TeamViewer

Q3 2022 Earnings Call

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Transcript

Speakers:

Oliver Steil

Michael Wilkens

Ursula Querette

Ursula Querette

Thank you. Good morning, everyone, and welcome to TeamViewer's Q3 2022 Earnings Call. My name is Ursula Querette, and I am happy to host TeamViewer's earnings call for the first time today.

I recently joined the company in my new role as VP Capital Markets and Head of IR, and I am looking forward to being your contact person going forward. I already met some you virtually or in person, and I am really looking forward to meeting many of you in the coming weeks and months.

I am joined today by our CEO, Oliver Steil, as well as our CFO, Michael Wilkens. They will now present our business and financial update for the third quarter of 2022. As always, the presentation will be followed by a Q&A session.

Please note that the deck contains some new slides, as we slightly adjusted the flow of the presentation, but of course, we will present you the same KPI set as usual, and the appendix, with tables for all relevant figures, also remains the same. One last thing before we start. As always, please pay attention to the statement with respect to forward-looking statements on slide two. With that, I hand it over to our CEO, Oliver Steil.

Oliver Steil

Good morning, everyone. Thank you for joining our Q3 Earnings Call. Thank you for the introduction, Ursula. I would like to take this opportunity to welcome you as our new Head of Investor Relations. I think we all are really, really glad to have you on board. And as usual, I will start by updating you on this quarter's business and financial highlights. I will then hand over to our CFO, Michael Wilkens.

Also to you, Michael, a very warm welcome on this particular stage. We already marked the two months together in this environment since your start, and I'm looking forward to partnering with you on TeamViewer's next milestones. Today, Michael will guide you through our financials in detail, including updates on our financial structure, cost development and cash generation. So next slide, please.

Overall, we are satisfied, how the business developed in Q3. Of course, the overall macroeconomic environment remains challenging, but I think TeamViewer once again displayed strong resilience amidst these circumstances. Based on our Q3 performance, we confirm our full year guidance. At the conclusion of fiscal year 2022, we expect billings at or around €630 million, IFRS revenue between €565 million and €580 million, and an adjusted billings EBITDA margin between 45% and 47%.

And I think this is based on various drivers from our perspective. So firstly, total billings in Q3 came in at €144.6 million, which is a plus of 15% and 7% on a constant currency basis compared to the third quarter in 2021. Secondly, profitability in Q3 remained strong. This was accompanied by a big improvement in free cash flow and cash conversion. Furthermore, we also increased our EPS substantially, both in Q3 and from a nine-month perspective.

Thirdly, we continue to implement monetisation measures such as cross- and upsell campaigns, as well as price adjustments. And against this backdrop, strong customer retention and high satisfaction underscored the quality of our product portfolio. And this point is particularly important to me. It shows how customers value TeamViewer’s products above potential alternatives. So continuous customer satisfaction is really a key asset for TeamViewer.

Fourth, our regional diversification again paid off. The APAC region showed signs of a turnaround and EMEA particularly proved to be a very resilient region despite the prevailing economic headwinds, with a year-on-year constant currency growth of 13%.

Fifth, our enterprise business retained the vibrant growth momentum, showing 47% billings growth year over year. Enterprise has a strong net retention rate of 113%, and growth is fuelled by a combination of larger customer wins and upselling into higher pricing markets.

And six, we further increased the momentum with our strategic partnerships in Q3. For instance, we conducted a number of successful joint sales events with our tech partners, SAP and Google Cloud. And a couple of weeks ago, we entered into a partnership with Hyundai Motor, and explored together how we can support their smart factory with our solutions in the best possible way.

So satisfied customers, profitable growth and high-level partnerships for the enterprise business. We believe that we are actually quite well on track. And while the economic uncertainties are likely here to stay for the time being, we have a reasonably positive view on Q4, which traditionally is a strong quarter, given our back-end loaded pipeline. TeamViewer is a resilient business underpinned by a solid financial structure. And speaking of financials, let me highlight the most relevant Q3 KPIs on the next slide.

To begin with, we continued our top line growth. Billings and revenue increased with 15% and 12%, respectively. The pronounced currency effects clearly reflect the volatile exchange rate environment. The share of enterprise business increased by four percentage points year on year. Overall, 45% of TeamViewer's total billings growth in Q3 came from the enterprise segments. The other 55% were driven by SMB.

Our products are highly attractive for a wide range of customers from various industries. We continue to establish TeamViewer as the go-to partner for high impact, strategic investments in digital transformation across industries, but at the same time, help our customers to increase short-term automation and efficiency, and obviously this is key in the current environment. And all these factors made us achieve a strong net retention rate of 103% on Group level, and on a year-over-year basis, we improved Group net retention rate by seven percentage points.

In addition, TeamViewer is again growing profitably. Adjusted EBITDA grew by 42% to more than €60 million, and our adjusted EBITDA margin stood at 42%, which is eight percentage points higher than last year's Q3. This is also the result of our effectiveness in execution.

And in turn, we raised basic EPS to €0.23 per share from a nine-month perspective. Compared to the previous-year period, this is more than a doubling of basic EPS. And this was partly driven as well by a lower number of outstanding shares due to our successfully concluded share buyback programme. Michael will elaborate later on more drivers of our net profit in his part of the presentation.

