



TeamViewer AG

Transcript – Q2 | H1 2021 Results Call and Webcast

03 August 2021

00:00:01 Operator

Welcome to the second quarter, first half, 2021 results call of TeamViewer AG. At our customers request, this conference will be recorded. As a reminder, all participants will be in a listen only mode. After the presentation, there will be an opportunity to ask questions. May I now hand over to Carsten Keller, Head of Investor Relations.

00:00:29 Carsten Keller

Thank you very much. Good morning and welcome to you all to TeamViewer's second quarter, first half, 2021 results call. In a minute, Oliver Steil and Stefan Geiser will take you through the business and financial update with the highlights of the first half. As always, we will conclude today's call with a Q&A session following the presentation. But before we start, I would like to remind you of the note on forward looking statements that you can find on Page 2 of the presentation. Let me now hand over to Oliver.

00:00:59 Oliver Steil

Thank you, Carsten. Good morning to all of you. Thanks for joining. So, H1 2021, clearly the full focus for the first half of 2021, was on the execution of the various strategic growth initiatives that we have put in place, as we told you, to foster our profitable growth for a longer period of time. So it was very eventful year, but at the same time, the global sales team really concentrated their efforts on customer retention as we entered the first renewal cycle of the so-called lock down cohorts from last year. So really, Q1 and Q2. So it was a busy year, busy first half. Let me take you through the achievements which we think are remarkable, one by one. We start with our AR products and the strategic partnerships.

During the first half, we continued to extend our solutions portfolio, with a special focus on building really a leading position in the rapidly growing enterprise augmented reality market. Following the Ubimax acquisition in 2020, we executed on our bolt on strategy, and we acquired Upskill in Q1, and Viscopic in May in Q2. By the way, with Viscopic is a leading German innovator of mixed reality solutions and interactive 3D visualization, which is actually an addition to the features that we have in the Frontline platform, so it adds mixed reality and 3D components to the Frontline platform. And Frontline is the AR-based workflow and remote support suites that we are using for our industries and enterprises globally. And the integration on Ubimax anyway very well advanced, as you know, but also Upskill and Viscopic integration are progressing very well. Good cultural fit and really good product sector fit as well. In addition to extending our AR capabilities, we did join forces with SAP to actually drive the adoption of AR technology, and that is happening in the context of SAP's industry cloud. The recently announced partnership, we will kick it off with the integration of TeamViewer Frontline into SAP solutions for asset and service management in the coming week. So it is around the corner. And I think this partnership underlines TeamViewer's leading position in the Enterprise AR Solutions, and it also proves the scalability across use cases and applications. And I think that makes it even more compelling for customers because quite some customers are interested in this integration of AR into the SAP backend system. For example, we have customers today already Coca-Cola, Hellenic Bottling Company, the largest bottler of Coca-Cola and for example, DB Schenker, they are actually using TeamViewer Frontline integrated into their SAP systems. And that is clearly, I think, the future, that people and companies try to integrate those two solutions to make it an end-to-end solution in their core operational processes. Also very important, the key to our

growth strategy, as we said, is to raise our brand awareness on a global scale across all customer segments. So the marketing partnerships that we entered into in the first quarter, they have now been activated. Early days, of course, but they have been activated with the introduction of Mercedes Formula One, Formula E cars now carrying the TeamViewer logo. And we have just recently launched the new Manchester United shirt for the season. So we are still pre-season. I think there were two friendly games and we presented two jerseys with our logo. And I can give you concept later in the presentation. Quite impressive, of course, if you see the reach of these brands compared to what TeamViewer alone would be able to do.

The other piece of the business, clearly, Q1 and Q2 very much driven by retention efforts to retain the so-called lockdown cohorts. So as a result of the team's efforts, we kept the subscriber churn stable, very important. And we added 20,000 subscribers also in the second quarter. So very impressive, getting up to 623,000 subscribers by quarter end. Again, this can be a very small subscription, a few hundred euros and a very big subscription with thousands of devices connected. So with this, the increase in subscribers, we achieved a 17% year over year growth in subscriber numbers, subscriber count. I think very strong, given the very elevated extra growth that we had last year. Clearly, we retained most of these customers from the first wave. So it was a very successful retention effort in that respect. But, and that is the negative, the renewal values in April, May were lower than we had anticipated, so we were a little bit too optimistic about the renewal value. Quite frankly, hard to predict. We have told you that we saw activity on the license as in other years. So we felt quite comfortable that these customers would stay with us because we saw the usage of the license. That turned out to be true. But then the one year renewal in combination with the reduced lock down effects and customers across regions going back to normal, they had to reduce the capacity in some places and sometimes also renegotiate price, and that reduced the renewal value. So, as projected in the beginning of the quarter, this down selling or downsizing led to a decrease in the net retention rate to 95% on a reported basis and roughly 98% when adjusted for FX effects. In my opinion, given the significant extra demands last year, this is still a very good result, albeit below our expectations. Then we had a rebound in renewal values in June, which was which was good, and we had a strong enterprise performance towards the end of the quarter. So I think we have a few weeks of the second quarter, which kind of felt normal after this massive retention efforts that we have. And with that, billings growth came in at 18% at constant currencies for the second quarter and 22 at constant currencies for the half year. So below expectations for the second quarter but all in all, for the first half, I think it was very solid if you compare, or take into account the significant growth that we have in the first year last year. At the same time, we retained our sector leading profitability with 55% adjusted EBDA margins for the first six months and also in the second quarter 47%.

Finally, also, what happened in the first half and second quarter, I would like to mention some additions to our senior management team. So we have, Lisa Agona. She joined the executive board as the Global Chief Marketing Officer, and she will be the driving force of our marketing strategy and we will, of course, introduce her more broadly doing one of the upcoming IR activities. Further additions to the senior leadership team are Patricia Nagle, President America, then Georg Beyschlag as Executive Vice President, Strategy and Corporate Development. Both can draw from really many years of experience in their fields, and they will be an integral part to our growth strategy.

So what we would like to do now is to take a closer look at our subscriber growth and retention and especially have a look at our so-called core business, which is incredibly strong. And I think we felt it might make sense to show you a little bit churn development and also the churn characteristics by segment. So while we continue to ramp up our enterprise business, we are steadily increasing ACV and customer count. If you take the lower ACV customer segment with now more than 620,000 paying subscribers, these are the customers that, just from a numbers perspective, are driving the churn rates that you see. In prior years, there was a one off positive effect, the churn numbers, they benefited from our most loyal perpetual customers that have migrated to the subscription business first. So if you take people who have been renewing their

perpetual license year by year and then they move to subscription, naturally, you can expect that the churn rates are very low. And of course, now in the more normal situation where we have an influx of new customers, the situation is slightly different. And also, we rolled out a license at the lower end. So the cheapest entry license, the remote access license, to help expand our customer base at the low end. And this is a very good license, which is also, together with a business license, is a very effective product for free-to-paid campaigning. Naturally subscriber churn in this entry segment is higher, leading to an increase in overall churn, which we saw the peak in Q3 2020. And we then had, of course, an increase in retention efforts over the years and through our very successful efforts there, since the beginning of this year, we grew net subscriber additions sequentially from 17 to 19 to 20,000 each quarter, while the churn rate remained around the 15% level, which I think is an important number to keep in mind. With our set of entry licenses, we provide customers with a range of packages that fit their individual needs in terms of seats, number of managed devices and also other features such as user and device access reporting or mass deployment and so on. And while all licenses can be used to address remote access, remote support and collaboration use cases, this means that the higher ASP licenses are typically used by larger SMEs and even enterprises addressing various use cases. Across, on the other side, one to one site IT use cases, but more and more, of course OTU cases. Corporate license can be used for attended access, unattended access, and you can very well connect into operational equipment with it. Of course, if you have customers that are more sizable, the larger end of the spectrum, corporate licenses and the usage into OT and the customers are generally stickier and of course, they show greater up- and cross-sell potential, which is resulting in lower subscriber churn and higher NRRs. And if you look at the slide, clearly, if you look at the corporate license, there we are talking mid-, high-single digit churn rates and not the churn rates that we see in the entry segment, so a very stable, very healthy core from our perspective. This is also the area where our mid-market and solutions sales team then drive the billings expansion, because these are the customers that we try to upgrade into either Tensor, or we trigger cross-sales into remote IT management or Augmented Reality.

