

TeamViewer SE
Q3 2023 Results Call
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Transcript

Speakers:

Oliver Steil

Michael Wilkens

Ursula Querette

Operator Ladies and gentlemen, welcome and thank you for joining the TeamViewer SE Q3 2023 results call and webcast. Throughout today's recorded presentation all participants will be in listen-only mode. The presentation will be followed by a question and answer session. If you would like to ask a question, you may press star and one on your touchtone telephone. Please press star key and zero for operator assistance. I would now like to turn the conference over to Ursula Querette, Head of Investor Relations. Please go ahead.

Ursula Querette Good morning, everyone, and welcome to TeamViewer's Q3 2023 Earnings Call. My name is Ursula Querette, and I am pleased to host today's call. I am joined by our CEO, Oliver Steil, and our CFO, Michael Wilkens. As always, Oliver will kick off the presentation by updating you on the quarterly business and financial highlights. In the second part of today's call, Michael will guide you through our Q2 financials in detail.

As always, the presentation will be followed by a Q&A session. Please note that you can find the important notice and the APM disclosure on slides two and three. And with that, I hand it over to our Oliver Steil, whose CEO contract has been extended for five years, as you may have heard last week. Congratulations, Oliver.

Oliver Steil Thank you, Ursula. Good morning, everyone. Thank you for joining our Q3 2023 earnings call. Before we start, a few personal words. As Ursula just mentioned, TeamViewer's supervisory board and I have agreed to extend my term as CEO until October 2028, which I think is great. It will give me enough time to focus on the strategic development of the business and the sustainable and profitable growth of the company. I'm actually very excited, looking forward to this new term, and to continuing the work that we have initiated here. We'll certainly talk more about our strategic plans and the strength and focus on innovation, technology leadership, together with our full-year results. At the moment we are really fully focused on bringing this year's results home. With that, I think we should focus on the Q3 numbers, so let me get back to those.

As always, let me start with the key figures for the quarter. We increased our revenue by 10% to €158 million. Our adjusted EBITDA grew even stronger by 19%. This is resulting in a very high EBITDA margin of 44% and this shows once again our ability to create profitable growth. Looking at billings in the third quarter, our core SMB business delivered strong performance again, grew by 9% on constant currency. And despite the quite difficult macro environment, our enterprise business contributed with 6% billings growth on constant currency. And we were able to close some relevant, large deals which I'm going to talk about.

In addition, in the quarter we announced when we will take on a new role within the Manchester United partner ecosystem. We now communicated that from the start of the 2024/2025 season, so mid next year, we will see a reduced level of marketing spend for the Manchester United partnership. As we said before, we will invest some of the savings in other branding activities and other marketing activities, and of course also in our product. But the remainder will have a positive impact on TeamViewer's adjusted revenue EBITDA. I think it's very important and we have communicated it before, the impact will amount to approximately €17.5 million improvement in 2024 calendar year and approximately 35 million in 2025.

We've also made significant progress in terms of product and tech collaborations through our new partnership with unified endpoint management provider, Ivanti. We have significantly enhanced our remote monitoring and management offering. For those who don't know this, Ivanti is the company that acquired MobileIron three years ago. With Ivanti's industry-leading mobile device management capabilities, integrated into our remote and tender solutions, we can provide our customers with a one-stop solution to manage all their desktop and mobile IT devices in a secure and efficient manner.

Another achievement on the product side was the completion of the certification process for our enterprise connectivity to Tensor to become an SAP endorsed app. This is a very important accomplishment for us, especially since our productivity solution, Frontline, has already been available in the SAP app centre for some time. The Tensor endorsement is clearly rounding up our enterprise offering within the SAP certified ecosystem. This will not only lead to increased visibility, but it can also drive aftersales and support use cases for Tensor in the OT environment.

It's also worth mentioning that we saw a general increase in customer interest in digitalisation and innovation projects in the past quarter. This has also led to more traction for our Frontline solution across regions. And sales have very often been supported by our channel and tech partnerships. We were able to introduce our vision picking solution in the bottling industry in APAC, as well as in the logistics and supply chain industry in the Middle East. The most important Frontline project was the further rollout of our picking solution to more warehouses of Navajo. This is Mexico's largest wholesaler to the healthcare industry. You might remember that we won that deal less than a year ago as part of our SAP partnership and it's a good example, it's great to see how it is becoming more relevant over time and how the partnership investments start to pay off.

From our perspective, to sum it up, double-digit revenue growth in Q3 at a high profitability, while we further enhanced our

product portfolio and improved our go-to-market approach. Overall, we achieved good results, despite a continued challenging macro environment.

We continue. Let's now take a closer look at our SMB and enterprise business over the last 12 months. You can see that the core SMB business, which is the higher value bucket with contract volumes between €1,500 and €10,000 is significantly growing with 25%. And we really see this as our sweet spot in the SMB space, as we constantly enhance our product, especially for larger SMB customers and manage service providers. As always, we were successful in cross and upselling and growing our customers' contracts again.

Also, the lowest enterprise bucket with contracts between €10,000 and €50,000, where we currently achieve most our enterprise billings, saw a strong increase of 21%. This means that our largest buckets in SMB and enterprise are growing the most and it reflects the strong contribution of core customer audiences to our LTM billings.