In total, we are well positioned to cope with the limited visibility around economic development in the coming months and beyond. Fundamental demand for TeamViewer's solutions remains strong. And with that, let's have a closer look on our regional performance on the next slide, please.

While Americas showed single-digit growth at constant currency, APAC showed signs of a turnaround in Q3, and EMEA proved to be robust. So in EMEA, we saw a good development in our billings growth rates, even despite the macro challenges, high inflation rates and geopolitical uncertainties.

Here, Q3 billing increased by 13% to €68 million, and by 10% to €230.9 million on a nine-month basis. We accelerated our sales momentum and particularly benefited from a well-developed, sticky and satisfied customer base, which is key in the current macro environment.

Strongest increase in billings on a year-over-year basis was recorded in the Americas. Here, Q3 billings increased by

18% to €58.5 million, and by 19% to €159.2 million in the first nine months, respectively. However, clearly, our performance in the Americas was largely driven by FX tailwinds. So our Americas growth at constant currency was clearly weaker and behind our own expectations.

While we are disappointed with this development, we are reasonably confident that Americas will pick up again in Q4, as the pipeline looks promising. Furthermore, and from our point of view, EMEA is a little bit ahead of the curve in terms of recovery. We witnessed decision makers taking a kind of a pause here in Q2, which has reversed itself now in Q3. And this is also what we believe happened in Q3 in the Americas and should reverse in Q4.

We are pleased to see that APAC showed signs of a turnaround, after the beginning of 2022 had been rather challenging, if you recall. Under the leadership of Sojung Lee, the President, she joined in December last year, APAC now delivered a 12% increase to €18.1 million in the third quarter billings and 9% to €54.1 million in the nine months, respectively.

And particularly in this region, our enterprise segment continues to grow steadily. It's at the beginning, but it continues to grow, and we are entering high level partnerships which indicate that the enterprise motion starts to bear fruit in this region as well. Next slide, please.

Now have a closer look at our SMB and enterprise billings split. There's an overall shift towards higher ACV buckets. We successfully increased the quality of our customer base again. But looking at our SMB segment on the left, LTM billings in Q3 increased by 8% on a year-over-year basis and amounted to €480 million. This was partly driven by our free-to-pay monetisation campaign which is actually stabilising the entry segment as well as FX tailwinds.

However, and I think that's a recurring theme, the strongest contribution to the SMB growth clearly came from our very successful cross- and upselling efforts, and accordingly, the lowest ACV bucket of customers, with a volume of less than €500 each, declined by 12% on a year-on-year basis, but at the same time, the billings from our highest SMB bucket, between €1,500 and €10,000, significantly increased, by 22%, and amounted to a very strong €203 million.

And in addition to that, I think that's very important, we saw net upsell from SMB to enterprise of €18.6 million, and this was largely driven by the general trend towards shifting large SMB clients to our Tensor licence for enterprise connectivity. And this clearly shows the continued Tensor success for larger customers who are looking for more efficient and highly secure solutions as the right answer in those times.

Total Q3 LTM billings in our enterprise segment increased by 52% year over year to €118 million. And this growth originated from all ACV buckets, as you can see in the chart on the right. Next slide, please.

I mentioned the growth momentum of our enterprise business in my intro, and let me give you two different examples of how our enterprise customers use our solutions. Firstly, let us look at British multinational optical retail chain, Specsavers.

The company leverages TeamViewer's enterprise remote connectivity solution, Tensor, to provide powerful remote support to its 32,500 employees across roughly 2,300 stores in ten countries. And for them, it is important that our solution is compliant with their security and GDPR requirements, as they deal, of course, with sensitive health data. And by using TeamViewer, Specsavers can globally connect and fix issues with in-store PCs as well as medical devices like their patient management system.

And to enhance their support capabilities, Specsavers recently introduced TeamViewer's augmented reality-based remote assistant solution in its UK stores, which makes it even easier for their technical experts to visually guide opticians or retail staff through maintenance and repair processes of optical devices from afar. And this leads to smooth store operations, without major disruptions, and therefore, ultimately, to a seamless customer experience.

A very different case, GlobalFoundries. That's a good example of the success of our enterprise AR platform, augmented reality platform, Frontline. GlobalFoundries, as you know, one of the world's leading semiconductor manufacturers.

They recently introduced TeamViewer's vision picking solution in Europe's largest semiconductor factory. The introduction of TeamViewer Frontline leads to a 35% timesaving in the warehouse picking process. And besides the picker picking time, inventory accuracy increased by one third, pretty much comparable to use cases like Coca-Cola and DHL and so forth.

And what is also important, the new digitalised process also eliminates 100,000 sheets of paper printouts per year because it's a full straight-to-digital process, which obviously helps save costs and also helps the environment.

TeamViewer's solution fully meets GlobalFoundries' high requirements for data protection, as well as health and safety for their workers.

And then, there's a new partnership with Hyundai Motor. I mentioned our high-level partnerships before. We talked about SAP and Siemens a lot. And recently, we announced the partnership with the South Korean automotive company, Hyundai Motor, which I think nicely illustrates our growing presence in the APAC region as well. It also demonstrates our company's strong value proposition to the automotive industry and underlines our pioneering role in the industrial metaverse space.

TeamViewer will provide its augmented reality platform and AI capabilities to Hyundai Motor's smart factory in Singapore. Together, we will conduct research and development activities around AR-powered smart factory operations, including immersive digital experience for frontline workers and AI support. It's our joint goal to support Hyundai Motor in shaping how cars will be manufactured in the future by digitalising processes in assembly, maintenance, quality management, logistics and workforce training.