What is also important, of course, is customer satisfaction. That is the beginning to kick start a successful customer journey and then have ACV expansion over time, which works incredibly well for us. And we wanted to note also that several review platforms rank our entry license very highly. For example, TeamViewer won the Gartner Peer Insights Customer Choice Award 2021 was top rated by Trust Radius, and also G2, which is a very important comparable site in the US, put us very high in various categories. There is also a review site where we need to improve. Working on this. We take customer feedback very seriously. The market by market piece really also has to do with the free user and paid user experience and the transition between those. We are working on that to create the best user and best possible customer experience.

We go to the next page. We would like to talk a bit about our enterprise growth and our customer base. So, during the second quarter, the number of enterprise customers increased again to 2,252. That is up 55%, while the billings associated to these enterprise customers expanded by even 66% to now 67.4 million over the last 12 months period. This means that the average contract value per enterprise customer has now reached €30,000, which is three times what we put as a threshold of €10,000, which we put out at the time for the IPO, where we said we would like to give you an indication of customers moving to the five digit because that is a different characteristic of customer. So if you remember, we started with this number above 10K. Now, this segment is on average at 30k, which I think is a good proof point of the enterprise success. Three elements are driving this growth. Firstly, we have new customer acquisition very clearly via our mid-market and enterprise sales teams and also by our partners. Secondly, we have very significant ACV expansion of existing enterprise customers, buy up and cross sells. Here we successfully moved 40 customers from the 10 to 50k ACV range to above 50k bucket, which now comprises 46% compared to 34% at the end of last year. Also, very good success. It is also very, very nice to see that we increased our 200,000 plus ACV deals quite significantly. At the time of the IPO I think we had one deal in this category. Thirdly, upselling existing customers to above the 10k threshold. So TeamViewers large subscriber

base, I think we have, of course, ample opportunity to upgrade existing corporate licenses, the one I was showing before to the tensor suite, so that is actually this transition point where we try to use our sales channels to move customers to Tensor. What they get in exchange for it is they benefit from more secure features, such as conditional access, single sign on and of course, it is a seamless platform provision, a seamless solution, Tensor, across all devices and all platforms under single sign on and security, which makes it much more usable for more use cases for our customers.

And if you go to the next page, you can actually see the example of this. I come to the deal from the right side, but also just one example, Heidelberger Druckmaschinen, you know them, global leading manufacturer of printing presses and solutions for print media industry, 170 year history. So in digitalizing, the company upgraded to Tensor to be able to remotely connect to its proprietary software solution and the machines worldwide, to provide fast and efficient technical support around the clock. This is a typical example of customers who know us, who use us in the IT environment, but then expand the use of the product to the operations environment by connecting to totally different machinery than the office equipment. I mean, why are they doing this? Of course, reduction in machine down time and productivity. This is one example, but very typical for what is going on in our enterprise motion. You see here again, Q2, we closed the seals of larger deals, again, across use cases, regions, customer verticals. First on the list, for example, is the leading provider of packaging for consumer goods, more than 20,000 employees worldwide using TeamViewer in different areas and their goal was to implement a group wide remote support solution that is centrally managed and that can easily cope there with increasing capacity needs. And the Tensor Suite provided exactly that plus. They convinced the client because of security its features like single sign on, seamless integration into Microsoft. Again, frequent example, TeamViewer sits somewhere in IT departments around the organization but then they consolidate it into a larger Tensor deployment, benefiting from the integrations we have with Microsoft, Service Now, Salesforce and the like, and benefiting from increased security functionalities that are absolutely mandatory in today's world. Completely different use case is addressed by a restaurant chain, which uses front line. Again, AR solution, industrial workflows. In this case used to provide employee training and to audit the food preparing process to ensure high quality standards. So very different examples of using our solutions, with a very different vertical and a very different business process. As you can see from the list, we have been winning deals in many attractive sectors. It is health care, it is automotive, it is retail, energy, so really, it travels, there are use cases everywhere. And customers have increasing security demands, which we can meet. They require true interoperability and scalability, which we can deliver with our platform. And they also want a long term partner that they can innovate together with and bring their digitalization projects to life, so we also do lots of co-development with customers or enhance our solution, a piece of our solution to make sure we have the best possible digitization experience.

And before I hand over Stefan to cover our financials, I would also like to spend a minute or two on the launch of the marketing partnerships. I have many questions for that of course. After the announcement of our global sports partnerships with Manchester United and Mercedes Racing Team, both Formula One and Formula E, which happened in March, as I have said, we have now started both of them and we were able to drive our brand awareness already, although early days, clearly. Just a few examples, so, for example, the Formula One launch in May, Formula One reached around five million people via Facebook and Instagram channels of our partner, just to give you an idea, just that launch. That is 2.5 times more than our own Facebook and Instagram followers, so just by the initial launch, small video that we produced. Additionally, I think a very interesting number, I do not think we have it on the slide, but just two races, we just got the evaluation and the assessment of the media value of the first two races of Formula One in Monaco and Baku, so some weeks ago. And just those two races generated more than 20 million US dollars of advertising value equivalent in media, 20 million from just two races out of 23. Those of you following Formula One a little bit and all of that since Monaco and Baku, the intensity of the racing has significantly increased, viewership has increased. This is a very lively season this year, and that will drive up

media value very, very significantly throughout the season. That is the Formula One, Formula E happened in parallel, of course, much smaller. On the other side, home shirt launch of Manchester United with our branding. That happened in mid-July. A small video about this launch, so no match, no player, just an announcement of this alone generated around thirty million views in media coverage, as well as 8.4 million views on the club's digital and social media channels, from LinkedIn to Weibo, so present everywhere, really. And these numbers already show the huge impact that the partnership will have in the next five years to present our brand and solutions. And again, it is just the beginning, it is not even the real game, not even real sports content. Of course we are going to provide more measurement of this. We are going to measure the success of the partnerships going forward across three dimensions. Firstly, brand activation. So brand awareness, consideration, media exposure. Then product activation, so we can look at downloads and we can look at new use cases and product penetration, of course. And then after all, sales activation, meaning win-rate, net promoter score, customer loyalty and so forth. So there will be more and more KPIs and numbers coming to show you the value that these partnerships create for us. But again, please remember, this is just the beginning. In football the season has not even started. Additionally to these external metrics, it was also great to see how our employees became excited about the partnership. Clearly, these days, employee engagement is very, very important. There is a war for good talent and hence we try to drive employee engagement as much as we can. I think we were quite successful in involving them in the launch activities, like meet and greet, participation at first events, all under corona restrictions, but still possible and providing them with partner merchandise, as well as content to share within their social networks. So it is starting to move. Lots of content pieces created, lots of interesting material that people are proud of and share in their communities, and that is being shared by the club. With this kind of first short glimpse on these partnerships, I would now like to hand over to Stefan, who will take us through our financial results in more detail.

