

TeamViewer AG
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Transcript

Speakers:

Oliver Steil

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Ursula Querette

Ursula Querette

Good morning, everyone, and welcome to TeamViewer's Q4 and Fiscal Year 2022 Earnings Call. My name is Ursula Querette, and I'm pleased to host today's earnings call. I am joined by our CEO, Oliver Steil, and our CFO, Michael Wilkens. Oliver will kick off the presentation by updating you on the specific business and financial highlights in the fourth quarter and the full year 2022. He will also give a quick update on our product offering and strategic direction.

Michael will then go through our financials in detail, and we'll finish on our financial guidance and our capital allocation framework. As always, the presentation will be followed by a Q&A session. Before we start, I would like to draw your attention to our updated important notice and APM disclosure. As you already know, starting in 2023, TeamViewer's financial performance will be reflected in an updated KPI framework whereby billings has changed from a primary into a secondary KPI, and revenue moves more into focus.

This means that the definition of adjusted EBITDA will change from a billings to a revenue perspective, which will be particularly relevant for our full year 2023 guidance that we disclosed on IFRS revenue and the corresponding revenue EBITDA margin. All our KPI definitions are included in the APM glossary on pages two and three of this presentation. And with that, I hand it over to our CEO, Oliver Steil.

Oliver Steil

Thank you for the introduction, Ursula. And good morning, everyone, thank you for joining our Q4 and Fiscal Year 2022 Earnings Call. Let me start with a look at our fourth quarter 2022, on the next slide. Overall, we achieved a very successful year-end finish with strong momentum in Q4. Of course, the overall macroeconomic environment remains challenging, but TeamViewer once again displayed strong resilience amidst these circumstances, and our entire team was really leaning in.

I would like to point out a few highlights in the fourth quarter. Firstly, strong development of our billings. Total billings came in at €191 million in Q4, which is a plus of 24% reported and 20% plus on a constant currency basis compared to last year's fourth quarter. And in addition, our profitability was again very convincing. For Q4 2022, we reported an adjusted EBITDA margin based on billings of 51%. Compared to the previous year's Q4, this is an improvement of 7 percentage points, and Michael will give you a few more details on this later.

Thirdly, we continued to focus on targeted sales campaigns. We traded additional value by upselling customers into significantly higher value tiers, but also by attracting new customers and thus actually enlarging our global customer base. In addition, we once again proved the stickiness of our business model as we were

also able to successfully implement price adjustments which we had announced in Q3.

And fourth, if we look at our regional split, in the fourth quarter billings growth was particularly driven by the strong performances of our EMEA and APAC regions. Our largest region, EMEA, grew by 28% year over year, and with an increase of 32% we also saw clear acceleration in Asia-Pacific, clearly driven by the new management and her team. And I think this quarter proves, once again, that our regional diversification is clearly paying off.

If we look at our customers, our enterprise business retained its growth momentum, showing 47% billings growth year over year, and the ever-growing ticket sizes proved our continued shift from SMB to enterprise as a relevant and value-add of our products for large businesses.

And last but not least, also our large original core business keeps growing. In the fourth quarter, SMB billings were up 18% year over year, and the increase stems not only from larger ticket sizes and higher pricing with existing subscribers, actually our SMB subscriber base also grew slightly again, by 8,000 in the last three months of the year, to a total of 622,000.

To sum it up, we are actually very satisfied with our year-end finish. I think our solutions are highly relevant for our customers, even in these times. We help them to securely manage remote operations, increase efficiency and sustainability, to overcome also labour shortages. This is particularly visible in our steadily-growing ticket sizes. And I would like to take a closer look at this on the next page.

Let's look at the SMB and enterprise billing split. I think there was an overall shift towards higher ACV buckets. We again successfully increased the quality of our customer base. When we look at SMB on the left, the LTM billings in 2022 increased by 11% on a year-on-year basis, and amounted to €503 million. This was driven by our very successful cross and upselling efforts, resulting in the higher bucket actually growing stronger. In 2022, our highest SMB bucket, between €15,000 and €10,000, significantly increased by 27% and amounted to a strong €225 million.

In addition, we saw again a net upsell from SMB to enterprise, this time of €20.5 million. This was largely driven by shifting larger SMB clients to our Tensor licence for enterprise connectivity. And this clearly shows the continued tender success for larger customers who are looking for more efficient and highly secure solutions as the right answer during these challenging times. Total 2022 LTM billings in our enterprise segment increased by 42% year on year, which is then €132

million, and this growth originated across all ACV buckets, as you can see from the charts on the right.