Moreover and important, the highest enterprise bucket, so above €200,000 annual contract value is growing again with 4% after a dip that we had at the beginning of the year during the last quarter. Actually, despite the challenging macro environment, we were able to close some relevant, larger deals, which I will tell you more about a bit later.

Next, as always, a view on the regions. In Q3 development of billings and revenues showed quite a mixed picture across the regions. APAC again showed the strongest operational performance with billings up 15% year-on-year on constant currency. Revenue was up 8% and I think in this region we do see a continuing upswing, which was initiated by the recent investment and then also the organisational restructuring that we did quite some time ago, so it's really coming together nicely now.

Americas region, where the reorganisation of the sales team setup has been initiated in the first quarter this year. Showed the lowest billings growth rates of 5% in constant currency. It's still an environment with longer procurement cycles in the current environment, which has contributed to this situation. However, we are fully committed to bringing this strategically important region back to its previous successes. Revenue wise, the Americas region showed good growth with a year-on-year increase of 10%. And this can be attributed to currency tailwinds from previous periods' billings converted into revenue now, so this is obviously a slightly lagging indicator.

Our last region, EMEA, reported good growth in Q3, billings up 9% in constant currency, revenue up 11%. Especially in EMEA

we saw an accelerated trend towards more channel and partnership deals in the quarter. Next slide, please.

As always, I'd like to put a highlight on some customer success stories for you. This time we brought two remote connectivity examples from the third quarter. On the left side, we talk about a major US telecommunications equipment company. Here we were able to migrate the customer from multiple existing SMB licenses to a really large Tensor deal, which is worth more than six times the aggregated value of the former smaller licenses. We often talk about our strengths in upselling and this is one, I think, very successful example.

At the same time, the new Tensor deal also provides much more value to the customer. Before there were hundreds of small TeamViewer licenses spread across departments, regions and subsidiaries, which had developed over the years without a systematic or strategic approach on the customer's side. Now with one single Tensor license for the whole group, the customer benefits from enterprise-grade security, auditability, and scalability.

On the right side you can see an example from the APAC region. If you've ever been to a South Korean restaurant, you know that ordering and paying via touchscreen or tablet, tablet mostly, right at your table is already very common there. Obviously, there is a need for maintenance and troubleshooting for the companies offering those systems. Therefore, t'order, which is the market leader for these systems in South Korea, decided to integrate TeamViewer into each of its devices. Customers can now very fast and reliability access the systems in the restaurants remotely and get them up and running again, which is a huge benefit for both t'order and their customers. To give you an idea of the size of this implementation, with an installed base of about 120,000 devices in restaurant across South Korea.

I would also like to give an example of the scaling potential of deals we closed some time ago. This example on the slide is a customer from the engineering sector based in Europe. It's a multinational manufacturer of agricultural equipment, including vehicles such as tractors. Actually, some of you remember this story, we've talked about it around our IPO. The deal had been just recently closed at the time of the IPO and the whole project was in development phase without almost any revenue.

As you probably know, tractors nowadays are packed with IT and all kinds of digital devices onboard. And to support the factors' operators when they're out in the field, TeamViewer's integrated ex-factory into these devices and when an issue comes up the operator can call customer service and they will remote into the device to instantly solve the issue, as any

downtime in the agricultural sector is critical for the business and they are far away out in the field. The value for the company and its customers is pretty obvious.

Looking at the ACV development, this is a nice example to show how we scale together with our customers. Firstly, we benefit from more vehicle being sold now and, secondly, we benefit from digitalisation in the agricultural sector. Meaning a growing number of these on those devices that are added to each tractor being shipped. Every additional connected device means revenue for us. It started small and can get very sizeable, as you see.

One last comment. The graph you see on the slide shows the ACV development for that specific use case with the on-vehicle devices. Additionally, this customer uses TeamViewer for internal IT support, where we have a separate contract with a six-digit yearly revenue in place. This is also an example of a successful cross-sell into separate departments of the same company.

Let me now come from customer stories to the marketing side, to explain how we target and reach those customers. After the introduction of TeamViewer remote in the second quarter with the associated campaigns, we have focused on comprehensive marketing activities dedicated to enterprise customers in the third quarter.

Just to give you some examples, we have introduced our new brand campaign, Find Your Better, on the left side. And at the core of the campaign is our brand promise of helping our customers each day to become better in their business' critical operations. One example is how we support our partner, the Mercedes Formula 1 team with our technology. And if TeamViewer works in the fast-paced environment of Formula 1, it can definitely make a difference in any industry, and that will be added over time to this campaign. We start with this launch campaign element and then we'll have other customer examples that we will be quoting over time.

The second campaign we launched last quarter was explicitly promoting Tensor as our enterprise-grade remote connectivity solution with all the relevant enterprise features, like enhanced security and scalability. The motto there is engineered for enterprise, that we've brought to life with online marketing measures like videos, social media and the likes. These are only two examples to give an impression of how we support our product enhancement and the overall transition to an enterprise software provider with our dedicated marketing campaigns.

I think it's worth mentioning that last summer we welcomed Peter Turner as our Chief Commercial Officer on the management

board. And I'm really happy to say that what he and his team have done over the last year really makes a big difference for us, I think as you can see from the campaigns, also. Website campaigns, content, presentation, appearance of the company, we've reached a new level, which is very important to show and communicate the transition to more enterprise and more OT use cases.