00:24:10 Stefan Gaiser

Thank you, Oliver. Good morning, everyone. So let me summarize the financial highlights in terms of topline and profitability and all the reconsolidation towards our IFRS numbers. So if you have seen and read total group meetings in Greece, the constant currency is 18% and 22 for the first half. Clearly short of our own expectations, but still showing that TeamViewer continues to grow across all customer segments and solutions and clearly beating very tough Coms from last year. IFRS revenues, that will become an increasingly important metric for us, which can be derived from billings. Net change in P&L, effective deferred revenue, they grew 7 and 11% for Q2 and H1 respectively. So growing below billings. Why is that? Clearly, as you all know, we fully discontinued the perpetual model a couple of years ago. However, in H1 2020, we still had around 30 million of those perpetual revenues in our P&L, which you do not now have any more in H1 2021. There, after you strip that away and only take a look at our revenue from subscription model, which is ARR frankly, those grew by 28% in H1 2021. So this metric will become more important going forward and therefore we start to disclose that as well. If you take a look at our profitability on the right hand side of that graph, we clearly kept our industry leading margins despite the significant investments in our future growth, mainly due to the step up in marketing expenses. Our adjusted EBDA in the second quarter remained unchanged compared to last year, while H1 actually grew 12% year over year, yielding a margin of 47 in Q1 and 55% for the first six months. Next to changes in deferred revenue, EBDA is adjusted for IFRS 2 charges, the technical term, but that is largely related to share based comp and we also eliminate some other, non-recurring costs related to M&A or financing and acquisition, transaction costs and so forth. I think important to point out here that the most significant portion are IFRS 2 charges in relation to share based incentive schemes set up at the time of the IPO through the selling shareholder and stock based comp in connection with the Ubimax acquisition last year. Very important is that both of those charges are non-cash effective, so that doesn't result in cash outflows and therefore those charges are booked directly

against equity. And both of those charges actually will pretty much disappear in 2022. But as a result of those EBITDA in accordance IFRS decreased by 19%, but still yielding a 34% EBITDA margin compared with our IFRS revenues.

So, let's talk about billings and billings dynamics on the next slide. I think Oliver explained a few of the dynamics already. Overall very pleased with the subscriber development during the second quarter. Strong customer retention and adding new subscribers and therefore total subscriber count increased by more than 20,000 during the second quarter. Pretty much the same increase as in Q2 last year and more net added than in the last few quarters. So, a very nice and good development. And obviously that represents a significant potential to drive growth within this very large installed base. As Oliver already mentioned, only 2,200 of our paying subscribers fall into the enterprise category, generating more than €10,000 on a yearly basis. This basically leaves us with a very large group of loyal customers, which we can still upsell from our entry or core licenses to Tensor, providing state of the art features, which were already mentioned and obviously also sell AR solutions and remote management solutions into this installed base. We already explained that all are happy with the retention of those subscribers, but clearly the renewal values in April and May were lower than anticipated, as we just explained. Clearly, this had a significant negative impact on our net retention rate. The net retention rate for the LTM period was 95% due to this one time effect of rightsizing as well as taking into account FX headwinds, primarily relating to the weaker US dollar. This also weighed on our NRR and reduced and reduced NRR roughly by three percentage points over the last 12 months. In June trading momentum improved significantly due to this rebound of renewal values and a very strong enterprise pipeline conversion towards the end of the quarter. I think the continuing ramp up of our sales force since the beginning of the year has clearly been a key driver resulting in more pipeline creation as well. I think by the end of the year we have increased our total sales force by nearly 50% year over year. Let's cover the regional highlights by channel. Before we do that, I would generally say that our significantly increased sales teams have certainly not operated under the best and easiest circumstances. I think we should not forget that nearly all of our significant number of new joiners have not seen the nearest office or hub, nor met their fellow sales colleagues or product management marketing at all during the last twelve months. So, I think they didn't have any benefits from working with their colleagues, frankly. So that made the initial ramp up certainly much more challenging, especially for newer use cases, newer products. This is now largely behind us. People are moving back to the offices, and this should result in quite some acceleration and clearly, better sales efficiencies in the second half of this year.

Let's talk about the Americas. As we mentioned, beginning of the year, we had a bit of a soft start, as we mentioned, but that we accelerated quite significantly. Very good pipeline build and some early signs of moving up the value chain and now addressing larger ticket sizes in that market, something which was quite a while on our priority list. I think we talked about that, that the ASP in the Enterprise segment in the US should actually be higher than in Europe. I think now we see that, in the enterprise pipeline at least. So very pleased with that trend. And I think this trend towards larger ticket sizes is driven by a variety of topics, good traction, augmented reality, but also our core enterprise platform, also larger ticket sizes in remote management. So really very good traction moving up the value chain here. Generally speaking, all go to market channels, perform well in the Americas, again with the backdrop of people working remotely, which certainly made their life tougher. But nevertheless, Americas again contributed the highest growth at 26% in Q2 and 27% for the first half year, if we strip away FX impact. And as you all know, we have now a new president of the Americas, Patty Nagle, and she and her team, they focus relentlessly on sales execution and moving up the value chain, as I just discussed. So that should bode well for the future. If we take a look at EMEA, most established and largest region, last year they benefited the most from last year's extra demand and this year vice versa, they were most impacted by the one off rightsizing during the first half, significantly expanded our sales force and they were very successful in focusing on retaining customers. But clearly, overall, renewal values were significantly below our expectations. Early renewals in Q1, also we pulled forward some of the Q2 renewals,

that didn't help either in Q2. While renewal values now sharply picked up in June, we also had very good enterprise conversions towards the very end of the quarter, but the rebound in performance could clearly not make up for the lower renewals that you've experienced and therefore, resulting only 14% growth for the quarter and 21% growth for the first half. I would like to point out that the renewal values of our core licensees, remote access business and premiums, they were not materially subject to such rightsizing, that took more place in the higher ASP values where customers all in panic mode last year. While there is always slightly higher subscriber churn for those products, renewal values were actually very solid, and the average selling prices were stable and actually even slightly up compared to the first half of 2020. I am generally very pleased, however, with the team now being back into our offices and creating lots of positive momentum again. APEC, smallest region by billings, large number of markets remains diverse, to be frank, in terms of performances and dynamics. Overall APEC growth was clearly below our expectations. That is not acceptable, frankly. A couple of specific points here. Japan, first of all, we were not able to compensate for larger than expected downturn in Japan. As you remember, we had an extremely strong first six months in Japan last year, became one of the fastest growing businesses within TeamViewer. But this year's development is so far below our expectations. New business win was not sufficient to compensate for a downturn in Japan. I think the picture will now improve and has to improve. But it was something which we didn't have on the radar screen. Performance in China overall also not satisfying. I think, despite the fact that we won some early adopters of our newest technology in those markets, which is extremely good to see, I think the overall growth is not reflecting our ambitions. But on the other hand, we also have very mature markets like Australia and New Zealand, for example. One of our more mature markets, as I said, but both performed very well. Nice customer wins across the entire customer segments, including large multinational companies with now significant billings potentially on a global level. So a very strong performance in that part of APEC.

