Could you tell us a little bit about how the pipeline looks now and into 2024? Does it need replenishing or do you feel like the pipeline still looks pretty healthy? Then a question on partnerships. Do you expect there to be any regional difference in the partnership traction that you're gaining into next year? And maybe a little bit more colour on you how expect this to develop.

And then finally, a question on SMB and enterprise and the split there. Could you help us with some colour on the amount of large size or large revenue customers I would call enterprise, from the revenue base that you classify as SMB customers of TeamViewer today? Just to give us a sense of the up-selling potential into 2024, as well. Thank you.

Oliver Steil

Let me start. Hi, Gustav. The pipeline, obviously the enterprise business is very back-end loaded, so you would always expect towards the end of Q4 that customers use their available budget to buy into new products and that drives conversions. The pipeline at the beginning of the year does need replenishment, very clearly, but it's also not the case that we have massively pulled forward deals from the first quarter into the last year. I think it was a very natural pipeline conversion, worked very well. Better than we expected, for example, in EMEA, as we discussed before. But generally speaking, a normal start into the year in terms of pipeline build and enterprise across all regions, in my view.

Your second question, partnerships, how does it work regionally? I think it's relatively evenly distributed in terms of activity. Clearly where we have the biggest enterprise base, i.e. in EMEA and also Americas, this naturally works better because there is more customer situations that we are dealing and working with together. But also, in APAC, this is following, so I wouldn't make a big differentiation there. We now have pretty

good engagement with the regional sales forces of all our partners and that's coming through quite nicely.

Both SAP and Siemens, different angles, and also Microsoft. You might know that the sales motion for the three is different, so maybe a bit of colour there. And SAP effectively, we co-sell, but we do most of the selling, it's on our paper. And Siemens, it's an OEM deal where Siemens is doing the sales and we provide an OEM product into the Siemens team centre suite. On Microsoft, we are eligible for Microsoft Azure Consumption credits, which is effectively our sales motion, completely our motion with customers, but then customer can use their MACC to do the purchasing, which is a very elegant way of accelerating the closure of deals. And then obviously you have different flavours by industry, but we can talk about that maybe in a different session.

I'm not 100% sure I understood your last question, maybe you can repeat it.

Gustav Froberg

Sure. The classification of your SMB and enterprise customers is based on the billings that they make with you. But looking at a customer from the outside, perhaps a larger customer, someone who makes a lot more in overall revenue as a group, might not be referred to as an SMB customer. Could you give me a sense of the very large size or traditional enterprise customers that you may have as SMB customers, so a large company that effectively pays you very little today?

Oliver Steil

Now I get you. Yes, you're absolutely right, our classification is a bit historical from IPO times, segmented by our business with the customers. While I think most other SaaS companies would segment by revenue or number of employees of the customer, so this is certainly something which in the future we might take a look at, to become more standard there. But if we take a look at our segmentation, then if you recall the Capital Markets Day some time ago, we did a lookalike analysis in our SMB base, where we identified roughly 20,000 organisations. Our SMB customers which are actually enterprise organisations, large organisations, which we can up-sell into.

We now have an enterprise customer base in our count of a bit more than 4,000, so that leaves you at least 15,000 to 16,000 at that point in time. This is I think 2021, so more than two years ago. And obviously we're winning more customers as we go along. There's a significant number, very significant number, of large organisations that are still buying only small licenses from us and we have now put in place, over the last quarters, quite effective lead passing algorithms or processes, to make sure that we address these customers in the best possible way.

So, concretely, if an inside sales rep would come across a large

customer name, we have incentivised that person to hand that lead over to enterprise, to try to sell the Tensor product and more into this. And going forward, we will also have a stronger key account motion in our enterprise organisation globally because we now have the scope and the staffing to address key accounts separately of our normal up-selling, cross-selling motion.

Gustav Froberg

Good stuff. Thank you very much, Oliver.

Operator

The next question comes from the line of Deepshikha Agarwal, Goldman Sachs. Please go ahead.

Deepshikha Agarwal

Good morning, everyone. Thanks for taking the questions. Basically, can you give some colour on how to think about the shape of growth through the year? More so from the perspective of enterprise we know it mostly tends to be back-end loaded, especially what is the dynamics on Americas there. On the SMB front, what are the various initiatives that we should be mindful of? The pricing dynamics are sort of normalising there, what are the dynamics that we should be thinking about. The last one is on the new deals, it was an uptick in the fourth quarter. Any colour on what was the mix within that between SMB and enterprise?