After customer success stories and marketing, let's get back to the financials that Michael will explain to you in more detail now.

Michael Wilkens

Thank you, Oliver. Good morning and a warm welcome to all of you. I'm now happy to guide you through our financials for the third quarter of 2023.

On slide 12, there you see our Q3 revenue of €158 million, which increased by 10% year-on-year. With this, nine months into the year we are on track to reach our full-year guidance. Our Q3 billings grew by 8% to €150 million on constant currencies. In Q3 we saw further increased headwinds from currency. The average US dollar exchange rate, for example, was 8% weaker year-over-year. As roughly 30% of our billings are generated in US dollars, this had quite an effect on our Q3 billings growth. As you can see on the slide, this results in 4 percentage points' difference between reported and constant currency. Rightfully so, we based our guidance on fixed foreign exchange rate.

Our LTM net retention rate remains strong at 107% on group level and is up 4 percentage points year-over-year. NRR on ARR, which adjusts for the multi-year impact, was again above 100%. This shows that we operate a highly recurring and resilient business model, which is key in these times. It is also key for us to continue to invest, to be up and running when the macro situation improves.

While we continue to invest, we manage our cost base diligently. In addition, we also had some favourable currency and phasing effects in Q3 on the cost side. Therefore, our adjusted EBITDA increased by a strong 19%. This translates into an adjusted EBITDA margin of 44%. Our levered free cash flow decreased as expected by 6%, to a still high €46 million. I will get into that in more detail later. The adjusted EPS grew even stronger than the adjusted EBITDA, by 24% to €0.22 year-over-year.

Let's now have a closer look on quarterly sequential developments globally and for SMB and enterprise on the next slides. I already explained our global revenue, billings and margin growth, and the influence of currency on growth rates, especially for billings. A graph which still needs explanation is the new billings development on the bottom right. Oliver talked about some compelling use cases and deals before. t'order, for example, was a net new deal in the APAC region. We also

mentioned an increase in traction in channel and tech partner deals. Some of these also count into the net new deals of Q3.

In total, we generated 14 million of billings with new customers. When looking at the quarterly development, we see stable new business volumes, which on the back of the recent macroeconomic environment is proof of our high-quality product offering. Of course, we want more than a stable new business development and, as mentioned before, we are preparing our organisation for re-acceleration.

Let's move to the next slide, please, and look at our SMB business, which again delivered a strong performance. Slide 14 depicts a continued strong SMB business with revenue growth of 8% to €128 million. Billings were up 9% on constant currencies to €123 million. In my opinion, the highlight of this slide is the further increase of the average selling price over the last quarters. The year-over-year ASP growth of 11% in Q3 is not only due to our pricing power, but also fuelled by the strong growth in the highest SMB value bucket. This is our core value bucket for SMB. Recent product enhancements around RMM are targeted to serve customers exactly in that bucket.

Oliver mentioned the Ivanti integration before. While the highest SMB bucket grew strongly in Q3, the lowest bucket slightly decreased. This is also the main reason why the number of subscribers decreased by 1% on a sequential quarterly basis. On a year-over-year quarterly basis, however, SMB subscribers grew by 1%. At the same time, real churn remained rather stable. Next slide, please, where we take a closer look at enterprise.

Let's start with the enterprise net retention rate. We are definitely not satisfied with 102%, this actually is a transition towards enterprise remains at the heart of our strategy. This number reflects a combination of various external and internal factors. The slow start of our enterprise business into the year, the macroeconomic environment with longer procurement cycles, negative currency effects and the ongoing reorganisation of our Americas region, to name just a few. Oliver and I told you before, we are working on this.

The highlight on this slide is the development of customer numbers, a plus of 22% year-over-year. Some of these new customers are quite large, which is a promising development and which will ultimately drive the enterprise ASP. Q3 enterprise revenue grew by 22% year-over-year, driven by a successful period up in cross-selling and the ongoing release of multi-year billings to revenue. Billings grew by 6% year-over-year on constant currency with relevant deal closures in Q3. All in all, meaningful enterprise growth.

Let's now have a closer look at our cost base. Recurring costs,

consisting of cost of goods sold and total operating expenses, increased by only 4% or €3.3 million in Q3. As we gave clear explanations on each of the line items on the slide, I will focus here only on the main effects. Let's talk first about the cost savers. Favourable currency effects, especially positive natural hedge effects in sales and positive financial hedge effects in the other cost item. Over €2 million of gains from improved bad debt management and positive timing effects in marketing, mainly due to temporary, less digital marketing activities.

Now let's talk about the cost drivers, which are all conacred to growth investments. Increased costs due to more Frontline deployments and higher integration partner commissions, like for Ivanti. The sales cost item features more strategic partner commissions. Finally, R&D costs increased due to an accelerated product development, mainly to improve our remote management and Frontline offering. Since the cost drivers were overcompensated by the cost savers, our adjusted EBITDA increased significantly by 19%.