Let's turn the page to cover the cost structure. Again, very high GP margins, 92%, remaining comfortably above 90% as our infrastructure clearly scaled very efficiently despite the fact that we expand into enterprise with larger deals and more complex use cases. Clearly, this cost structure also shows nicely OpEx, especially in G&A, where expense lines grew less than billings in the first half. So quite some scale in the business model. Those scale effects we reinvested in line with our growth initiatives clearly with a bias towards marketing sales, but this year also around R&D. Brand awareness took a boost from the successful launch of the Mercedes partnership in May, clearly reflected in marketing expenses doubling in the second quarter, not only due to this marketing partnership, but generally more spent in the marketing area. This higher spend was due to other marketing measures to drive brand value and product penetration. Sales expenses up slightly in Q2 and H1. We clearly grew our global sales team by more than 20% and by nearly 50% over the last 12 months. So very significant investments and they should now bear fruit in the second half of this year. These investments clearly go hand in hand in line with our ambitious growth plans. But taken together, sales and marketing comprise now around 28% of billings. I think this is top notch and well below other high growth peers in the software industry. We also continue to invest in innovation and R&D. In our R&D hubs in Germany and Europe, R&D grew quite substantially by nearly 40%, driven by also some of the acquisitions, which was mainly R&D focused and really investing a significant amount of additional R&D resources on our AR products and Accusign. But I think despite the significant investments we have maintained our high profitability in terms of EBITDA margins, 47% and 55% for the first half, as I mentioned. Bad debt pretty much in line with our framework, slightly below 3%, very stable development, overall. Maybe an outlook statement on the marketing expenses, we clearly now expect that the marketing expenses will continue to build up, the partnerships will fully kick in and therefore we project adjusted EBITDA margin to bottom in Q3 before increasing again in Q4. But the full year projection is unchanged, with 49 to 51% adjusted EBITDA margin in relation to full year billings.

Let's take a look at cash flows. Pretax cash from operating activities was mainly impacted by circa €30 million payments relating to the marketing partnerships. This is pretty much reflected in a similar increase in other assets in networking capital, as you can see on the balance sheet. At the same time, cash flow benefited from a decrease in trade AR, lower capex and interest expenses. So all other operating metrics have actually improved. Despite an increase of the gross financial liabilities of 400 million euro in Q1, we were able to decrease our interest expenses, so I think very good progress on the financing side. After tax, levered free cash flow to equity holders now 32 million, and that represents a cash conversion rate of 57% of adjusted EBITDA.

And I think on the next slide, it wraps up our overall liquidity position, which continues to be a very strong. CapEx bolt-on acquisitions and interest payments comfortably covered by operating cash flow and increased cash and therefore our cash and cash equivalents increased by 28 million in the second quarter. So I think overall very, very comfortable position. Net financial liabilities have decreased by around 30 million. Net leverage ratio down to 1.5. So clearly that gives us all the flexibility and firepower to execute on our growth initiatives. Let me point out that currently we have no plans to pay a dividend as we clearly focus on our growth for this year and the years to come. And therefore, our guidance remains unchanged.

Now, moving on to outlook. The covid pandemic has clearly altered historical demand trends for us. In 2020 we saw a temporary spike in additional demand for home working solutions, resulting in extraordinary high growth. While very successfully retaining those customers, which we had won last year, they adjusted and downsized capacities. This one time effect was larger than anticipated and new billings in the second quarter could not compensate for that, therefore, resulting in 19% reported and 22 constant currency growth in H1. And taking all of this into account, we are therefore guiding to the lower end of our initial 2021 outlook for billings and revenues. This is an ambitious, yet achievable target, as we expect our net retention rate to recover to 100% or slightly more by year end. We already saw, in June, a rebound of renewal values to normal levels as the down selling related to the lock down cohorts stopped in May. At the same time, we expect stable churn and up- and cross-sells into our large existing subscriber base to continue benefiting from further upgrades to our enterprise products, remote management solutions and continued traction in the AR space across the sectors. In addition, the like for like price increases which we mentioned, they apply to broadly half of last year's annual recurring billings, will mostly come through late Q3 and Q4 when long standing subscribers have their renewals. And finally, the negative currency impact on NRR will also end as the sharp depreciation of the US dollar against the euro occurred in July 2020. So obviously, with the current FX rate that headwind should disappear. Now the second key pillar for us is our new billings in the second half. The enterprise sales teams have built a strong pipeline of larger deals we are looking to convert in the second half. Previous deals, examples such as Siemens Healthineers or others demonstrate that we have extended our solutions portfolio with very relevant products around digitalization use cases, which means significant efficiency gains for our customers. In several cases we have access to significant seven-digit deal sizes, which might be a true game changer for our enterprise expansion and part of the strategy is to continuously grow our integrations and partnerships like Oliver explained with the SAP partnership. This is clearly a major step forward here and I think having access to SAP's customer base and a clear joint 'go to market' strategy with our AR solutions portfolio is expected to give us near-term billings results before year end. But next to the enterprise, also the momentum in the other sales channels is also strong as people, especially new sales colleagues, are back to the office now. And I think, as I mentioned, they will now all benefit from working directly with their more experienced colleagues across all functions. I think seeing that rise again in the offices is very good, overall. I think having grown the sales teams by nearly 50%, this will give us the extra weight and punch, which we need to actually meet our full year targets. And finally, I think there is clearly significant momentum around the launch of the partnerships resulting in significantly more visibility across all customer segments. Maybe on timing of the second half, as in Q2, we expect larger

deals to be backend loaded in Q3 and Q4. Q4 will benefit from a very large renewal base, as you all know, throughout the quarter and enterprise buying towards year end, as usual. But Q3 will rely more on post summer pipeline conversions, typically starts around September time frame. Therefore, Q4 growth is expected to exceed Q3 growth. This will also impact adjusted EBITDA margins. In Q3, we expect it to be around 40% and in Q4 around 50%. Therefore, full year guidance remains unchanged with an adjusted EBITDA margin between 49 and 51% of full year billings. And this concludes the presentation, and we can open it for Q&A.

00:42:15 Operator

Thank you. We will now begin our question and answer session.

One moment please for the first question.

The first question is from George Webb, Morgan Stanley. Your line is now open.

00:42:52 George Webb (Morgan Stanley)

Morning Oliver and Stefan, I have a few questions, please. Firstly, can you talk a little bit more about your level of confidence that this is a covid cohort what you saw in the first half? I guess we have the volume churn statistics, which are helpful, but have you kind of segmented your customer base and looked into the renewal patterns of the customers who were not up-sold last year or who were not net new customers. And when you look at that base of none up-sold customers, were their retention rates comparatively stable on an FX basis? That is the first question. Secondly, you mentioned the rebound in renewal values in June towards normal levels. Perhaps not on an LTM basis, but on a cohort basis, was that new rate already back into the triple digits? And has that sustained into July? And just lastly on the Enterprise segment, what is the current level of enterprise sales headcount? And can you talk a little bit more about your level of confidence in the pipeline into the second half, and it's only specific solutions driving that. Thank you.