If we go to the next slide, please, I just mentioned the growth among all the ACV buckets of our enterprise business, and as usual let me give you two examples of recent large enterprise deals with TeamViewer Tensor, our enterprise connectivity platform, just to give you an idea on what's happening on the enterprise side. First, let us look at German multinational corporation Henke. The IT team uses TeamViewer to streamline their global IT support for around 65,000 IT devices running on different operating systems with Tensor. Our solution in that case replaced several others that they were using before, making their workloads simpler and faster.

It goes without saying that Tensor meets all the strict security and compliance standards that are mandatory for Henkel, but also worth mentioning that Tensor seamlessly integrated in Henkel's IT infrastructure, consisting of, obviously, many other software products from vendors like ServiceNow or Microsoft. And this flexibility of our solutions is highly appreciated by IT decision-makers in global corporations.

Another example, very different, of large Tensor deals that we closed in 2022 was the German global broadcast station Deutsche Welle. They managed all devices of their correspondents in 140 countries with TeamViewer, and chose our solution because they needed secure and stable connections to work reliability in breaking new situations. And I think what's interesting, notably, is that we won this contract via a European-wide public tender, as Deutsche Welle is a public state or broadcast station bound to the EU's public tender regulations.

The next slide, please, is where I want to touch upon the financial highlights from a full-year perspective. To begin with, we continued our top line growth. Billings and revenue increased by 16% and 13% respectively. With total billings of €635 million and revenues of €566 million, we fully achieved our guidance for the full year 2022, and the share of enterprise business increased by 4 percentage points year on year.

Our products are highly attractive to a wide range of customers from various verticals or industries, and we continued to establish TeamViewer as the go-to partner for high-impact, strategic investments in digital transformation across various industries and, at the same time, allowed our customers to increase short-term automation and efficiency. Clearly, this is key in the current economic environment.

And all these factors, they have achieved a strong net retention rate of 107% at the group level and, compared to 2021, we

improved the net retention rate by 9 percentage points. In addition, TeamViewer is again growing very profitability. Our adjusted billings EBITDA grew by 16%, to almost €300 million, and our adjusted billings EBITDA margin was stable at 47%. And that's actually the upper end of our guided range, from 45% to 47%.

This is also a result of our effectiveness and execution and, in turn, we raised our basic earnings per share to 37 euro cents, which represents 46% growth year on year. This was driven by the strong increase in our net income, obviously, as well as our accretive share buyback programme of last year. Michael will elaborate more on the drivers of our net profit in his part of the presentation. In total, we are well-positioned to continue our strong performance in the current economic environment as well, in 2023 and beyond, and we believe the fundamental demand for TeamViewer's solutions remains strong.

And with that, let's have a closer look at our regional performance on the next slide. Here, you can see that in 2022 EMEA has proven to be very robust, as it delivered the strongest growth of all regions, followed by an accelerating APAC performance. With a billings growth of 28%, to €109 million in the fourth quarter, EMEA significantly improved its already strong performance which we've seen in Q3. And on a full-year basis, EMEA billings grew by 15% to €340 million. We actually accelerated our sales momentum and further penetrated or well-developed base of satisfied customers.

Our business in the Americas achieved billings growth of 16% in Q4, to €64 million, and 18% to €223 million in the full year. Clearly, if you look at performance at constant currency, it was weaker than we had hoped for, but we remain quite confident in our resilient product offering and the further growing IT spend for digitalisation in the Americas. So looking at our current market share in the US, we believe there is still significant room to grow.

APAC further accelerated its growth with a new organisational structure settling in, and achieved a 32% billings increase in the fourth quarter. And on a full-year basis, APAC billings were up 14%. This growth reflects two very different half-years, and resulted in APAC billings of €72 million for the entire year, so not such a strong first half, very strong second half of the year, so good acceleration there. And also the easing COVID restrictions towards the year-end also allowed for more customer interaction, translating into strong pipeline build and enterprise momentum. As you can see from the slide, TeamViewer is well-positioned for the future. Our global footprint is growing, our products are highly relevant for our strong and loyal customer base, and we address major customer needs. Next slide, please.