As you will see on the next slide, the net income increased even stronger by 61%. What are the main reasons? First, in Q3 we again saw a decreased amount of non-recurring items. You can find the detailed development of these in the appendix. Deducting the non-recurring items brings us to the unadjusted EBITDA, which is 29% higher year-over-year. Second, D&A remained almost stable with our low capex intensity and stable PPA amortisation. Third, income taxes increased to a much lower extent than profit. This is due to our improved tax scheme, which I explained already in August. This allows for a capitalisation of existing tax costs and interest carry-forwards, which will result in a full-year 2023 tax rate in the high 20s. For the first nine months of the year it was at 25%.

Beyond 23 we expect a tax rate in the low 30s, which is a significantly improvement from the low 40s we incurred so far. Due to these main reasons, the Q3 net income increased significantly to €26.5 million. Our earnings per share increased even stronger by 70% to €0.16, which in addition reflects the reduced share count following our share buybacks. The adjusted EPS, which mainly adjusts for non-recurring items and PPA amortisation, increased by 23%. Next slide, please.

On slide 18 I first want to focus on the nine-month free cash flow development, which is very well in line with our expectations. Remember in February when we laid out our capital allocation strategy, we targeted a circa 9% growth of our levered free cash flow on a yearly basis. Year-to-date September, we are well above this level at still 47% growth. The Q3 decline was mainly due to a lower reported billings growth in the quarter versus 2022 and higher cash outflows from sponsorships. The latter includes

one-time effects from reducing the scope of the Manchester United partnership. In Q3 the unlevered free cash flow amounted to €63 million and the levered free cash flow to €46 million.

Let me finish my presentation by moving to the guidance slide. Within the first nine months of the year, and despite a difficult market environment, we already generated €64 million of revenue. This corresponds to a growth rate of 12% which is well in line with our communicated full-year growth range. We, therefore, feel confident to reach our annual revenue guidance, targeting revenues and guided FX rates in the range between €620 million and €645 million.

This corresponds to growth rates between 10 to 14% for the year of 2023. After a highly profitable Q3, the nine months' adjusted EBITDA margin is 43%, which is above our full-year guidance level. While we are aware that we had some favourable timing effects again in Q3, we feel very comfortable with our full-year margin guidance, which targets around 40% for 2023.

And for 2024, due to the adjusted scope of the Manchester United partnership, we will see a further improvement of our profitability. This will, however, not prevent us from continuing to invest into our product offering and go-to-market approach, which are at the heart of our future growth. With that, I would like to end the presentation. Thank you all very much for your attention. We now look forward to your questions. Operator, over to you.

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 and one on your telephone. If you wish to remove yourself from the question queue, you may press star and two. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. Our first question comes from the line of James Goodman from Barclays. Please go ahead.

James Goodman

I'll start with a couple around the guidance, please. At the beginning of the year I think you talked about the old basis of guidance being 6 to 11% constant FX billings growth. Just wondering, really, if that's also reiterated this morning? I think it implies maybe a wide range of about 1 to 15% billing growth for Q4, maybe you can comment where you see the likely outturn on buildings within that range for the fourth quarter and that you're confident that it will remain positive, given what you still have around price, etc. that you can do in the fourth quarter?

And then the second question, maybe just looking a little bit further ahead to 24. You've already made some comments around the profitability, given the sponsorship developments.

But on the revenue side, given the combination of the billings trajectory this year and the multi-year deal effects, are you confident you can keep revenue at double digit or close to it next year? Thank you.

Michael Wilkens

James, let me start with your first one on billings. We didn't guide on billings, we only for a convenience and transparency factor showed how the guidance would have looked like in the old regime of 2022. We guided on revenue at 10 to 14% and we're in this range. On billings, let's see how it works out. We had so far three very good quarters. Remember also, comparison Q4 last year was very strong. We have now four quarters with Q4 last year, starting on price increases, which we mentioned, so we will still do price increases, but not to the same extent. So, let's see how it works out. And Q4 is always skewed to the high end of enterprise pipeline deals, so, so far our pipes are very well equipped, it looks all good. But it's an important quarter and it's too early to say where we will end.

On the second one, on profitability with the guide to 24...

Oliver Steil

Revenue.

Michael Wilkens

Yes, but you started with profitability, this is what we said. On revenue it's too early to say. Let's first finish off the year and then we do 2024.

James Goodman

Okay. Maybe a quick follow-up in that case then, just around the multi-year deal effect. You're now lapping two years of multi-deals, so I think on the billing side it's actually turning into a headwind, but obviously it's still helping revenue. Can you comment a little bit on your expectation around multi-year into Q4 next year?

Michael Wilkens

Exactly. It's not just two years, but already three years. Remember, we started with multi-year deals already in 2021. From the overall vicinity of the multi-year deals in this year, we mentioned that before, 60, maybe a little bit above 60 million. Next year this will come down, but as the billings are from the multi-deals, as you rightfully lay out, we expect a nice development of the consecutive revenues.

James Goodman

Down next year from the 60-odd million, okay. Thanks very much.

Operator

The next question comes from Victor Cheng from Bank of America. Please go ahead.

Victor Cheng

Hi, morning, and thanks for taking my question. Maybe first of all, if you can give us some colour on how TeamViewer Remote is performing, how the free base is doing and the number of downloads. Just some colour on the SMB side. I appreciate obviously the focus is a bit more on the higher end and

enterprise, but if I look at the lower two buckets, it seems like the mid-tier bucket is growing slower as well. So, the question is, is the competition moving to an upper market, as well? Do you see that happening? And I have one quick follow-up.