Michael Wilkens

Let me start off with the last one. I think you're referring back to the 19.4 million, which was very strong growth of 36% in Q4. You can basically take a split of 75% in SMB and 25% in enterprise, so very, very good split. Of course SMB also supported by our commercial block, so free-to-pay campaign and other mechanics, but also a natural new inflow of new customers across the board. What I also mentioned in the morning already, this is super, super helpful for us. New fish in the pond help us then to grow and develop them over time, and become a target for further upsell. From time to time we need these big chunks of new business. You should not expect that for every quarter, but this is obviously nice. With regard to your first one, the shape of growth.

Oliver Steil

Let me do the second one first, SMB dynamics, what to look out for. What we do there is clearly we have pricing power in SMB to push through price increases upon renewal on a consecutive, sustainable basis, around 3 to 4%. We also always have a small number of new additions because we are optimising our campaigning. Our brand has improved very significantly if you look at our stats, so there is better brand reach, which does create some extra demand on the free and entry-level customers, which we then can convert either from free to paid through our paid wall, or also upgrading from the entry-level product to a proper business or premium license. So, that's clearly happening, as well.

We will put significant effort this year into cross-sell. We have



spent the last year being very busy on adding new partnerships for remote management, asset management, asset discover, mobile device management through partnerships with Ivanti, Lansweeper, and also organic development of our own products. So there's a bigger suite available now for our inside sales reps to cross-sell. We're also constantly improving the offer presentation and bundling on our website for these additional cross-sell products. These are the things we're working on.

From a seasonality perspective on the SMB side, it's relatively unaffected by seasonality. It's more related to campaigns and how we run campaigns in the different regions, which obviously is very different from growth seasonality in enterprise, which I think Michael, you can comment.

Michael Wilkens

The enterprise Oliver mentioned before, enterprise will for sure be back-end loaded with all of the dynamics which are used from the customer point of view in Q4. Also in SMB, please don't forget, and we mentioned that, in the full year of 2023 we had de facto price up motion between 4 and 5%, if you take the entire SMB base.

As Oliver also mentioned, with the pricing power we expect to be successful in around 3 to 4%, so that there will be a little bit of a backdrop in the pricing motion. We make it rather a normal course of business since we started back then in 2022. Also, on SMB I would say it's rather trending towards the second half and maybe the second quarter beginning, but first quarter may be a little bit more light. But all in all, as we said already, billings are not that important for us anymore to revenue, especially the ARR, and here we will see also nice product development.

Oliver Steil

One quick addition on the pricing piece on SMB, also important to note that a lot of the de facto price increases are in reality reduction of discounts that were put in place at the subscription migration. Most of you are aware that we did honour the long-term purchasing behaviour when we did the subscription migration, so quite a number of our SMB customers are still sitting at a price number which is well below street price. Obviously we use renewals and campaigns and pricing mechanisms to slowly but surely get these people closer to the current pricing.

Deepshikha Agarwal

Got it. Thank you so much.

Operator

The next question comes from the line of George Webb, Morgan Stanley. Please go ahead.

George Webb

Morning, Oliver and Michael. I've got a few questions, please. Maybe starting off on the non-financial side with what's happening in AR. It's clearly very early days, with some commentators out there calling spatial computing and Vision Pro

as a very significant step forward and potentially the next computing platform. When it comes to your own plans and with Frontline, can you talk about how you're thinking about investments now between the different platforms and how much you'll be putting in around the Vision Pro ecosystem here going forward? As big an opportunity as this is, there'll clearly be a lot of investment going into this area from many different players, so how do you ensure that you're investing enough to take part of that pie? That's all the first question.

Secondly, could you refresh us on how much Frontline or AR revenue there was in the mix in 2023? Just lastly, back on the SMB side of the business again, subscriber counts being pretty flat since Q1, you're expecting the ASP lever to remain in place. But are there any green shoots to think that the SMB subscriber count can materially improve from here? Thank you.

Oliver Steil

Maybe I'll start first with the investment. I think what is important, we are very committed to Frontline workflows, clearly with the macro or mega trends of labour shortage, need for efficiency, need for automation, use of AI, there's significant interest of companies to improve the workspaces of office workers, back office workers, knowledge workers and also frontline workers. This whole process chain of somebody working in the field or in a warehouse or in a production environment, being able to use augmentation of data, visual instructions, 2D or 3D, is a big theme and we keep investing into this.