Let me now explain our strategic focus areas to reach our business goals and growth drivers in 2023 and beyond. As you can see from the slide, we are focused on four main segments. The first one is it is our objective to defend our leading position in the remote access and support market. We are currently preparing a major upgrade of our core connectivity product. The new release will come with a new modern user interface to improve usability and overall experience, and we will introduce new security and also many other features. And we are confident that this will further increase the attractiveness of our products for our core target audiences across SMB and also private users.

Backend within remote access and support, we will offer additional features like remote monitoring and management of devices for ticketing functionalities. With these features, we can add significant value to larger SMB customers and also managed service providers. When it comes to enterprise connectivity, the third area, we will focus on remote access and control of operations technologies, in short OT, devices, such as industrial equipment, machines and other smart and IoT devices.

A good example of this, coffee machines of the Italian vendor La Cimbali, I think we've talked about that use case already in one of our previous calls, this is exactly the type of remote connectivity, so-called embedded devices, that becomes more relevant as companies aim to streamline and digitalise support and maintenance processes. And once rolled out to hundreds or thousands of those devices, this becomes very sticky and attractive for us.

The fourth area is then our frontline platform for digital workflows, with step-by-step instructions and frontline work assistance. I think with those we have established ourselves as a key player in the so-called industrial metaverse, which meets the digital transformation of frontline work processes, for example, logistics, manufacturing or aftersales, using augmented reality on glasses or handheld devices. And, going forward, our augmented reality offering should be further supported by megatrends like shortage of skilled labour and the need for digital onboarding, training and more efficient frontline processes. As you can see, we are targeting IT and OT use cases in companies of all sizes to leverage the full potential of our solutions. Next slide, please.

Just as a reminder, you can see our product portfolio that matches the strategic focus areas that I just explained. We offer three main product lines. TeamViewer Remote, our core connectivity product for SMB customers and private users. With different licence tiers and add-on features, we target different use cases and different company sizes. Then, in the middle, for larger companies and critical infrastructure, we offer our

enterprise connectivity platform Tensor, that provides relevant security features and can be deployed really at scale. It also includes capabilities to connect to the OT, operation technology, and embedded devices I just talked about on the previous slide.

And the third product line is Frontline, our AR-based enterprise productivity platform that enables digital workflows and assistance for smart frontline operations. The platform includes cutting-edge capabilities, based on mixed reality but also artificial intelligence to run frontline operations even smarter. And with this, summing up on the product, I'd like to hand over to Michael for the financial highlights.

Michael Wilkens

Thank you, Oliver. And good morning and a warm welcome to all of you. I am very happy to guide you through our financials for the full year 2022 and in Q4 in particular. Q4 was my first quarter as the CFO of this exciting company. You heard Oliver's remarks on our operational focus areas for 2023. Later in my presentation, I will explain to you how we think about 2023 from a financial point of view, and I will dive deeper into the different elements of our guidance, which you already read about in our press release this morning. Next slide, please.

I presented this group overview for the first time in Q3. Back then, I already mentioned the growing relevance of revenue for our business. From Q1 onwards, you will see quarterly revenue and the adjusted revenue EBITDA on the top of this slide. Today, I start with billings and the excellent billings growth rate of 24% in Q4 2022. With this strong year-end finish, we delivered on our guidance, and this despite the discontinuation of our Russia and Belarus business and despite the difficult market environment.

So on a full-year basis, billings increased by 16%, 11% on a constant currency basis, to €635 million. At this point, let me say thank you to a great and highly-motivated sales team here in Germany, and all over the world. The strong billings performance in Q4 led to a high adjusted billings EBITDA margin of 51% in Q4 and 47% for the full year, which was at the upper end of our guidance.

Let's move to the revenue perspective. On the lower left-hand side, you can see that revenue follows billings development in a delayed way, with a more balanced growth rate. So revenue grew by 14% in Q4 and 13% for the full year. With the full-year amount of €566 million, we also met our revenue guidance for 2022. Given the numerator-denominator effect, and applying the exact same operating cost base to revenue, the adjusted revenue EBITDA margins amounted to 41% for the full year compared to the adjusted billings EBITDA margin of 47%. This adjusted revenue EBITDA margin is best in class compared to our wider software peers is, from now on, the profitability

reference for our guidance. With this, let's move to the next slide, please, where I will focus on SMB, which accounted, in Q4, for around 79% of our total billing.