Oliver Steil

Let me take this. Hi, Victor. I think TeamViewer Remote is now nicely established in the customer base, obviously customers can pick and choose whether they want to use new version or old version. I think we are through the hyper-care phase in a way and addressed some of the concerns of long-standing customers that obviously see different user flows then, which we needed to address, so that worked very well.

Hence, we've decided that we're now putting the TeamViewer Remote functionalities, web functionalities, additional security measurements, better integration of different products, that we all transition this also into the Tensor product, which has now been launched. So, from that I think you can see that we fundamentally believe that we've done a very good job on TeamViewer Remote, so that's very helpful.

It's clearly helpful and a good contributor to our SMB performance, which is again 9% growth, which is I think strong, given this segment and the competition in this segment, as well. So, we're happy with this.

Competition, you were asking, I think it's pretty stable. This is always the highest and the strongest at the lower end of our SMB range, which you can see again, but even there mostly stable on that side, so that's good. We lost a few subscribers sequentially, but year-over-year we are positive, so there's a very small movement on the subscriber side, which I think is something you've seen over the last quarters, so pretty uneventful. Very good on this one.

Free user ecosystem, also developing nicely. As you know, we monetise free users to become paying customers and then we try to refuel the ecosystem. That works quite well, obviously with the exception of some markets where we deliberately decided to be more forceful in count qualification, to make sure that we don't get the wrong users into the ecosystem, and that has continued. TeamViewer Remote in this sense has been another stepping stone and another development there by actively asking for accounts, which I think is the way to go to improve security of the whole ecosystem and make sure that we don't have abuse of our product for remote use cases, so that's very important to us. Well accepted by customers, obviously that comes at the expense of some free users needing to generate an account, which they might not like, but we still believe this is the way to go and quality our customer base. All in all, I think we're very happy with this development there and don't see significantly increased

competition there.

Victor Cheng

Got it. Very good colour, Oliver. Maybe just one follow-up is on thinking about the enterprise, and obviously you have some large enterprise news in the form of Tensor this quarter, which is great. But then when I think about the partnerships with SAP, Siemens, Google, I appreciate these are longer pipelines, but so far we haven't seen too much from these partnerships. How should we think about these partnerships going forward? Have you changed your expectations with these partnerships or how augmented reality plays a role within TeamViewer? Or it's just taking a bit longer to do?

Oliver Steil

Good question. I think generally there's a few learnings. One it, as you say, does take a bit longer to work with these large organisations, but I think we also have to be fair. All these large organisations are operating in the same macro environment, so this is also not the case that there has been significant strength in enterprise software over the last quarters. And this is where these people play, so to say, and we play there together. I think we all need to put that into perspective.

I think the most important thing is whether or not when we see customers and talk to customers about it or invite customers to our events, quite often together with these partners, whether we have the right solutions which customers are interested in. And that's absolutely the case and you can see from the latest development now, the Tensor certification in SAP, this is spot-on a use case where industrial customers want to improve their aftersales support use cases. So, do more remote, travel less, save money, save people traveling around for work. This is spot-on for the use case and that's what customers are interested in.

Same is true for the Siemens partnership with the 3D visualisation of objects for training, remote training and the likes. Very interesting use cases and we do see the customer interest, we see traction, it just takes a longer while. Then customers try the solutions, there's a proof of concept, and then from there it scales. So, early days and we're very, very positive on these partnerships, but we also need to be patient there. If we see a win, for example last year with Navajo, which we also talked about quite a bit. If we see this win and the customer's really actively using this solution, in this case the augmented reality Frontline solution for picking. And then some months later they do the analysis of the upside, the economic benefit that has been realised in the deployment, then they're very happy with it and then they start to scale.

We know it takes a while until we land first, but from there we feel very confident and very positive, and we see the development. There's been a significant rollout now and we have

more of these deals in the pipeline, as Michael said. I think we need to be a bit patient there. We do expect a significant uptake as we go along because the use cases are spot-on and our partners are also very happy with it.

Michael Wilkens

Victor, to also underpin that from the numbers, only in Q3 did we have the same amount of billings in the partner deals like we had in the first half-year. We're not overselling, it's a journey, but we see the uptake now and we also feel a little bit upbeat in our sales organisation when it comes to the partnership management.

Victor Cheng

That's very clear, thank you.

Operator

The next question comes from Toby Ogg from J.P. Morgan. Please go ahead.

Toby Ogg

Hey, good morning. A few questions from my side. Perhaps just coming back on the 2024 dynamic, some of which we've already touched on. I guess you'll be lapping price increases and, as you mentioned, multi-year deals are likely to be a year-over-year headwind to the billings growth, some of the potential headwinds. What are some of the potential tailwinds that we should be thinking about that could provide a degree of offset to this? Then secondly, just on the gross margins, slightly down year-over-year. You mentioned the Frontline deployments and the product partner commissions contributing to that. Could you give us a sense as to the breakdown between these two different components? Is it fair to think that gross margins will probably go down rather than up from here, as these two dynamics become more relevant? Thank you.