I think it's also very important to note that we are very focused in our investments there. We're focused on industrial work processes and the instructions there, the analytics around it. This means logistics, warehousing, manufacturing, technicians, field service, and the likes. I think the fact that we are ready from the get-go with an app on Vision Pro shows you that we apparently have a very strong position in this space. Because many, many companies focus on entertainment, B2C type of applications there, but we're really focused on workflows. And we do so since quite a few years and I think that's testament to our experience there and our strength, that we've been able to attract partners like Microsoft, SAP, Siemens and Apple in this space. I think, yes, it's important for us. We keep investing and we make sure we focus on industrial customer use cases, where we are the leaders in our field. For the billing split, Michael?

Michael Wilkens

We don't disclose that number, but it's still in the low double-digit area for AR billings. But obviously we intend to develop that nicely going forward.

Oliver Steil

If you see the split, which we discussed of the use cases and the projects and the new logo wins, where very often we cannot name the customer name, you see that we have a very nice

distribution. And also with the contribution from SAP and Siemens, which are all in the OT/AR Frontline space, or mostly. You see that we're really gaining traction on this end.

Your last question, SMB, I think it was regarding subscriber count. I think we have discussed quite often now that this subscriber number per se is not the key metric. We do see slight increases here and there, but what is more important for us, really, is to cross-sell into the base and to move customers from the SMB space, where they are sizeable, into entry-level enterprise offers, so Tensor Light product, or then moving them into Tensor Pro. That's much more important as a notion, but we do see stable churn in the entry-level segment. We do see good growth in the higher value basket, and we also see a slight increase in subscribers. I think that's a very promising point to start from.

George Webb

Thanks very much.

Operator

The next question comes from the line of Toby Ogg, J.P. Morgan. Please go ahead.

Toby Ogg

Good morning and thanks for the questions. Just coming back on the enterprise pipeline, you talked a little bit there just about some pull forward. Could you quantify how much of the enterprise billings growth in Q4 came from deals pulled forward from the 2024 pipe? Then again, appreciate the enterprise pipeline is naturally more back-end loaded, but would you say it's more back-end loaded than you would normally see, given that pull forward dynamic? How does the enterprise pipeline coverage look currently for 2024? Then just secondly on the SMB shape, I think the comment there, Michael, was that it will likely be more 2Q or 2H in terms of the weighting. Could you perhaps provide a little bit more detail on why that will be the case? Thank you.

Oliver Steil Question number one, enterprise pull forward. In the grand scheme of things, completely meaningless. There's always one or the other deal where the customer accelerates, but that doesn't play a big role and, in that sense, pipeline status is completely as you would expect it, so there's no abnormality or anything that is different from other years or normal selling behaviour, so that's a non-issue.

Michael Wilkens

Then the SMB shape, as we mentioned before, we started last year into the year with roughly 10% price up in the SMB space. This is now down to 3 to 4, so this will have a slight impact. And on commercial blocker or freeto-paid, we also see how this develops, how many customers we have, and we can track down and ask to convert from free to pay.

Toby Ogg

Brilliant, thank you.



I hope that helps as colour. I have not 100% understood your third question, but Michael has.

Michael Wilkens

Maybe a minor add-on on the second, what was also a driver of the 19 million is obviously the web shop. Pete redesigned the front-end of the web shop, so it's obviously more clear, more easy, less clicks from check to deal, so that helped a lot.

The last one was on the multi-year deal, Giani, if I got you correctly?

Gianmarco Conti

Yes, it was about whether we should expect continuous, multi-year deals into 2024 and are you going to be providing discounts to allow that?

Michael Wilkens

You should expect it, but you should expect it rather, as we mentioned, on a novel course of business logic. Potentially a little bit less in 2024 than we had in 2023, but what we also said at all times is that we love multi-year deals. But now, since the conversion from billings into ARR's, even more important to get the floatation out of the system. We want to focus far more, together also with you, on our ARR development.

Gianmarco Conti

Understood, thank you.

Operator

Ladies and gentlemen, if you would like to ask a question, please press star followed by one on your telephone. Ladies and gentlemen, there are no further questions and, with this, we conclude today's conference. Thank you for joining and have a pleasant day. You may now disconnect. Goodbye.