Q4 saw a very strong SMB billings improvement – a proof point of our pricing power. Why is that? Part of the growth rate of 18% is the result of the targeted sales campaign, including upsell and our pricing campaign. Free-to-paid played a minor role in Q4. In addition, US dollar exchange rate tailwinds made up 4 percentage points of the Q4 growth. With this strong fourth quarter, full year SMB billings were 11% higher, at €503 million. On a constant currency basis, the growth rate was 6%. On the top right-hand side of this slide, you can see our pricing power translating into constantly increasing average selling prices.

In Q4, our SMB customers paid €804 on average per year. Talking about subscribers, at a stable subscriber churn rate, we were able to increase our customer base by 8,000 subscribers year on year. At the end of Q4 2022, we counted 622,000 subscribers in our SMB business, without customers from Russia and Belarus. This large subscriber base still holds significant upgrade potential, as Oliver outlined before. Next slide, please.

Now, let's take a more detailed look into our enterprise segment which, in Q4, accounted for around 21% of TeamViewer's total billings. Despite the uncertain macro-environment, enterprise billings growth remained at a high growth level of 47% in Q4. This development was particularly driven by the EMEA region and improved pipeline conversion and customers committing to growing ticket sizes.

This is also reflected in the high enterprise net retention rate, which increased to 116% in Q4 2022. As there has been an ongoing debate around multi-year deals since our Q3 call, let me tell you, yes, part of these growing ticket sizes is due to multi-year deals. The fact that customers accept, or rather ask for, this type of contract proves how much they like our products and that they are happy to commit themselves for more than a year. By the way, our multi-year deals are paid upfront and will convert to revenue over time.

The full year 2022 enterprise billings amounted to €132 million, corresponding to an increase of 42%, or 35% on a constant currency basis. The average selling price increased from €34,000 in Q4 2021 to €36,000 in Q4 2022. While fuelling the enterprise bucket with strong enterprise upsell, this also had a positive impact on the number of enterprise customers. Compared to the end of 2021, the enterprise customer base increased by almost 1,000, amounting to roughly 3,700 customers at the end of 2022. Combined with the large SMB

customer base, this brings us to a total of around 626,000 subscribers at the end of last year. Next slide, please.

As mentioned before, this large and loyal customer base is in need of high-class remote connectivity and frontline workflow solutions. Our products in this category offer simplification and efficiency in times of increasing complexity and labour shortage. Our increasing net retention rate is proof of this increasing demand and high customer satisfaction. As per year-end 2022, our net retention rate was at 107%, 4 percentage points higher than in Q3, and 9 percentage points higher than the year before. This was driven by successful net upselling of our retained customer base, including the increased migration from SMB to enterprise.

Oliver mentioned already the Q4 ATM net upsells from SMB to enterprise in the amount of €20.5 million, a further increase over the already very strong €18.4 million in Q3. Additional building blocks of the growing NRR were the favourable US dollar-euro development, our targeted sales campaigns, and upfront-paid multi-year deals. Let's turn to the next slide now, where I want to introduce you to our new KPI, ARR.

The annual recurring revenue stands between billings and revenue, and gives a realistic impression of the annual subscription value of our customer base at a given point in time. Multi-year deals do not distort this metric as they are only accounted for with the annual value. Since we have seen an increasing demand for multi-year deals in 2022, it is now a good time for TeamViewer to implement the ARR as the new metric.

In total, we built multi-year deals with full upfront payments of €45.6 million in 2022. So while billings increased by 16% in 2022, the ARR increased by 13%. Revenue also increased by 13%, with a revenue-to-billings ratio of 89% in 2022. Next slide, please.

Let's now start to move from the top line to the bottom line, and take a look at our recurring cost base. On a full-year basis, recurring costs, consisting of cost of sales and total OPEX, increased by 16%. This was in line with billings growth and higher than revenue growth. Hence, the adjusted EBITDA margin remains stable at 47%, and the adjusted revenue EBITDA margin resulted in 41%.

Let's have a look at some of the 2022 operating cost items in more detail. The main reason for the increase in sales costs were the expansion of the enterprise sales force, higher bonus payments and currency effects. The growth in marketing costs was due to the first-time full consideration of sports sponsorships in 2022. As you know, this cost item will be significantly reduced once Manchester United exercises the option to buy back the

rights to the club's shirt-front sponsorship.