And I think, all in all, these examples give you a good overview of how TeamViewer's solutions enable large companies worldwide, from different industries, different use cases, different parts of our solutions, but always with the aim to digitalise their business-critical processes. And with this, let me now hand it over to our new CFO, Michael.

Michael Wilkens

Thank you, Oliver. Good morning to all of you. I am very happy to be here and to present our financials for the first time today. Let me emphasise that together with my IR team, I look forward to working with you in the years to come. I hope to meet all of you in person obviously very soon as well. Let us now take a more detailed look at our Q3 numbers. I also will give you an overview over the most important operational developments from a financial perspective. Next slide.

This group overview is a new slide, at least in terms of the way the KPIs are displayed. It is a concise overview of our billings, revenue and profitability on Group level. Going forward, we will show this slide as an addition to the SMB and the enterprise breakdown.

The big picture is that TeamViewer's billings, revenue and profitability are all on track. To date, total billings grew by 15% in Q3 and came in at €144.6 million. Adjusted for constant currency, the growth was 7% in Q3, year on year.

On a nine-month year-on-year basis, billings increased by 13% or 8% on a constant currency basis to €444.2 million.

The upper right-hand chart shows profitability on billings using adjusted EBITDA and the corresponding margin. In Q3, we recorded a total adjusted EBITDA of €60.1 million, which was 42% higher year on year. The respective margin was eight percentage points higher, at 42%. And nine-month adjusted EBITDA grew by 6% to about €201.4 million, with a margin of 45%.

On the lower left-hand side, you can see TeamViewer's quarterly revenue development. You can see quite well that revenues followed the billings development in a delayed way, with more balanced growth rates. In the year-on-year Q3 comparison, revenues increased by 12% to €143.4 million. On a nine-month basis, revenue grew by 13% year on year to €415.4 million.

Let me give you another argument which speaks for the growing relevance of revenue as a KPI. We began to take in the first multi-year deals in Q3 2021. Up to the current quarter, we saw an increasing share of multi-year deals. These are recognised as billings because their total contract value was in the quarter where the deal is signed.

The revenue recognition of such deals works differently. Here, multi-year deals are in fact spread over the entire contract duration, resulting in less growth spikes than with billings. You can find an illustrated explanation and comparison in the appendix of this presentation.

Against this background, we also decided to show the adjusted EBITDA based on revenues, which you can see on the lower right side of this chart. On a year-on-year Q3 comparison, we saw a 33% increase to €58.9 million, corresponding to a margin of 41%, which was six percentage points higher year on year. On a nine-month basis, the adjusted revenue EBITDA grew by 5% to €172.6 million. This corresponds to a margin of 41.5%.

With this, let's move to the next slide, please, where we'll focus on SMB, which accounted in Q3 for around 82% of our total billings. Next slide. Overall, Q3 saw a solid SMB billings improvement. Quarterly billings grew by 10% on a year-on-year comparison. On a nine-month basis, SMB billings increased by 8% year on year to €355.5 million.

SMB continued to trend towards higher average selling prices, with an average of €773 in Q3. The segment benefited from cross- and upselling and from the continued monetisation campaign as well as from US Dollar tailwinds.

Despite a subscriber churn of 14% without Russia and Belarus, the SMB subscriber base remained stable 616,000. In addition, it increased in quality due to the trend of customers with higher contract values.

In Q3 again, we successfully continued to upsell our SMB customer base into our defined enterprise segment. This is a key reason why the absolute subscriber growth in SMB as such continues to become a less and less meaningful growth metric for the segment. Next slide, please.

Now let's take a more detailed look into our enterprise segment, which in Q3 accounted for around 18% of TeamViewer's total billings. Enterprise billings growth accelerated to 47% in Q3 on a year-on-year basis, amounting to €26.7 million. This development was mainly driven by the EMEA region, with an improved pipeline conversion of customers committing to increased licence volumes despite the uncertain macroeconomic environment.

Let me quickly add the year-to-date perspective. Nine-month enterprise billings increased by 39% year on year to €88.7 million. In Q3, the average selling price amounted to €35,800 and thus remained stable compared to the previous quarter. Compared with the prior-year quarter, we see a significant uplift of 11%. This year-on-year increase reflects the positive development of all our enterprise ACV buckets, as Oliver mentioned already before.

When looking to the bottom left, the Q3 enterprise net retention rate was at 113% on an LTM basis, and thus increased by four percentage points year on year. Accordingly, the number of enterprise customers developed positively and amounted to around 3,300 at the end of Q3. This was also driven by the dedicated upselling campaign whereby existing SMB corporate clients migrated to TeamViewer's Tensor licence for enterprise connectivity. Next slide, please.

Let's have a look at our recurring cost base. While billings grew by 15% in Q3, recurring cost remained almost stable. This resulted in a significant adjusted EBITDA margin improvement, showing the strong profitability of TeamViewer's business. Let's have a look at the Q3 year-on-year development in more detail.

Cost of sales grew in line with billings on a life-for-like basis, taking into account the reclassification of debt collection costs to G&A back in Q3 2021. The increase of sales costs by 7% was mainly currency-related, while sales bonus capitalisations had a positive effect. For your information, we started capitalising sales bonuses back in Q4 2021.