Michael Wilkens

Let me start with the first one, Toby, on the tailwinds. First of all, we are investing right now a lot into our Americas reorganisation. This has to be a massive tailwind coming in next year. Another one is obviously what we just discussed with Victor, our partnership. Also, from what we see right now in the pipeline management, this should develop nicely. Plus also, on everything which the marketing team around Pete has invested this year into way more content, stability, new look and feel of the webpage. We also believe that there are some elements to kick in. And last but not least, at least from my end, and Oliver may prolong this, with Mei coming in, since we did the Remote launch, both on Tensor and our other platform, we have the capacity now to also invest far more into Tensor and Frontline applications and grow from there.

Oliver Steil

Also, on the SMB side we have a much better integration of our cross-sell products and TeamViewer Remote, all the products are in one place, so cross-sell path, upsell path are much easier done, also from a marketing side campaign. There's also many good things that happened on the SMB side. And the other thing,

the tailwinds, as Michael mentioned, we see the same way. There will also be selective price increases. I think we should also not see that as a one-off.

Clearly, we haven't done price increases for a very long while, but you know that a significant amount of customers are still sitting on older subscription discounts, which we're only slowly moving towards market level, so there will always be a bit of price increase also for next year. I wouldn't be too worried about next year in this respect, with all the effects that are coming into play. The performance we're seeing at the moment is actually in a relatively rough environment, plus Americas' very early innings in stabilisations and not a big contribution from large enterprise deals, which we've seen in the past. On that one I feel pretty good. Gross margin question.

Michael Wilkens It's too early, of course, but it should increase slightly if we look at it right now. But we are building the entire pack.

Toby Ogg Understood, thank you.

Operator Next question comes from Florian Treisch from Kepler Cheuvreux. Please go ahead.

Florian Treisch Good morning, gentlemen. Thanks for taking my question, I have two. One is coming back to the SMB part, around the subscriber trend in Q3. You mentioned some thousands of subscribers lost. Can you just add some colour to it? Was it a specific event? Is it a more flat assumption for the quarters to come? As we have built up over the last five, six quarters a decent, positive growth trend. Then around the ASP assumption going into Q4 for SMB. As you mentioned, Q4 will be the first quarter with no longer any support from the year-over-year effects. Is it fair to say it's 4, 5%, what is your achievement so far in Q4?

The second question is around the free cash flow. As you have mentioned, you are clearly tracking ahead of expectation of this 9% year-over-year for the full fiscal, so what is holding you back to lift that guidance? What is the implication? Can you maybe quantify a bit, you mentioned some phasing in Q3, and quantify that effect? Thank you.

Oliver Steil Let me do the first one on subscriber and then hand over to Michael. Subscriber colour, it's a function of the development at the entry level segment and this is influenced by customers leaving us at first anniversary, mostly, when they decide whether they need the product as a paid product or whether they can go back to free usage. Then also the free-to-paid conversion campaigns which we're running. We have been quite active in the first two quarters, not so active in the third quarter, it's also summer quarter. Never really the best quarter to run free-to-paid campaigns, and the net of this, this time is a slight subscriber

lost, as you say, it's a few thousand. In other quarters when we were running free-to-paid campaigns, we had a subscriber gain.

Generally, as we started to say two years ago also, we're not focusing on the subscriber numbers. We were pleased to see a little bit of uptick in Q1, Q2, now we see a little bit down, but over 12 months it's almost stable at 1% growth or so. That's how I would look at the world in terms of subscriber. More or less stable, but not being the driver of growth for us.

And that leads us then to the second part of your question. Obviously it's the ASP development on SMB. I don't know, Michael, you probably want to give some colour on.

Michael Wilkens

ASP development, first of all, we're happy with that. We will always push for higher development on the ASP, but we don't track this proactively as a KPI, it obviously depends on the deals, how they come in. Maybe then to cash flow.

Number one, we didn't guide on cash flow, but you're exactly right, we mentioned the 9% on a full-year basis. For us, by the way, it's important that we don't steer towards quarterly cash flow development, but we manage the full year. We feel very happy with the 9% because, remember, it's a non-recurring levered free cash flow number. This is the normal course of business for us, so please bear with us with the 9% or around the 9% that we mentioned at the beginning of the year. We feel happy about that one.

On the decomposition question, on Q3 it's in the end two-fold. Number one, it's a lower billings EBITDA growth in Q3. And the other decomposition items are sponsorships, and they're two-fold. Number one, opposite to the P&L effect of the Formula 1 sponsorship, which is flat every year around the duration of the contract, there's a rising cash flow impact because the payouts are higher and this is simple IFRS accounting standard. The other one is Manchester United. We had to decouple a hedge that we did on the Manchester United contract because it was in dollar and because Manchester pulled the option. The foundation of the business fell apart and we had to decouple the underlying hedge on this one. These are the two main drivers for the Q3 development. But all in all, for us totally expected.

Florian Treisch

Okay, thank you very much.

Operator

The next question comes from George Webb from Morgan Stanley. Please go ahead.

George Webb

Hi and morning, Oliver and Michael. A couple of questions, please. Firstly on the enterprise performance in the quarter, when we look at the net add, I appreciate it's only the summer months, but at 78 relatively low. Can you outline what you've been seeing on enterprise customers churn, please, has that

picked up over the course of the year at all?

Then just a big-picture question for you, Oliver. Over the last couple of years a lot of the focus has been on repositioning the business, particularly the cost structure with ReMax and exiting the United deal, or at least winding it down. On the revenue front the focus has been on go-to-market restructuring and the shift to Tensor. When you think over the next five years, how should we really be thinking about the core focus that you and the management team have and what's the story we should be latching onto? Thank you.