The increase in marketing costs was partly compensated by scaling effects in G&A costs. The full year R&D costs increased in line with billings. The main R&D focus was enriching our digital workflow offering and enhancing our core technology platform to be able to launch the major remote connectivity upgrade that Oliver mentioned within the next month. Lastly, the strong decrease in other operating costs was mainly driven by lower bad debt expenses, due to a higher share of the enterprise business with better payment behaviour. Next slide, please.

The table on slide 19 dives deeper into our different profitability metrics. On the top of the table, you can see the difference between our old adjusted billings EBITDA definition and our new adjusted revenue EBITDA definitions. It consists of the change in deferred revenue. In 2022, the deferred revenue increased, driven by strong billings development, especially in Q4. Deducting the non-recurring items from the adjusted revenue EBITDA brings us then to the unadjusted EBITDA, which was 17% higher year on year, at €197.5 million in 2022.

Non-recurring items decreased in 2022, mainly due to the positive valuation of US dollar hedges, which partly offset charges for the legal case I already mentioned in Q3. With only slightly increased G&A expenses of 6%, our EBIT increased even by 22% to €143.7 million in 2022. And net income increased by 35% year over year, to €67.6 million, mainly due to our strong operating performance and an improved financial result.

Our earnings per share increased even stronger by 46% year on year, from 25 euro cents to 37 euro cents, which reflects the accretive effect of our 300 million share buy-back in 2022. For the first time, we also displayed the adjusted EPS, which increased by 25% in a full-year comparison. We're adjusting here from share-based compensation, PPA amortisation and other non-recurring and related tax effects. With this KPI, we give you a less volatile perspective of the EPS growth going forward. Next slide, please.

On this slide, you can see that the IFRS pre-tax operating cash flow was up by 6% in 2022, despite the first-time full year sponsorship payment. Let's go through the items which result in the 2022 free cash flow. First, cash tax, which increased by 7% to €46.4 million. Second, CAPEX. As most of TeamViewer's investment and innovation and partnerships so far are directly expensed as operating expenses, capital expenditures were relatively low in 2022, and went further down by 42%, to €8.8 million, due to the finalisation of a new application landscape in 2021.

Lease payments were driven by additional office space and IT infrastructure amounting to €9.5 million in 2022, up 37% year on year. This results in an unlevered free cash flow of €186 million and a high cash conversion in relation to the adjusted revenue EBITDA of 81%. The levered free cash flow, which also takes into account interest paid, amounted to €171.8 million in 2022. The respective cash conversion rate was 75%, and therefore stable year on year. Worth mentioning that we managed to keep the interest paid stable, at around €40 million, despite the more challenging debt and interest environment. Next slide, please.

As the waterfall on this slide shows, cash and cash equivalents at the end of 2022 amounted to €161 million. The reduction compared to the end of 2021 was mainly due to our €300 million share buyback programme and net debt repayment of €286 million, offset by net cash inflows. On the back of these measures, our net financial liabilities amounted to €472 million as of December 31st, resulting in a net leverage ratio of 1.6 on adjusted billings EBITDA, and 2.1 on adjusted revenue EBITDA.

With this, we delivered on our capital allocation target of around 1.5 leverage. At the same time, we significantly strengthened our financial profile through the repayment of debt and by balancing out our debt maturities, and we created value for our shareholders by returning cash through share buybacks. I will come to the new share buyback which we announced yesterday later, in the outlook section. If you want to take a closer look at the development of our share count, you can find the respective slide in the appendix.

Before I come to the outlook, let me conclude my financial overview section with a summary of the most important take-aways. First, we delivered a strong 13% growth on our new primary revenue KPI. This reflects the strong billings performance in the earlier period. With the continued mix-shift towards higher value customers in SMB and enterprise, as well as higher demand for multi-year deals, we increased the predictability of our business. And high customer retention rates prove the stickiness of our customer base.

Third, despite the inflationary environment, continued investment into our business and the first full year consideration of the sports sponsorships, we recorded a sustainable high margin, and, fourth, paired it with a continued strong cash flow generation. Fifth, we see significant margin upside following a potential early exit by Manchester United from the shirt-front partnership, despite some reinvestments into our marketing efforts.

Lastly, let me conclude this chapter also with a personal note. I think it is remarkable how well we performed in 2022 despite the

current environment. Our business demonstrated strong resilience with the right product portfolio and the right market positioning. Next slide, please.