When it comes to marketing cost, it is worth noting that Q3 was the first quarter with a like-for-like consideration of the sponsorship deals. Still, marketing cost decreased in Q3, year on year, by 11%, with lower advertising spend. The R&D and G&A expense increase, by 14% and 12% respectively, was mainly driven by reduced bonuses in Q3 2021.

Lastly, the strong decrease of other operating expenses, by 26%, was mainly driven by lower bad debt expenses due to a higher share of the enterprise business, with better payment behaviour. I would like to use this moment to add a few remarks on cost development from a more general perspective.

The ReMax programme, which concluded in Q2, resulted in scaling effects in the past few quarters. ReMax was a boost for our profitability. Just only considering current macro effects, such as inflation and exchange rate changes, this past development is not wholly indicative for the coming quarters, although we successfully managed to hedge interest rates and energy cost.

Since some of you have asked me in the last weeks, yes, we are planning investments into our future. This will require, for example, more R&D stuff. There will also be slight increases in our infrastructure invest, with some projects already started in Q3. Having said that, I am here to diligently manage cost at the cost base. TeamViewer has been operating and will be operating a highly profitable growth business.

And this nicely translates into the next slide, where we will have a closer look at how our profitability developed below the adjusted EBITDA in Q3 and year to date. This is a new slide, where I will just highlight a few points.

Non-recurring items were stable in Q3 on a year-on-year comparison. However, Q3 2022 includes an expense of €8.7 million which we made following a jury verdict in a US patent litigation case. This was mainly offset by decreasing IFRS 2 charges relating to vested shares.

With only slightly increased D&A expenses of €13.6 million, our EBIT increased by 77% to €32.4 million. Net profit increased by 347% year on year to €16.5 million in Q3, mainly due to the strong operating performance and an improved financial result. On a nine-month basis, our net profit increased by 98% year on year to €42.9 million.

Lastly, and most important, the lower outstanding share count after completion of our share buyback programme had an accretive effect to our shareholders on basic EPS. This increased by 397%, from €0.02 to €0.09 year on year. The increase from a nine-month perspective was 112%, to €0.23. This time, you only see basic EPS on this slide. Going forward, we will also add adjusted EPS to this chart.

On this slide, you can see that the IFRS pre-tax operating cash flow was up by 36% in Q3, amounting to €70.6 million. As most of TeamViewer's investments in innovation and partnerships so far are directly expensed in the operating expenses, capital expenditures were relatively low at €3.2 million in Q3 2022. Compared to previous presentations, we added the unlevered cash flow to improve transparency for you. Compared with the prior-year quarter, this was 43% higher at €52.6 million.

Decreasing interest costs due to debt repayments had a positive effect on the levered free cash flow. This improved significantly, by 49% to €48.5 million. This results in the high cash conversion of 81% in relation to the adjusted EBITDA and 105% in relation to the EBITDA. The lower increase of levered free cash flow on a nine-month basis by 10% is mainly driven by the full consideration of the marketing sponsorships as opposed to last year. Next slide, please.

As the waterfall on this slide shows, cash and cash equivalents at the end of Q3 amounted to €89 million. The reduction, compared to end of 21, was mainly due to our €300 million share buyback programme and debt repayments of €286.1 million, offset by net cash inflows.

I would also like to highlight that we optimised the cash position to minimise our cost of carry in the current interest environment. What you don't see but still have is its €300 million undrawn RCF, and with Q4, a strong cash-generating quarter ahead of us. Therefore, our financial fire power remains comfortable.

Our net financial liabilities amounted to €546 million as of September 30, resulting in a net leverage ratio of 2.0. In total, we delivered on capital allocation and significantly strengthened our financial profile for the repayment of debt. Also note that all debt securities, which we refinance in July, are now denominated in Euro. This exempts us from the risk of adverse currency effects.

And on the bottom right, you can find our interest rate structure. In an environment of rising interest rates, we used Q3 to further improve our interest rate exposure through debt repayments and interest rate hedging. TeamViewer's Q3 fixed interest rate portion stands at a solid 67% now, compared to 60% in Q2. This gives us better planning security for the coming months.

To finish this slide, let me just say that for us, it is crucial that TeamViewer remains in a comfortable, financially stable position in these volatile times. This is key to maintain our resilience and success over the coming quarters. Next slide, please.

Let me conclude my part of this presentation with a summary of the most important points from a financial point of view. First, we confirm our full year guidance for 2022. While the economic and political situation has been marked by pronounced uncertainties, almost from the very beginning of the year, our business demonstrated its resilience. Thus, we remain confident that we will achieve our full year guidance of billings at or around €630 million, IFRS revenue between €565 million and €580 million, and an adjusted billings EBITDA margin between 45% and 47%.

Second, we achieved good billings growth in Q3 and an effective focus on cross- and upselling. This was supported by monetisation and pricing measures and US Dollar exchange rate tailwinds. Strong customer retention and high satisfaction underscore the quality of TeamViewer's product portfolio.

Third, we recorded strong margins and improved the cash conversion. High cash generation and profitability are important levers for shareholder value creation. Fourth, we will continue to diligently manage our cost base, which is all the more important in the current high inflation environment, and of course, we will also continue to make business-critical investments to fuel our future top line growth.