00:43:56 Stefan Gaiser

So, let me start. Thanks, George. So as you can imagine, we did a significant amount of analysis on our churn behavior or subscriber's churn and the down-sell. I think what we clearly found out is that this is not a churn topic but clearly a down-sell topic across all geographies as I mentioned. The subscriber churn is stable, as we pointed out. But also if we actually dive one level deeper and take a look at the various churn indicators on single licenses, for example, whether it is remote access, business premium, they all have trended favorably, at least stable, if not slightly improving. So from that perspective, we are very comfortable that this down-sell is a one-time effect, by all what we see. And also talk about July, this down-sell is over. That was mainly an effect from March through the May period. Again, we didn't have that on the radar screen. Maybe we have been a bit overly optimistic here, but it has been one time down-sell effect. Underlying churn metrics by customer segment and by region, as I said, stable or actually slightly improving. And then, maybe in terms of enterprise pipeline and what we see there and our staff, generally, we have significantly expanded the enterprise sales team. It is now around a

hundred people, give or take. I would state that we have not been happy with the productivity the first or the last six months, frankly. Variety of reasons for that. I feel clearly onboarding was not the easiest time for them. Joining a company with new product and new use cases and working remotely complete, that didn't help, frankly. But now we have seen significant improvement towards the end of the quarter. But I think that it is too early to make a consistent theme out of that. What is very good and pretty new is that the deal sizes which we are seeing in the pipeline, has moved significantly up and we see a significant number of these, which are high six-digit or, as well, seven-digit deals. I think that is new. Mainly centered around augmented reality solutions. But also including some larger enterprise platforms deals across entire companies. I think that is something new. Clearly need to close those deals. As you can imagine, the entire organization is really very close to those sales processes. We would have hoped to close them, one or two of them already in Q2. That has not happened. But they are still very much alive, and I expect them to close either end of Q3 maybe or latest in Q4. But that will be a key pillar of our re-acceleration of net new billings in the second half. But those deals are for real. Very close. Very good customer interaction. Very interesting and exciting use cases. And now we need to close them.

00:46:52 George Webb

Can I just ask, what are those sales practices for the enterprise business at the moment? Is it still mostly virtual, are people back on the road? What is the dynamic there?

00:47:00 Stefan Gaiser

No, they are back on the road again, to a certain extent. I mean, clearly, it is taking it slow, even if we would like to visit them, some customers have practices which do not allow for physical presence. But I think what is much more important is that we internally have the chance to get together and rally the troops and do live product demonstrations, sitting together in a room for a few days, educate our salespeople, sit together with the marketing guys, sit together with the broad management guys. So I think that all didn't take place, or it took only place in a virtual environment. I think especially if you are a new sales guy, covering new products, which Teamviewer has recently acquired, that is just not the best background, so to say. I think that has changed during June and especially July time frame.

00:47:45 George Webb

Perfect. Sorry, can I just ask one more time on the renewal values, I guess, if you are saying, end of the year, we expect to get back to 100%, that would imply in the second half specifically, your retention rate is probably a little bit over 100%. Is that supported by June or even July, so far?

00:48:01 Stefan Gaiser

Definitely by June, July is now, always first start in the month is always a bit different dynamics, frankly, but definitely supported by June. And I think the biggest impact, again, which drove NRR down is the down-sell. That has clearly disappeared, and the FX headwind. And based on how the FX rates are right now that has also disappeared, right?

00:48:24 George Webb

Perfect. Thank you very much.

00:48:40 Stacy Pollard (J.P. Morgan)

Oh, thank you very much. Now, you gave us margin expectations for Q3 and Q4, can you also give us a sense of billings growth ranges for those quarters? And maybe just a little bit more about how July is trending? And then the kind of seasonality for the enterprise business? Are you expecting this to be quite heavily Q4 weighted, kind of matching the enterprise software market? And maybe a follow up after that.

00:49:06 Stefan Gaiser

So maybe with regard to Q3 and Q4, look, I think Q3 is, especially for the enterprises, is only a few weeks of effective sales and pipeline conversion, why it is obviously going into Q4. Customers, and our salespeople, they know this is the most important quarter. So I would expect Q4 to be substantially above Q3 growth rates. If I put it like that, probably too tough to give precise percentage growth numbers, but there should be significant margin between those two quarters in terms of growth rates. Generally, in terms of seasonality on our business, clearly, now, post covid, Q1 and Q4 have significant renewal cohorts or renewal amounts. And then, followed probably by Q2 and Q3 is always the slowest quarter in terms of billings contribution overall. Clearly, this year, I think our growth initiatives are very much biased towards the enterprise business and therefore more backend loaded. Clearly enterprise is a key pillar also in the future years and maybe we will continue to be backend loaded, but clearly, we expand our business, we expand salespeople, we release new products. And that always happens obviously during the year. And therefore you should see a sequential growth. And that means Q4 should always be one of the strongest quarters.

00:50:33 Stacy Pollard

But you are still sticking to the over 20% for the second half for each individual quarter, is that right? (Or not necessarily?).

00:50:41 Stefan Gaiser

Yes, clearly, we need north of 20% in the third quarter to get to full year, I would say.

00:50:48 Stacy Pollard

Yes. Okay, and then, sorry, second question, just looking at the potential in AR ...

00:50:53 Stefan Gaiser

Sorry, one important point is clearly now those seven-digit deals. I mean, they have a significant impact on our overall billings numbers. So if you close one of those, or two of those deals, it contributes a couple of percentage points. And that obviously means it has some lumpiness on our overall billings as we move more forcefully into the enterprise business.

00:51:14 Stacy Pollard

Sure, yes, that makes sense. Just the second question was looking at the potential in AR. What would you say front line is as a percentage of billings today, where do you expect that to go? And is it typically a cross-sell into the Tensor installed base or is it more of a stand-alone sale?

00:51:31 Stefan Gaiser

So right now, I think it is between 2 and 3%. They had a very good conversion actually at the end of Q2, I think clearly, the first couple of months, generally speaking the enterprise sales team had a tougher time, frankly. They focused much more on getting to know the product and new use cases and so forth and building pipeline. But conversion of the pipeline was good towards quarter end. And, sorry, the second part of the question was ...

00:51:58 Oliver Steil

new versus cross-sales, so it is both. We do have the opportunity to present augmented reality to existing customers. They then typically start a proof of concept, paid proof of concept, to have a test installation, which then in the past experience of Ubimax very often converted. So the customer then likes the solution. But there are also entirely new customers which are just, or came through being interested in augmented reality, so it is the new flow, so to say, so we have both. And of course, in a few weeks' time, we will also add to that the partnership with SAP as a channel of inflow for needs and opportunity in this case. So generally speaking, I think the AR environment is something we are ... SAP looks to it, quite interestingly, also

Microsoft and others, so that is a very interesting phase and therefore, we also get entirely new leads of customers which we have not worked with before.

00:53:02 Stacy Pollard

Thank you.

00:53:15 Mohammed Moawalla (Goldman Sachs)

Morning, Oliver, and Stefan. Thanks for taking my questions. I have two. The first one is just around the over 100% net renewal rate that you anticipate in the second half to kind of get your kind of annual expectation. Given your expectation of a kind of stable churn, can you perhaps walk us through the different dynamics across SME kind of up-selling, but also in your, you know, you are now realizing that, or you are expecting a lot bigger contribution in Enterprise. What are the building blocks around that? And then secondly, on Enterprise, you talked about six-figure and seven-figure deals. We have seen a lot of software companies talk about larger deals closing perhaps a bit earlier in the year versus Q4. So I am curious to get your commentary around that kind of visibility around sales cycles and to what degree some of these could close in Q3 rather than Q4 and whether you have any sort of control around the closure of those deals or like last year, it is going to be much more backend loaded. Thank you.