Let's now focus on what is in front of us. What you see here is a confident view of our 2023 business development. We are operating in an exciting growth market and our performance is underpinned by a highly recurring and resilient business model. On the back of this, like in 2022, we see double-digit revenue growth in 2023. In absolute terms, this means that we guide for IFRS revenues in the range between €620 million and €645 million. We also aim for stable profitability reflected in the adjusted revenue EBITDA margin, which is expected at around 40% for the full year 2023. This margin forecast takes into account continued investments in our future. I will come to that in more detail on the next slide.

Revenue guidance you see on this slide translates into an expected billings growth of 6% to 11% in our old guidance KPI world. This growth is based on last year's average US dollar FX rate of 105. Let me remind you that we achieved a constant currency billings growth of 11% also in 2022. This corresponds to the upper end of the billings growth rate we expect also for 2023. However, we have to see how the macro-environment works out, hence the broader growth range between 6% to 11% resulting in an absolute billings range between €675 million and €705 million.

The guided adjusted revenue EBITDA margin translates into an adjusted billings EBITDA margin of around 45%, which also takes into account short-term cost effects. We think these are best-in-class margins which carry significant upside beyond 2023, following a potential early exit by Manchester United from the shirt-front partnership. Before I turn to the next slide, let me remind you that our official guidance relates to our new KPIs, revenue and adjusted revenue EBITDA margin. Next slide, please.

The guidance I just outlined, and the ambition to achieve stable high margins, come with diligent cost management across all dimensions. We already told you, on several occasions, that we want to strengthen our high-quality product offering through additional R&D investments. More specifically, we want to reinforce TeamViewer's leading position in remote access and support, with the major upgrade of our connectivity platform.

At the same time, we want to underline our status as the key player in the industrial metaverse, by extending the frontline platform. This will also require respective infrastructure upgrades and, hence, additional investments. Besides these investments into our future growth, certain macroeconomic impacts, like

currency effects on our sponsorships, and more general inflationary cost pressures will increase our recurring cost base. In order to compensate for this impact and said costs, we have taken several actions.

For example, we work with our suppliers and partnerships to minimise inflationary cost increases. With our attractive RSU programme, we not only increase employee loyalty and strengthen the shareholder perspective, but we can also partly compensate for cash salary increases. Last but not least, we'll apply a cautious hiring approach and efficient people management. With the combination of these investments and savings, we are very confident to reach our margin guidance.

And this brings me to my last slide. On the back of the outlook I just presented, TeamViewer will remain highly cash-generative and deliver a continued strong cash flow conversion. This allows us to reiterate our existing capital allocation strategy, and confirm our target leverage ratio of around 1.5 net debt to adjusted billings EBITDA.

This leverage target provides the company with sufficient flexibility to support organic growth and to pursue tuck-in M&A to expand competencies if needed. And with our high confidence in the 2023 outlook, we will return excess cash to our shareholders by way of a new share buyback programme, and thus remain committed to our capital allocation framework. This programme has a volume of up to €150 million, and will be executed in two tranches. We plan to start with the first tranche of up to €75 million by, latest, mid-February. I'll now hand over to Oliver to round it up.

Oliver Steil

Thank you, Michael. So let me summarise today's earnings call. The bottom line is we are very satisfied with our performance in 2022. We achieved our goals and delivered on our targets. We see prominent customer wins across industries and geographies, and we have successfully implemented pricing measures and also campaigns on cross-sell and upsell over the last year. And this shows that we are able to steer our business actively and in a very targeted manner.

As Michael just explained, in 2022 our financial profile remained very attractive. Our strong profitability and higher cash generation are important levers for shareholder value creation, which we were able to deliver with a 46% earnings per share increase. And creating value for shareholders will also remain a top priority for us in 2023, and this is why we announced a new share buyback programme.

Beyond that, we are also looking at 2023 with great confidence. We want to further capitalise on global megatrends in the modern workplace. Our solutions are more relevant than ever for

our customers and the current challenging macroeconomic environment. In light of this, we are confident in generating double-digit revenue growth, as outlined by Michael. With that, we would like to end the presentation. Thank you all very much for your attention, and we look now forward to your questions. Operator, over to you, please.

Operator

Ladies and gentlemen, at this time, we will begin the question and answer session. Anyone who wishes to ask a question may press star followed by one on their touchtone telephone. If you wish to remove yourself from the question queue, you may press star followed by two. If you are using speaker equipment today, please lift the handset before making your selections. Anyone who has a question may press star followed by one at this time. One moment for the first question. If you would like to ask a question, this is star and one. One moment for the first question, please. The first question is from the line of George Webb with Morgan Stanley. Your question, please.