Fifth, moreover, TeamViewer has a strong financial structure which was further supported in Q3 by debt repayments, interest rate hedging and an all-Euro-based refinancing. Sixth, last but not least, both the last quarter as well as the past nine months saw highly accretive growth of TeamViewer's earnings per share. With that, I will conclude by part of the presentation and hand back to Oliver.

Oliver Steil

Thank you, Michael, and thank you all very much for your attention. As you know, TeamViewer is a technology-driven growth company, and Q3 showed once again the increasing progress in TeamViewer's ongoing transition towards an enterprise software provider with an industrial offering. We are very well on track in this transition.

Michael, Peter and I will continue pursuing our growth path and transition with full focus. Thus, our priorities are clear.

Investing for growth to fuel our leading solutions portfolio, maintaining our strong campaigning momentum to grow our business with a high quality customer base, and safely steering TeamViewer through the current volatile environment, and all this while maintaining our high profitability and cash generation. And with that, we look forward to your questions.

Operator

Ladies and gentlemen, at this time, we will begin the Question and Answer session. Anyone who wishes to ask a question may press star followed by one. If you wish to remove yourself from the question queue, you may press star followed by two. Anyone who has a question may press star followed by one at this time. One moment for the first question, please. The first question comes from Mohammed Moawalla, sorry, from Goldman Sachs. Please go ahead.

Mohammed Moawalla

Thank you. Hi, Michael. Hi, Oliver. Congrats on the good numbers. I had a couple. The first one, just to understand what's underpinning your confidence around Q4. Billings acceleration implies a high teens rate of growth. Is it just the fact that you may have closed some of the slipped deals, or is your visibility in the Americas improving? And if you could just help us understand some of the levers between, say, campaigns, pricing, enterprise, it would be super helpful.

And then secondly, I know that the focus for you has been stabilising the business and level-setting. Obviously, the leverage has come down. How do you think about opportunities for expansion, particularly using M&A in trying to further accelerate your presence within enterprise? Thank you.

Oliver Steil

Yes. Thank you, Mo. Let me do the first one. So yes, Q4 confidence. We're moving into this quarter with some good visibility on what's happening in EMEA. We were very happy with the enterprise conversion in EMEA. EMEA recorded 13% year-over-year growth, constant currency, driven by enterprise. And obviously, we're now moving into the fourth quarter, which is the most relevant one. And given that our growth is to a large extent driven by enterprise billings, Q4 will play a very important role there.

Obviously, we track the pipeline. We've developed pipeline across the regions with our partners, together also with SAP, the first really big quarter with a significant joint pipeline between us and SAP. So there's many good things which we see. For enterprise, obviously it's not a walk in the park, very clearly. We need to convert these deals. But I think we're seeing positive trends on this one.

However, that's not all. We've also started to do meaningful price increases into our customer base. We were preparing those during Q3 and launched those with the beginning of Q4. Obviously, you have to test and trial and see how sticky the customer base is and how churn impacts, or how it does impact churn. Very positive there. We see very good, sticky customer behaviour, so we have a good chunk of extra growth that comes from the price increases.

We also see good traction, and I think you see it already in the numbers for Q3, with our dedicated campaigning to move SMB customers to the Tensor product. We make attractive offers there for the clearly better product and better platform that drives more efficiency and is even more secure, both parts very important in the current environment. So I think we have something there which works with our customers.

So all of these things coming together gives us quite some confidence that we will get there. Hard work ahead of us, for sure, heads down, rolling up the sleeves everywhere across the globe to make it happen. But we feel good and we see that October was a good start into the quarter. And I think that is a consistent development, where, if you remember April's start, the first month second quarter we felt was weak, first month third quarter we saw already a much better start, and the same is happening at the moment in Q4. So all of that gives us some good confidence.

Michael Wilkens

Hey, Mo. Let me take your second question. First of all, thank you. We are extremely pleased that we, into the finish of our share buyback programme in Q3, were able to improve even further on our net debt leverage, coming down from 2.1 in Q2 now to 2.0. And we are obviously also very confident that we will be, by year end, at or around the 1.5 net debt leverage. This gives us obviously lots of confidence, and this is also important.

With regard to M&A, when you mentioned that, we are right now… We are, of course, always screening the market. This is our task as the management team, to look into M&A opportunities. But we are very cautious right now, also given the environment.

And here's one personal note, also from my past. We better don't talk about M&A, because if you do it, with targets, you only do one thing. You increase the price for the targets. So whenever there is something, we would come. But right now, we are rather prudent.

Mohammed Moawalla

Got it. Got it. If I could squeeze one more in, sorry, Michael, thanks for the added disclosure on the multi-year billings. How should we think of the evolution of that? I know we don't