00:54:31 Stefan Gaiser

Sure, maybe on NRR, reported NRR is 95% now. Two major impacts here, FX reduced NRR by three percentage points. So, sweeping that away would have been a 98%. I think now as we enter H2 it will be more like for like, so that obviously means we are already close to 100%, all other things being equal. Then most important was the down-sell impact on our NRR that reduced the net retention rate by four percentage points, give or take. And so if you take away those two impacts, the FX, and the down-sell, NRR would have been north of 100%. So, frankly, it does not take a whole lot to get NRR back to 100% again. I think clearly FX, obviously, we can't influence down-sell from all what we have seen has disappeared, and now it is more like the usual up- and cross-sell. And that should get us back to 100% already, hopefully in Q3 and then clearly in Q4, coupled with the price increases. But for me, it is more like really those two impacts, the down-sell, which reduced it quite substantially, that has pretty much disappeared now and the FX impact. Then maybe on enterprise and sales cycles, it is a good question. Maybe different by region. I think in the US we have significantly strengthened now our enterprise muscle and DNA over the last couple of weeks and months, a) by more and better hires in the Enterprise segment over the last few months. Also, we made the acquisition of Upskill, right? I mean, they were used to sell into large enterprises, Boeing and a few others, average ticket size already being significantly higher. And they obviously are very familiar with OT environments, right? And I think that is something which we lacked, to a certain extent in the US. Now, we see those deals. Some of them have been in the pipeline since a while. So it was not necessarily those which showed up a couple of weeks, but already have been in the pipeline for a few quarters. Progressing. We were close to decision point already in Q2, now being live again, reactivated and I would expect them to close certainly in Q4. Q3 let's see. As I said at

the beginning, I think September, or Q3 generally is just a very short quarter for the enterprise team because vacation time and whatnot. And then sales cycles on top of that means they could fall probably into Q4. But let's see.

00:57:12 Oliver Steil

I also think it is important because you are asking for the ability to pull forward. I think most of these enterprise projects are new digitalization projects. So the customer needs to walk through proper installation, proper testing and also proper purchasing cycle, procurement cycle. So it is not that this a, call it an ERP installation which is running anyway and then you discuss a new multi-year deal and whether you discuss it in Q3 or Q4 is a little bit at our discretion now. That is not the characteristics of our projects and hence there is only so much we can influence that. And certainly the summer quarter, as Stefan said, is not the greatest quarter for new projects. But we have a strong pipeline globally. We have the people on board, a significant number of people on board now that can lean into this. And we will do as much as we can in Q3 already, of course, to de-risk but Q4 will be the biggest deal.

00:58:12 Mohammed Moawalla

Got it. And if I could just squeeze one more in. Obviously, there are a lot of gating factors this year kind of post-pandemic. But as we look to maybe next year and ramp to your mid-term ambitions, clearly it sounds like you probably are expecting this sort of acceleration to happen. Sounds like on the enterprise side, your confidence building. Can you maybe just walk us through the building blocks or the bridge around that sort of billions of billings that you reiterated in 2023? You know, where is the kind of incremental confidence coming from?

00:58:52 Stefan Gaiser

Look, I think that has not really changed clearly in the first six months. We had tougher times than expected, but it was mainly one-time effects. Frankly, I think we have been a bit overly optimistic on the retention and the retention value of our covid cohorts. And clearly, I think 2020, also on the normalized non-covid environment, I think, our enterprise pipeline conversion, also the SMB segment performed extremely strong. So I think the first six months was a much tougher fight than expected but that does not change at all our confidence in our one billion billings goal in two and a half years out. I think we clearly have what it takes to give a significantly expanded solutions portfolio. We have the subscriber base, frankly, and there is so much headroom to grow in that subscriber base and I think those are, from my perspective, the key pillars is the solutions portfolio and the subscriber base to get us to the one billion.

00:59:47 Oliver Steil

And also a better regional and go to market, quite frankly, I think given covid situation now over the last almost 12 months, I think the physical 'go to market' talking to people had difficulties clearly. We are also building a better, broader marketing

organization, now with Lisa Agona being on board and also driving the different functions in the different regions. So that was always very much focused on Europe, naturally, and then the US to some extent. But the global marketing organization that drives demand generation across the globe needs to be built up. So there is a lot of movement there. The quality improvement also and the stronger enterprise focus in the Americas. If you remember, we were running out of one office for a long while. Tampa, Florida, really not the space where you are closest to enterprise customers across the US and now we have offices in Austin, we have offices in Atlanta, and an office outside of Washington, plus Tampa. So we really spread our organization more. We have more people. Now we can also lead those people more. That will drive enterprise. That will drive operations use cases, also more in the US. And then last but not least, APEC, some construction site, as Stefan mentioned, in China, and also getting Japan back on growth track after they grew 112% last year or so. So there is a normalization effect there as well. Many of these things need to get into the normal flow that we have seen at the end of last year and before the covid crisis. So that would be a much more balanced business development going forward to contribute to the growth, which we have always achieved before.

01:01:41 Mohammed Moawalla

Okay, that's great. Thank you very much.

01:01:52 James Goodman (Barclays)

Good morning. Thank you very much. Firstly, on the renewal point, maybe you can help me with this one thing I am just not clear on, which is, if we look at the specific quarterly drop in net renewal into Q2, which is very clearly outlined, is due to the covid cohort, the down-sell. Can you just help me with the Q1 to Q2 dynamic? Why didn't we see a similar effect of the same magnitude last quarter, given that was the bigger covid cohort. So I can reconcile that. And related to that, maybe you can make a comment on the remote access product, which you called out on the slide. Seems like it's getting some good demand, but is there any tension there in terms of, there may be some customers at the lowest in the end, you know, adopting that product where maybe they otherwise would have taken the core product or something of that sort of effect. And maybe just then separately, I think we talked in the past about net promoter score. You talked in the presentation about customer feedback and its importance on the product functionality. But any comment you can make in terms of where currently your net promoter score is, how you are thinking about the feedback across the customer base, more generally, across everything from the free-paid conversion through to, you know, contracting and product capacity. Thank you.

01:03:15 Stefan Gaiser

So let me start with first the first two questions. On the renewal and retention rates, the way how I see this, really, I take a look at Q1 and Q2 combined, frankly because there was so much noise around quarter end with pull forwards and significantly engaging with the call with customers, whether it is March, April or May timeframe was kind of irrelevant to the way how we see this really one period, so to say. And there was like 95% for the last six months combined. I think I

mentioned at the end of Q1, and there was also my tonality around Q1, is that we clearly saw that the downsell is more, or is higher than we anticipated. And I hinted towards the lower net retention rate in the mid 90s and that is exactly what happened. Q2, I think, was now net retention rate of high 80s. A little bit of pull forward into Q1, as I have explained, but generally normalized towards the end of the quarter. And from my perspective, was really around 95% for the first six months. And that is, as I said, FX three percentage points and four or five percentage points down-sell and that is the key drivers there. Remote access, I think we need to put that in perspective. Overall, that contributes only a few percentage points to overall billings. I think we launched that product in 2018 really as the entry version. Really also to monetize customers during free to paid campaign. It is actively competing against other low end competitors. But in the overall scheme of things, it is 2, 3 percentage points of overall billings not more than that. What we have seen there is same dynamics. Churn, as Oliver mentioned, is high 10s, low 20s. That has flattened or actually improved slightly as well. But frankly, remote access will remain the entry version, working from home solution for single users. You will always see some higher churn there, but it is good to see that the churn has not decreased, in fact, it has slightly improved.