George Webb

Hi, morning, Oliver and Michael, thanks for taking my questions. I'll kick off with three. Firstly, just on the margin outlook, you flagged some of the elements, including careful control of cost base, cautious approach to hiring, can you give us a sense of how you're set up now with respect to sales and support of the enterprise business segment? How much room is there to increase utilisation of those sales staff, and how much incremental investment is going to go into that area in 2023?

Secondly, on the guidance on growth, you're expecting billings to grow at a more moderate rate this year compared to revenues, can you talk through what you're expecting in terms of multi-year deals growth in 2023? And then lastly on the enterprise business, 35% constant currency year-over-year growth in 2022, if you were to clean that figure up for the multi-year deals impact, or to look at it through more of an ARR lens, what was the rate of growth you saw there? Thank you.

Oliver Steil

Let me take the first one, and the second one. For margin outlook, I think on the enterprise side, as you've said, over the last years we have significantly invested in our support structure and sales structure, so we have enterprise account managers across the world, we opened a few more offices to be closer to regional markets, particularly in APAC. So I would say the sales force there is very well invested. Obviously, there's always churn in some markets, and then replacement.

We also have a solution delivery force which is globally distributed across all offices, so I would say that for the enterprise business we're very well invested at the moment, and clearly, especially given the environment at the moment, we are not at full utilisation of the current sales force. So I think we are

absolutely right in pointing towards additional scaling potential, because we do have people which joined relatively newly, throughout the year, not at their full quota, they're still ramping, but the costs are already onboard. So pretty fully invested there in the service force, but not fully utilised, as you say.

Secondly, billings growth, I think the whole question on multi-year and also how that's related to ARR, quite frankly I think it's a bit too early to project anything very concrete there for this year. Obviously, the more we go into enterprise, the more multi-year deals will play a role. Obviously, customers want to secure pricing, so it will continue to be a factor. But I think Michael can elaborate a little bit more on this there, and the growth composition going forward.

Michael Wilkens

Yes. On the multi-year deals, we see it in the vicinity between 50 million and 60 million. So the multi-year deals become more and more part of our normal business. This was, I think, one topic. The other one, when you said ARR, we disclose the ARR in total, which is the 30% growth, but we don't disclose this now in the second phase or even on an NRR basis. We are very happy with our definition of NRR. We are happy to take currency discussions on NRR, and I think we have to always disclose currency versus NRR, but not also on ARR.

George Webb

That's clear, thank you. Maybe just one follow-up. When you went to customers in Q4 knowing they had these price increases, to what extent were they coming to you and saying, can you give us some discounts and we'll sign up for a multi-year deal to counteract some of that price increase? Was that a phenomenon that you saw at all?

Oliver Steil

You weren't that clear to hear, but I think the question is around the purchasing behaviour in the fourth quarter. Yes, obviously this is the nature of the game on enterprise. Customers want to commit for a longer period of time in order to secure a certain price level. In enterprise, this is one-by-one discussions. I think in all cases we have customers that came on board a year ago and we haven't increased prices, but also customers that have been with us for longer and we extend the licence count, the number of technicians, the number of seats, if it's a new deal, and then we commit to certain prices.

It's not necessarily a discounting game. I think in the current environment, it's more a price stability and visibility for them, and obviously we have the same when we talk to our suppliers. It's pretty clear that it's not a great time to talk discounts, but what you can achieve is price stability, and that's more the motion that was going on.

George Webb

Very clear, thank you very much.

Operator The next question is from the line of Ben Castillo-Bernaus with BNP Paribas. Your question, please.

Ben Castillo-Bernaus Good morning, thanks very much for taking my question. A couple from me, please. Just on the 2023 outlook, as we think about seasonality or phasing, particularly I guess on the top line, through H1 and then into H2, what are you baking into your guidance? Secondly, looking back at the last quarter, could you give us an indication on how much impact did your price increases have in Q4 2022? What contribution did that have to growth? That would be helpful.

And then lastly, on the new guidance framework, shifting away from billings to revenues, will all KPIs shift to revenue and billings eventually be phased out? So your detail on things like enterprise versus SMB billings, or billings by the ACV bucket, will they become revenue based? And if so, will you restate for that, to help us look at that on a more continued basis? Thanks.