	explicitly model it, but I'm assuming that this should become a bigger part of the base, going forward. And consequently, and I know you emphasised the importance of revenue growth going forward, how should we think of perhaps the spread between revenue growth and billings growth, going forward?
Michael Wilkens	Yes. So on the multi-year deals. And this started last year, as you know. And, of course, when you start last year, then this year, you have a ramp up. And this for me is also, as a newcomer here into this wonderful company, a very important sign of another level of stickiness of the customers, and they are very highly interested in working longer cycles with us upfront. So there is a high commitment of the customer. And I was personally involved also in a couple of deals where we negotiated that with the customer. So there is actually also a pull from the customer which is, first of all, nice and great for us. I think this is it on multi-year deals, right? So…
Oliver Steil	Yes, I think balance, going forward, it will play a more important role. I think the balance in steering your sales organisation is always focused on high annual contract value versus doing multi-year deals upfront. But at the same time, we want strong, sticky customer relationships, as Michael explained. So I think you can expect a gradual shift towards more enterprise behaviour, and that's when number of seats, revenue, all of these metrics, net retention rate obviously make more sense than subscriber count.
Mohammed Moawalla	That's great. Thank you very much.
Operator	The next question comes from James Goodman from Barclays. Please go ahead.
James Goodman	Yes, morning. Thank you very much for taking my questions, mainly around the multi-deal development actually. Perhaps I can ask for a little bit more detail there. So if we break it down, just firstly, are you actually billing the client for three years or five years or however long these deals are, what's the average duration, or is this more of a bookings, where you then actually recognise annual cash flow from these deals? Then just in terms of the right way to interpret I think the 12.5 million of multi-year deal billings that you call out on slide 22, should we assume that, I don't know, two thirds of that is the amount beyond one year? And then just in terms of the outlook for Q4, it doesn't sound like it from the answer to the last question, but just checking that that's not a driver of the Q4 acceleration, is more multi-year deals there? That's the

	first question.
	And then the second one is just a more general question around the cost development. You made some comments around the ReMax programme being completed around needing to hire some people, I think, in R&D. So I wondered if you could give us a little bit more context for how you see the cost base and the employee base developing over the coming quarters. Thank you.
Michael Wilkens	Yes, taking your first question on multi-year deals, so we have both structures. Part of the multi-year deals are actually on an annual basis, and the other part is billed on a total contract basis, but not five years, a maximum of three. That explains maybe this. And, of course, multi-year deals is also part of the equation in Q4, obviously.
	And from the ReMax programme, as I said, we resized the company, which meant that you also in the first half saw, by nature, a lower cost base. And since we reinvest now into our growth of the future, we obviously hire in the future generating units most, which is sales and R&D. And this is where we start building the FTE base again.
James Goodman	Okay. So are you incentivising the sales force, did you say, to sell multi-year deals, or are you making it equivalent to the annualised deal structure of previously?
Oliver Steil	No, the incentive system for the sales organisations are primarily driven on ACV, clearly. And then it is a customer by customer decision whether that makes sense or not. And if the customer wants a price guarantee, you can imagine, in the current inflationary environment, some customers are asking for it, but sometimes it doesn't make sense for us, and sometimes it does. But the predominant incentives for our sales force are on ACV.
James Goodman	Understood. Thank you.
Operator	The next question comes from Gianmarco Conti from Deutsche Bank. Please go ahead.
Gianmarco Conti	Yes, hi, Oliver. Hi, Michael. Thank you for taking my questions. I have about three. So the first one is how should we think about the early quarters of next year in terms of your pipeline billed and conversion rates? And given you're seeing EMEA performing better, do you expect this to continue into next year? I appreciate you haven't yet given formal guidance, but just any colour around that.
	Secondly, could you perhaps share some detail on your upselling campaign? You reported in your CMD how you wish to convert, I believe, if I recall, it was almost 20,000

customers to higher ACV buckets. Are you currently tracking how many of these you've managed to convert? And could you share with us a percentage of completion and expectations into the near future? Is it reasonable to assume similar conversion rates into the next couple of quarters, given the challenging macro?

And finally, for Americas, do you see this as more of a structural problem or merely macro-related from slower sales cycles? And how are you tackling these longer procurement cycles? Thank you.

Michael Wilkens

Yes, thank you. Let me start with the first one, with your question with regard to Q1. Right now, we have all sleeves rolled up to focus on Q4 and deliver Q4. And of course, with the full year's numbers, we will of course come back to you also with, A, Q1, and the full year of 2023.

Oliver Steil

Yes. So upselling campaign, enterprise. Yes, you're right. Capital Markets Day, we were giving this number. At the time, we were showing the number of customers above €10,000 and we were also showing the split of the ACV buckets, with more than 50,000, more than 100,000, more than 200,000.

And at the time, we said, if we go through our customer base at that time, which is now… I think it's a year ago now or so, if we go through the customer base, there are at least 20,000 customer names, logos, organisations that are very, very sizable, so big enterprises that would qualify for the same type of upsell or cross-sell into the Tensor base, into the Tensor product and beyond.

And I think that's still true. We see that development happening. As you saw, we have added a couple hundred, or a few more, enterprise customers now. A good number of them moved from SMB into the enterprise bucket, above 10K.

So in terms of rate of completion, it's still very low. We still have a very small number out of our 615,000 subscribers, a very small number which are above 10K, which is a low number again. And we're constantly moving customers up by positioning our Tensor product and more capacity and more functionalities.

So it's a very strong movement done by our enterprise sales people and also inside sales people, depending on the ACV cluster. And that is going to continue throughout the next quarters, because there is ample headroom left. I hope that answers that question.

And then third question, Americas, structure. We don't see any structural issues there. We have a very seasoned sales organisation. We work very strongly with partners, not only SAP but also distribution partners. We see a good sales pipeline.

But I think what is the case, at least from our perspective, is that the amount of uncertainty in the Americas at the moment, in the US, is very high, almost like it feels before the election. People are not moving. I think it has been something which started to be an issue at the end of Q2 in conversion a little bit, then Q3 was pronounced, honestly.