Michael Wilkens

Let me start off with the enterprise churn. We have multiple campaigns in play now. This is for us a topic to improve and constantly work on churn. It's rather stable so far, but of course all of the initiatives are in development, so we also expect going forward improvement here on churn. Then over to Oliver.

Oliver Steil

Big picture, what you see and what we're focusing on very strongly is two things. One is move the company into an enterprise digitalisation proposition across multiple elements, so that's on the IT side. This is really developing the Tensor proposition further, using new technologies, for example more data driven using AI and so forth, to make process automation on the IT side and device management side even stronger. Clearly a lot of effort on this one.

Then a big focus on IT/OT conversion. We do see very good interest from customers about industry digitalisation. It's a complex topic for customers in manufacturing, in service, in support. Not easy in the OT environment, but it's due to come because of skilled labour shortages and many other trends that ask for improved efficiency on the customer side. Customers do want it, not many companies crack the code there to help out. If you talk to other big companies, like SAP, Microsoft and so forth, they will all say the same thing. Which is it should come, but technically much more complex than in the IT world. And we play in this field and we have the right use cases. We really drive the business to focus on this, together with our partners, like SAP, Siemens, also Microsoft more and more, in industrial digitalisation. So, this is one big focus.

Then we have the second piece, which is obviously our core business where we come from, SMB IT. We're constantly improving our proposition there as well, focus on the higher end of that segment, allow for more cross-sell opportunities through device management, security, asset discovery, so really actively talking to many industry participants to round up the portfolio there. To also drive the cross-sell in the segment and grow that part of the business at least high single digit, but then obviously focusing the additional growth from the enterprise ITO de-

convergence across the globe.

George Webb

Thank you.

Operator

The next question comes from Gianmarco Conti from Deutsche Bank. Please go ahead.

Gianmarco Conti

Hi there. Thanks for taking my questions, I have about three. On the first one, I understand that you've been reorganising the Americas region with regards to your sales force since the start of the year. But could you shed some colour on whether you saw any improvements in the pipeline development in this quarter? When should we expect the sales force to be spreading more meaningfully enterprise deals in the region? Is it a theme in Q4 or Q1, Q2 of next year? Just any direction, that'll be great.

My second question is I saw that there was a slight sequential uptick in new billings. Could you share some colour on whether this was SMB or enterprise driven? And then finally, if you could shed some light on the dynamics for a continuously lower ASP and enterprise, and whether this is simply a function that needs the lower price to remain competitive? Or is there something else in the mix? Thank you.

Oliver Steil

Let me start. Americas' reorganisation, as you point out, started Q1. Then we saw probably the low of the development in Q2, when many things were in flux with new leaders coming onboard and refocusing the teams and shifting the sales teams. I think Q3 saw a good stabilisation, clearly not where we wanted it to be, obviously far too low for this region. But what we're seeing now is happening in a relatively difficult environment in the Americas, which we hear from other participants as well. We are looking at a good pipeline for Q4, so I think we see an upward trend there. I think the team over there feels much more confident about Q4 in terms of our own organisational and operational performance and what we do with the pipeline and how we convert and how we discuss with customers.

We had some good scaling in Q3, which we talked about before. Telecommunications operator Navajo and the likes. So, good indications, but it's all happening on the overall micro backdrop and I think nobody really knows how the end of Q4 will play out. I think last year we did have still significant budget flush in many regions Q4 last year. I don't think this is something that the industry participants would expect in Q4 this year, so we're operating in this environment, but we do see improvement.

For us, if I take macro out and just say like for like, how do we develop? We see sequentially improvement Q2, Q3. We also feel better about Q4 and then Q1, Q2 we will compare ourselves against pretty difficult quarters this year, with a much better team and much better pipeline, so I do feel very positive about the

Americas over the next few quarters.

Michael Wilkens

On your question with regard to the new billings. On a year-over-year comparison of those 40 million, this is good, a little bit more towards enterprise. You saw that also here in the deck, especially for example the APAC deal with Oliver explained, very nice. And it's for us a good sign that enterprise is taking up again.

On the question on the lower bucket of the enterprise, where it's coming from, this was the question?

Oliver Steil

No, the question is whether there's a continuous trend to lower ASP and enterprise, but I think what you see this year is that we do try to focus on the things which do convert and the deals that convert. Obviously in our pipelines we have very large deals and we have the smaller deals, where we move SMB customers into the Tensor and the enterprise world.

The current environment, quite honestly in most regions, the entry-level enterprise works better than the upper end. We did see some growth above 200K and we had a nice new order with t'order in Korea, and there's a few other good deals that we had, but in general, it's easier to sell into the middle part or the lower part of the enterprise bucket at the moment. This converts more easily and that's what we focused on. There's nothing which we strategically do or as a continuous trend, it's just a testament to the current market environment, where we see this development.

In Q4, obviously there is a gearing towards bigger deals, together with partners across the different regions. And we are middle of it, so we have still the important two months to go on this one. So, let's see how this comes out there.

Gianmarco Conti

All clear, thank you.

Operator

The next question comes from Deepshikha Agarwal from Goldman Sachs. Please go ahead.