01:05:15 Oliver Steil

Specifically, I think you are asking also, cannibalization, is that dragging people away from the business solution? Typically not. In markets where we have this product, we were adding, we were nicely growing. I mean, that analysis we did already before covid. Of course, covid maybe change some of the dynamics there, but generally toward market by market that was the effect of course. There are people who are now buying the remote access product who would have otherwise bought the business license to a smaller extent, smaller cannibalization. But that is, quite frankly, good cannibalization, because if you are just an individual user, you want to connect and work from home, you should have the remote access product. Otherwise you would have a broader product overpay. And I think long term that is also not a good strategy. So therefore, I think for personal use, that is actually quite a good product. And then maybe going over to NPS across the base, of course, we look at NPS, we do press, we do surveys, post service call surveys. We are also going to have sales call surveys. We measure NPS, NPS value. This is by region, of course. Generally, we now had, last time as we see NPS fortysomething global view and so actively trying to improve the whole process. I think the one, the two biggest drivers. I mean, if you take away, like, low availability of our sales force, if we have peak times, which we had last year, or any other kind of operational hiccup on the (01:07:01 unclear) the two drivers, which we always need to watch, is the free to paid conversion, as you know. When they are asked to buy a license and they do not like it. And secondly, if the auto renewal that we, the auto renewal practices in some markets, this is still absolutely common, to have an auto renewal in some markets, we had to go away from it. Other markets, we need to remind customers properly. So there is a constant readjustment going on to be in the proper place there and these are the two drivers that we focus on. And then, of course, we have app usage, app ratings and the likes where we also are quite active in trying to make sure we have surveys, and we get ratings from customers that like our product. I think our key issue in this respect is, one of the keys, is that a large free user base racing up and commenting about something which is more frustrating to them, maybe when they need to buy a license, which is not the intrinsic satisfaction with our service, our product. And balancing these two inputs is quite important. If you look at G2, we score very well because they have a very strong filter in asking subscribers to rate the product and not all free users. Trust Pilot is different but we also working to improve that process.

01:08:28 James Goodman

That is helpful. Thank you. Appreciate it.

01:08:40 Gianmarco Conti (Deutsche Bank)

Hi Oliver. Hi, Stefan. Thank you very much for my question. So I actually have a couple as well. The first one is, from my understanding of the SAP partnership is that you'll be maxing out integrated with SAP's assets for the management solutions. Could you just kindly explain to me how much value add you expect from this partnership in tangible terms, like if you could provide the concrete example, that would be great. And this was like the timings that you expect to re-benefit from it. The second one is in relation, are you already seeing some activation from the F1 events? Are you able in some countries to showcase with your local sales force to potential CEOs some use cases at these events themselves? I am just trying to understand whether there is some level of sales activation from the recent F1 events. And then I will take another one after these things. Thanks

01:09:36 Stefan Gaiser

Yes, so SAP partnership, what is the value add? If you think about a typical SAP customer, ERP system, finance system, HR system, product management system, often in industries with a whole parts flow, it is modeled in the SAP system. If you then take the other side of the operation, for example, it is the warehouse where people are working, picking parts, and putting it to the other commissioning parcels, then there is an obvious link that whatever is the picking flow is linked to the SAP system. When you have a manufacturing situation, then whatever part is mounted or assembled, there is an obvious link to the SAP system, so if you have an end to end solution, you have access to all cycle times, movement data, timing data, quality data and picking levels or inventory levels directly from the person, so from the glass or the tablet that the person is wearing into the backend system of ERP. And that is what some of the customers have already kind of built by themselves. But the big value add is that we now go to market together. So the customer is getting it out of one hand, so to say, or two hands, but in a joint sales approach versus needing to build something on their own. And that is a very strong value add for customers. When will this impact? I mean, we are going to launch it, technically, in a few weeks' time and then we need to see how hot, so to say, the initial leads that we have on the pipeline are. We have significant leads already. Whether this is a Q3 conversion game. I doubt it. That is too fast for these types of projects, but Q4, we could see a nice contribution there. I mean, SAP is very eager to market, showcase this as soon as possible and so are we. And it is nothing which is totally new and a new solution that you need to present. It is an obvious proposition to customers to say here is SAP, here is front line AR extension that can go together now. And I think, therefore, we believe that can be significant impact already this year. Formula One, so what is happening there? We have the first few races. Hospitality starts to work. Monaco was an internal launch, Baku we didn't do anything. But since then, we brought customers to Formula One and Formula E races. Currently, honestly, it is relationship building. There is no way at the moment, hasn't been anyway, to showcase solutions, really. We want to build solutions together. But also you cannot really bring customers to the pit lane, to the garage. That's not possible yet. Also, the factory wasn't accessible yet. So this year from that perspective is a little bit difficult. But we are working with Mercedes on codifying use case, creating the marketing collateral to be able to talk about and show around more of it. Again, that is also the topic for the remainder of the year, towards, I would say, later in the year

and then with the Formula E season start, the next season, I think we would see more of that. Currently it is brand building awareness, it is hospitality and the concrete use cases that we can show will follow suit.

01:13:24 Gianmarco Conti

Right. So just to follow up and then I have another one. So are you expecting then, over the next couple of F1 events to still not be able to showcase anything to customers? And you mentioned you are working with Mercedes to codify these use cases. Could you show a bit more color on that? Like how exactly are you doing that? I am just curious to see whether you are actually making use of some sales force there or is it just like this is currently on standby. We can't really do much because of the restrictions and depending on where the event is and so on, so forth. And just a final one for me is, I noticed on the ACV for Enterprise there was quite a spike in the number for ACV over 200,000. There was also the large contract won at the end of June, like what is driving the absolute increase in ACV for your enterprise customers. I am just curious if that is one off effect or is that just stronger demand from generally enterprise earnings.

01:14:27 Oliver Steil

So I will take the F1 first. I would say it's the middle of what you describe. It is not that we cannot do anything, but we have to work around covid restriction. So concretely that means we are in discussions with Mercedes, both Formula One and Formula E to create marketing materials around existing use cases, so remote control of devices and remote control of IP equipment, which they have. That will take a while to get that done. But that is the easier piece. And then, of course, newer use cases where they will use more of the augmented reality piece in the factory and in the pit lane. That is some months to go, and we need to see how speedy we can be on this one. This season clearly is a sub-season. We only started in May, so late comers, very late to Formula E and late to Formula One. It was always clear that it's a bit restricted. And that is also reflected in the pricing structure for this season. But there is stuff that will happen throughout the year.

01:15:39 Stefan Geiser

Maybe on enterprise, ACV spike, nothing special, I think was just a really good execution across our installed base with a couple of nice wins in the 100, 200, 300k range with existing customers as well as new customers. And that is much more like, we want those customers, especially in the upsell scenarios. We won those companies maybe a year or two years ago, and now we are moving them up to significantly higher ASPs. And that is what we see in the pipeline. Maybe you start with a POC of 10, 15, 20k, but then suddenly you have a ticket size of 150, 200k. And some of those deals which we have now closed and that led to that nice shift in our enterprise. It is just testament, from my perspective, that we are successfully moving and expanding into the enterprise segment and that we have the products and solutions to get there.

01:16:27 Oliver Steil

Yes, maybe one anecdote for those of you who have been around at the IPO time. At the time, we had won this first, at the time, largest deal in the Americas, €80,000 and the question at the time was, well, where can this go, how does this move. This customer is still with us, now sitting at more than \$300,000, so a little below €300,000 to additional use of the product in various areas and more capacity. So, nice example of how these customers are basically growing in capacity over time. And that is within two years effectively, with the second renewal.

01:17:16 Gianmarco Conti

I see. Okay, thank you.