But we don't hear anything about any negativity about our product solutions, about what we want to do. I was just in the US myself for two weeks, and there is interest, clearly, and we have a good pipeline. But it's all a bit prolonged at the moment and a bit more difficult. So no structural warning signs, but just short-term timing is difficult, yes.

Gianmarco Conti

Got you. Just a quick follow-up. What is the rationale then for customers wanting to shift to a higher bucket spend, from the SMB to enterprise, especially in this environment? I'm just very curious to how the conversations are going. Your sales force approaches the customer and says, hey, you guys should shift to Tensor because of X, Y and Z.

But that would be a higher spend for the customer. Is it because it's still very, very small, relative to the overall budget, and that's because of the size of the organisation, or is it because there's some strong selling points that the customers are seeing value into?

Oliver Steil

Yes. I think the key point is, I would guess, if you… And of course, it has been the sales talk for about… Since we had Tensor. If you position the Tensor product to a customer versus the normal TeamViewer, almost every customer immediately understands that this is the right product.

It comes with a single sign-on. It comes with extra connectivity to more devices. It allows for connectivity to embedded devices. It comes with the integrations into other software pieces. So it's a much, much broader and more valuable package. It's also much more secure because of sign-on procedures, but also auditability, the manageability of access rights and so forth and so forth. So it is clearly the better product.

Most or many of the things we did in the past were price exploration, so positioning that product at a significantly higher price. And now, when we talk about dedicated corporate-to-Tensor campaigning, we actually do attractive prices now in the current environment. So customers have significantly more capacity, can connect more, can automate more, can save money, have the better, more secure product, and get it at a more attractive price point than maybe two years ago. And that's why it works.

Gianmarco Conti: Got you. Very helpful, thank you.

Operator: The next question is from George Webb from Morgan Stanley. Please go ahead.

George Webb: Hi, Oliver and Michael. Morning to you both. I'm really just keen to hear your first impressions on the business, Michael, now you've joined, and also if there's any areas of low-hanging fruit you've seen to drive better internal efficiencies or to accelerate growth. Thank you.

Michael Wilkens: Yes, thank you, George. First impressions. I am absolutely overwhelmed, in a positive meaning, about the dedication and the passion of the entire workforce across the globe to get things done, to please and uplift our customers, to create customer happiness along the entire product range.

And maybe along also a personal note. This company works day and night across the globe. This is really, really impressive. So high level of energy, high level of passion. And maybe there is also the time, even in these tricky and difficult times around us, to at one point have a party again, but we'll wait and see. This is the personal note. Second question was what again, George?

George Webb: More if there's just any areas of low-hanging fruit.

Michael Wilkens: Oh, low-hanging fruit.

George Webb: Or anything you can see that's improved. Yes.

Michael Wilkens: Low-hanging fruit. Very honest, this company has been managed efficiently and effectively on the cost side. There was the ReMax programme which was rather a rightsizing programme than a cost-cutting programme. And there are rather, I would say, sleeves-up elements when we dig in to cost and try, here and there, to manage cost going forward.

I'll give you one example. We just hedged energy prices. This is obviously important for us. This is helping, but this is not going totally against the inflationary trends. So inflationary trends is also a topic which we have to live with, like everybody else.

George Webb: That's clear. Thank you.

Operator: Ladies and gentlemen, as a reminder, if you wish to ask a question, you may press star followed by one. The next question is from Victor Cheng from Bank of America. Please

	go ahead.
Victor Cheng	Thank you for taking my questions. I've got a couple. First of all maybe, should we still expect teens revenue growth for TeamViewer in the medium term, as you have stated in the CMD last year? Or should we expect structurally slower growth with the market slowing down? And then, secondly, can you provide us some colour on monthly active users and the installed base growth for this quarter? And then the last one is on augmented reality growth. I think that you last reported it separately last year, but just want to get some colour on how it is growing basically. Thank you.
Oliver Steil	I'm not sure I got the first question, honestly.
Michael Wilkens	I hope I got it. Let me confirm whether we got it right. You asked for whether we expect top line growth to be rather low going forward. Was that the question?
Victor Cheng	Yes, I think, in the CMD, you talked about your medium term revenue should be growing in teens. And just thinking, obviously there's digital transformation, a lot more drivers. I'm not sure whether you still think that's the case, going forward.
Michael Wilkens	No, honestly, let's first finish the year. This is really important. We have everything focused, all in, around Q4 and full year, and then we'll come out and talk with you also about 23.
Oliver Steil	The second question, monthly active users. We have been active in monetising free users, clearly, throughout the year to some good million Euro amount. That is going to continue. So don't expect significant growth in active users. On the contrary, there's always a dampening effect if we monetise. But also, we are quite restrictive by now, more and more restrictive towards allowing free users, especially from countries like China and so forth. We have taken out, or are not continuing the business, and also for free users, in Russia-Belarus. So there are some significant downward effects weighing on the monthly active users. But for us, it's also not the key dimension, subscribers anymore, because it's… We do see competitors reporting a very high number of monthly active users, but we also know how hard it is to monetise those, and that's not the business we are in. So we put less emphasis on this one. On your third question, augmented reality, this is clearly not the area which is showing significant growth at the moment.

If you step back and if you look at the customer discussions, augmented reality works and converts where it has a direct effect on efficiency and cost savings. So take the GlobalFoundries example which I was discussing. That's a cost-saving effect that works.