Deepshikha Agarwal

Hi, all. Thanks for taking my question. First, just following up on the question on enterprise ASP. We see that the ASPs have been going down from the past quarter onward. Would it be fair to assume that fourth quarter would be the last quarter where you would see this trend around people more bending towards the smaller size deals in the enterprise bucket and then it will stabilise post that?

Then this is more on SMB. You've talked about pricing, so should we, given you had upside from pricing increases for the last three, four quarters, what is the normalised level of growth that you see from pricing? Would it be more 3 to 4%? Again, in that SMB itself, you talked about free-to-paid campaigns where it was indicated that the relevance of it is reducing, as compared to how

it used to be previously. Any colour on how that will track going forward?

Michael Wilkens

Let me start from the back. Exactly as you assume, free-to-pay campaigning, it's not the most important part of the equation anymore. We are also careful on how we rebuild our free base and then we will continue, but on a careful element. As we, by the way, did already in this year, a completely different approach versus the other years.

On pricing, you're spot-on, in the vicinity of 3 to 4%. This should become for us a normal part of the equation, exactly as you say. On the enterprise ASP, quite honestly right now, and Oliver explained that, right now we are obviously more successful in selling into the lower and middle part. But you saw the deals, especially the major ones, and if macro eases up a little bit, we believe also from what we see in the pipe and from the status where we are with our partnership deals, which are obviously bound towards higher a ASP deal, we believe that we have also a chance that the ASP will increase again going forward.

Oliver Steil

Sequentially, clearly Q4 is the quarter where high ASPs are possible because this is when the big deals are being discussed, so that should be good. Then Q1, Q2, as I said before, we're comparing to the starting of the trend where ASPs came down quite significantly, as you rightly point out. I think from here onwards enterprise ASP development should see positive movement. And we're going into this Q4 now with a good pipeline for this.

Deepshikha Agarwal

Thank you.

Operator

The next question comes from Ben Castillo-Bernaus from BNP Paribas. Please go ahead.

Ben Castillo-Bernaus

Hi, good morning. One from me, please, just around the enterprise retention rate, which obviously slipped quite materially in Q3. Could you just unpack a bit the moving parts there. How much was that lapping the multi-year deal impact and how much was less cross-sell and upsell from your installed base? You said churn was stable, so if you have any other variable in there. And then what should we expect going forward? Should that eventually return back to that 110% or above level that it was running at before? Thanks.

Michael Wilkens

The decomposition of the enterprise, the biggest chunk is currency related. Remember, this is a reported KPI which we released. Then there are two other impacts. Number one is multi-year deal a little bit and the other one is obviously the contraction of the enterprise segment which we have seen. That's a natural development of what we have seen so far, and with what we have explained before, we indeed believe that it's

- improving from here.
- Ben Castillo-Bernaus Understood. Thanks very much.
- Operator Our last question comes from Gustav Froberg from Berenberg. Please go ahead.
- Gustav Froberg Thank you for taking my questions, as well, on the end of the call here. Three quick ones from me, just on pipeline first, but on SMB. You talked about not doing free-to-paid conversions in Q3, how is the pipeline and ecosystem around your SMB business developing into Q4? Then you now revamped Remote and you revamped Tensor, what comes next on the product side for TeamViewer and what should we look for next year? And then the last question is on capital return and share buybacks. How do you feel about your balance sheet at the moment and what should we expect looking into next year, in terms of share buybacks or returns to shareholders? Thank you.
- Michael Wilkens Let me start with the capital allocation question on share buyback. First, we want to finish this current running share buyback. For us this is always a very attractive tool in the overall equation of the capital allocation. In the vicinity of whatever it will be, but in 2024 we'll make up our mind, but we are positive on that one, as we could say today.
- Oliver Steil Two others. First of all, question one, SMB pipeline, I don't think that's the right way to look at it, honestly, because this is velocity business where it's not so much about pipeline management, but campaigning and the very active inside hills folks and then also web shop during this. Free-to-paid campaigning will not play a big role in the fourth quarter. I think we see good, healthy business development there across the regions, honestly. Weakest is the Americas, but that's also improving. We do feel good about stability of the SMB segment. Again, last year Q4 was very strong, so we need to see how that plays out in a year-over-year growth, but overall, healthy development that we see there. And we have more to talk about and more to sell with the managed devices, integration of MDM. We have the patch management, we have security features now that are in play, we have better cross-sell. I feel good about this and what we hear from our inside sales people around the world is that they go confidently into the fourth quarter, so that's good.
- Second question, products next year. I suggest we talk about that later, when we do the annual results. Really, full focus now on delivering this year and we are very, very active at the moment in partnership discussions and tuck-in M&A alliances, smaller acquisitions in different areas. Not a secret, it's around IT/OT conversations. It's also collaboration around AI with some of the larger players, so there's a lot going on at the moment in the business development and corporate development teams to

have additional products out there in the market for the second half of next year. But I think it's better if we talk about the concrete items and propositions there with the full-year results. We're in the middle of working through many of these topics at the moment.

Gustav Froberg

Perfect, thank you.

Michael Wilkens

Thank you, Gustav.

Operator

Ladies and gentlemen, as there are no further questions, we conclude this conference. Thank you for joining and have a pleasant day. You may disconnect now. Goodbye.