01:17:29 Gustav Froberg (Berenberg)

Thank you very much, everyone. I have two, please. First, could you maybe talk a little bit more just about the contribution to growth in the quarter? Maybe Q1 and maybe also Q2 actually, or sorry, other way around. Just coming from augmented reality versus the core business, so how much of billings growth is actually coming from the AR solutions that you bought last year and how much is core? And then could you maybe also talk a little bit more about the trend in monthly active users based on the platform, just what you are seeing kind of H2 last year versus H1 this year?

01:18:04 Stefan Gaiser

Yes. Hi Gustav. AR growth clearly outpacing the remaining growth of the core business, as it should be, frankly. I think we had planned that this business should go in the 40, 50% range, maybe in Q1, a bit of a slower start, given that this was a new product, which we exposed to lots of new salespeople, so to say. But then at the end, or middle of Q2, it is a significant accelerator, although we probably have achieved that growth rate in the second quarter. So nice up tick, also the pipeline actually, especially the larger deals are very much focused on those use cases, as is the SAP partnership. So from my

perspective, maybe a little bit of a slower start in the first couple of weeks and months, but then significant accelerating. And I would be very confident this business will be a significant accelerator to overall billings growth

01:18:57 Oliver Steil

It is growing very, very nicely and we are positioning in the end of our pipeline. But, of course, if you take the overall business, the contribution to overall growth, it's still relatively small. Enterprises now sizable, growing nicely but it is by now also still a smaller part of the business and then the AR piece, and this is an even smaller parts, so that also shows you there is a way to go and significant potential going forward. But it also shows that the growth on top of the very, very strong cohorts last year has actually been generated by the core business across all regions. So it is an incredibly strong and robust growth trajectory that we have there. And the AR piece, the enterprise piece is still there, on top of it. Second question, I think, was users on the platform? Probably talking about free users, or can you ... what exactly do you mean?

01:20:00 Gustav Froberg

Yes, exactly. Just generally kind of free users, are those of your subscribers that are using the software as much as they were last year? And then I am particularly interested in H2 because obviously H1 last year was a bit special.

01:20:13 Stefan Gaiser

We saw a spike in the platform usage in active devices, given the pandemic, then we have started to modify some of them starting in the second half of 2020, then pausing it in Q4 again, starting in Q1 and Q2. So now it is at more normalized levels again. Now we have stopped campaigning again in the third quarter and therefore, from my perspective, pretty much unchanged picture.

01:20:41 Oliver Steil

And then general, usage of the free user, I think the peak was last year as Stefan just said, we have been more restrictive in free user management in some markets that typically drive, or can drive an enormous amount of free usage. So specifically, that is China, India, and some other Southeast Asian markets. We have increased, especially in China, we have increased the scrutiny level of allowing people to use our free products. So you have to have an account. You have to have in China even the mobile phone number, because we wanted to take all the kind of broad usage and machine usage out of the system, because of the kind of high free user numbers that can never be monetized, don't help. And it is also putting load on the infrastructure. And it is also not fair compared to paying customers, so we have been more restrictive there, and that has reduced the number of free users in some large geographies. And the picture you see is, I would say, a slightly condensed, after covid a slightly condensed free user base, but higher quality free user base, which also allows monetization and has allowed monetization.

01:22:01 Gustav Froberg

Super. Thanks.

01:22:13 Ben Castillo-Bernaus (Exane BNP Paribas)

Thanks very much for taking my question. Just more broadly, clearly the enterprise momentum is strong, the SMB is still the majority of billings. So can you just help us with what is going on there? What the growth rates you are seeing of your own business? What you think the market is growing at in the SMB space / remote access. What are you seeing competitively? What has changed and what degree you have pricing power? All those elements will be helpful. And then to come back on that sort of freemium model, number of free users. Can you give us an idea of what your penetration is in terms of the 620,000 paying subscribers as a kind of rough estimate of your total user base? Just trying to get an idea of how much headroom you have there to continue to monetize. Thanks very much.

01:23:05 Stefan Gaiser

So I start with the ecosystem, first of all. So 600,000 subscribers, I think the way how we see that is that we did have the same potential to monetize around 620 million on a yearly basis of free users. I think that that hasn't really changed. I think that could pass in 2021 as well. But obviously, if you put that in the overall context, it is becoming less and less meaningful. A couple of years ago, that was 10, 15% or even more of our new billings, and now it is substantially less. So I think that is, from my overall perspective, becoming a less meaningful number. The penetration rate, obviously still a significant headroom because most of our connections are from free users, right? I mean, we have millions, hundreds of millions of devices which are free devices which are not part or attached to a subscription contract, so there is significant headroom. How much of them you can monetize? Hard to say, as I think from my perspective, we are happy with the 20 million monetization goal on a yearly basis. That is what we are working towards.

01:24:10 Oliver Steil

Yes, and keeping the funnel relatively stable inflow of new users and then monetizing part of that and making sure that the user base is vibrant, but that the general trend, I would say, in the industry to be more restrictive on free usage for security reasons as well, I think quite some companies, smaller companies are using the free version for business services, which is ultimately not the right thing, independent of any commercial considerations. But also, I think from a security consideration, there should be an account. You should know what this customer is. You shouldn't let these customers just free-floatingly use your network without any ability to find them if there is a bad connection, a bad actor. I think the whole industry has gotten more scrutinized on the premium product, maybe not at the lower end, but on the premium products. That is absolutely what our enterprise customers are also asking for. We need to watch the time a little bit. So your other question on dynamic, SMB, what is going on there? I would say it is really like if you go back two years, some time, I think the market

studies on IT, connectivity, SMB, this all didn't look very interesting, maybe from a growth rate perspective. I think what we see is constantly over the last years, we are defying gravity there. We grow. We grow in all product segments. We grow in all regions. We grow in our most mature markets. We are able to up- and cross-sell into this subscriber base. We also, as you know, we told you about the renewal price increase of a few percentage points. We do have the pricing power. Are we losing a few subscribers to competition at the low end? Yes, definitely. We see that in churn, in the low end churn numbers. But generally speaking, we are very happy, very happy with the robustness of our core user base and the up-sell and cross-sell paths that we see. Typically, customers who like the product consume more over time. For years, we did a good cohort analysis of how customers grow the ACV with us, the ones that day after year one, in that constant development. So we feel very good about the dynamic there. That is not to say that we had a few missteps in some markets maybe and didn't get it fully right in some of our growth markets like in APAC. But generally speaking, very, very, very good and healthy part of the business at no acquisition cost and high efficiency.

01:26:38 Ben Castillo-Bernaus

Thank you.

01:26:50 Victor Cheng (Bank of America)

Hello Oliver, hi Stefan, just one question from my side. So of the enterprise deal examples that you have provided, how many of those are greenfield opportunities and particularly those around AR, and then how many others are more about displacing existing products? And if so, you know, what are they what was the competitive dynamics around that front? Thank you.

01:27:17 Stefan Gaiser

So the vast majority of those deals are greenfield frankly. It's not competitive, especially in the AR space,

01:27:24 Oliver Steil

AR space almost all greenfield and on the Tensor platform product, I would say about 70, at least 70% of the 80% or so is without competition but it is really the question is how much will the customer digitalize? How much remote work will be done with an external party? And very rarely we do a lift off of say Logmein, Beyond Trust or anybody else.

01:27:57 Victor Cheng

All right. Thank you.

01:27:59 Oliver Steil

Thank you, Victor. So thank you very much for your attendance. If there are any follow up questions, long questions, please reach out to the IR team. And again, thank you very much.

01:28:08 Stefan Gaiser

Thank you.