Other augmented reality projects take a bit longer because they might not be the super-immediate, must-have efficiency drivers which the Tensor product is. And I think, naturally, we see better deal conversion at the moment for our classical automation, connectivity to devices, remote first, remote maintenance, remote control, and it's a bit more challenging on the augmented reality side at the moment.

Victor Cheng — Got it. Thank you.

Operator — The next question comes from Florian Treisch from Kepler Cheuvreux. Please go ahead.

Florian Treisch — Great. Thank you. Hi, Oliver. Hi, Michael. Thanks for taking my question. Maybe as a quick follow-up or clarification, your comment from the recent question. As you have not included mid-term guidance, it's fair to assume that these are cancelled, and we would get an update with the Q4 on 23 and going forward.

And then second. Can you provide us some feedback on your announcement to not prolong the Manchester deal. From your partner, in a way, I think it's a very clear sign to them to look for a new partner. Can you actually proactively look for somebody replacing you? Thank you.

Michael Wilkens — Yes, let me come up with the first one. Our full focus again is on delivering against our plans and executing the strategy with regard to Q4 and full year. However, there is obviously also merit in an open debate in the market right now, how meaningful the value of a mid-term guidance at all can give, provided the overall uncertainty in the macro environment. And this is also what we checked with many of our peers, why they don't provide such a view at all.

However, regardless of this question, Florian, there is really no doubt that TeamViewer will continue to be a highly attractive growth company with a strong financial profile. And we'll come out in 2023.

Oliver Steil — Maybe on your second question, an interesting one, feedback from Manchester United. Obviously, yes, you're right, it's a signal, and I think we are ever more now working together with Manchester United very closely to make the best out of this partnership.

We have a full-time Chief Commercial Officer on board,

	Peter, who I think you will probably meet in one of the next calls or so. Of course, he's putting significant effort into this to make that partnership work even better for us. Clearly, something which Manchester United needs to lean into, which is happening, so that's good.
	To your specific question, can we look for another partner, no, that's clearly not our business. It's Manchester United's asset. It's a very valuable asset. It's a broad brand reach, a very attractive platform for us at the moment. We've been talking about the long term, but at the moment, you'll also see that the performance is improving. And therefore, whatever they want to engage with or work on, it's their decision, not ours.
Florian Treisch	Great. Thank you very much.
Operator	The next question comes from Andreas Wolf from Warburg Research. Please go ahead.
Andreas Wolf	Thank you. I have one question left. Did you put the same emphasis with regard to free-to-pay campaigns and price adjustments in EMEA, Americas and APAC, or did TeamViewer also take advantage from the currency tailwind that was obvious in the Americas? Thank you.
Oliver Steil	No, I think generally, our approach across the regions is the same. You can consider us acting globally in these things. Obviously, in the details, there are country-by-country differences, but that's not meaningful. This is some smaller countries where currency has gone in such a way that we needed to reflect that in our measures, but in general, it's the same approach.
Andreas Wolf	Thank you.
Operator	The next question is from Ben Castillo from BNP. Please go ahead.
Ben Castillo-Bernaus	Morning. Yes, thanks for taking my question. Firstly, on the number of enterprise customers, you added 230-plus in Q3, quite a step-up from what you saw in H1. I just wondered, what proportion of those are net new wins versus migrating customers up to Tensor and up to larger contract values? I think you used to break that out, but it seems no longer.
	And then also just on enterprise ASPs, if I look, on slide 22, since Q3 2020, that was ticking up quite consistently. It seems to have levelled off the past couple of quarters. Could you perhaps just add some colour there onto why that's changed, and maybe your expectations over the coming years? Thank you.
Oliver Steil	Yes, I think number of enterprise customers, a very

significant share of this is migrations clearly. That's our upgrading the base by providing the massively better product, which we've been discussing at the beginning. So this is obviously important. If we go for new logos, then there's typically higher ticket sizes that we go for, so it's a mix. Maybe fewer new logos, but then bigger, versus a lot of migration at the entry level of this.

And that's also one of the reasons why, on the ASP development, clearly we had significant inflow at the bottom end. And we're working our way up with those customers, and migrate them over time. We have very nice case studies of how we are able to develop customers to land and expand, land them into Tensor and then work from there. So I think that's a very healthy development.

Obviously, as you can imagine in the current environment, it's probably not the time to break records on high ticket sizes, new logos with high ticket sizes. This is all a bit more difficult than it used to be some quarters back. And I think that's probably the underlying reason. But nothing structural there. It's just a tougher environment.

Ben Castillo-Bernaus: Understood. Thank you. If I can just add one quick follow-up, just back on those multi-year deals that you're breaking out now. Obviously, the impact of those has roughly doubled over this time last year. Should we be discounting that, as in, if we were to remove those multi-year deal impacts in this quarter compared to a year ago, is that a fair way to look at the billings growth year over year?

Michael Wilkens: Why would you deduct that? This is part of the equation, and this is for us a very important part of the overall basket of our billings growth.

Oliver Steil: And secures future revenues, right?

Michael Wilkens: Yes.

Oliver Steil: So it will positively impact our net retention rate significantly, yes. And it's what you do in enterprise, the more you go into enterprises. That's the way we look at it.

Ben Castillo-Bernaus: Sure. Okay, thank you.