Michael Wilkens Let me start with the first two. I have not heard or understood the third. Maybe we can pull up on that one separately. On the seasonality of 2023, first, from a billings perspective, the structure of the seasonality should be more or less the same as it was in the previous years. From a cost perspective, and we don't guide quarterly so please take this with a massive grain of salt, what we see is that the first quarter will be, from a cost perspective, in the vicinity of Q4, and the second quarter more or less also in the same vicinity like Q1 and Q4, but then we expect to see rising cost base, and this is it.

On the pricing perspective, so the second question, we were actually seeing exactly in Q4 what we expected with the Q3 call, so more or less a high-singled-digit-million number, and this played very well into our overall equation. The third one, I have to...

Oliver Steil That question is now that we're guiding with revenue instead of billings, whether we will change all KPIs that we're disclosing, enterprise, SMB and everything else on revenue instead of billings.

Michael Wilkens That's the intent, yes.

Ben Castillo-Bernaus That will shift to revenues, okay. And will you help us with restating from prior years, just so we can look at it on a look-through basis?

Michael Wilkens Yes.

Ben Castillo-Bernaus Great. Thanks very much.

Operator The next question is from the line of Toby Ogg with JP Morgan. Your question, please.

Toby Ogg

Thanks for taking the questions. A couple from me. Firstly, on the new billings development in Q4, it looked like it was a little bit lower than the Q3 number, so could you just help us to understand some of the drivers there around the new billings? And also just how we should think about the mix between existing and new billings into 2023? And then also how much of a pricing contribution you would expect to billings growth in 2023? And then, on the cost savings side of the bridge, could you give us a little bit more detail on the side of the RSU programme that you've highlighted as a source of cost saving? Thank you.

Oliver Steil

New billings, Q4 versus Q3, clearly the main sales motion that you have in enterprise software, towards the end of the year is pipeline conversion with your largest opportunities. And one of the big advantages of us is that we have this large number of existing customers, 622,000 subscribers or so, and there are many companies in this subscriber base that actually qualify for larger deals, larger solutions, wider rollouts of Tensor or rollouts to embedded devices.

So as you can imagine, towards the end of the year, the sales force is fully focused on these larger opportunities, and it happens that most of the larger deals that we've done towards the end of the year are actually with existing customers. While, in Q3, this motion is I would say less pronounced, and therefore there were more new, new billings in the third quarter.

On that discussion, because we had that before as well, I think it's important to understand that new billings in our definition means a company is not having a single TeamViewer licence anywhere in the world, so not even a €350 business licence, only then we qualify them as new. Whereas if a customer, and that's quite likely, or a company, quite likely, has a licence somewhere in the world, it's called under retained.

And as you can imagine, when you do enterprise moves and you move customers from €2,000 to €3,000 licence counts, to €20,000, €30,000, €100,000, €150,000, this is a massive sales motion and a massive achievement, even though it's falling under the retained bucket. And that's one of our key motions that we're having. I think very different from other, much smaller, enterprise software companies that need to actually always win new logos to be able to grow. I think that's important. For the pricing contribution and the RSU programme, I'll hand over to Michael.

Michael Wilkens

Let me start with the RSU programme and how we think about it. First, by making the employees shareholders we are all sitting in one boat, which is creating shareholder value. This is so important for us. We launched this programme therefore last

year. While we mentioned it here as an element of contribution to cost savings we're following, we do the same programme also in 2023, so we continue the programme.

And we have a little bit of a shift between leaders to employees, so now everybody gets the same share of RSU, but what is important is that we explain to the employees that, hey, we're in the same boat and we win together and we lose together, and it's not inflationary rises and they need to have more salary increases, so we are saying we will be able to balance out expected salary increases with the RSU programme. So it's a win-win, and therefore it will also contribute to the overall success. Price increases with regard to 2023, can you repeat the question, quickly?

Toby Ogg Yes, it was just how much are you expecting the contribution to be from pricing in 2023, earnings growth?

Michael Wilkens It will be moderate. We start as we did, by the way, in Q4, we start cautiously into the year. We did that already obviously in Q4, so the first cohort for the first quarter already executed, and we will continue very cautiously in our base through the cohorts Q1, Q2 and Q3, and then we check it.

Toby Ogg Okay, thank you.

Michael Wilkens In total, a little bit less for the third quarter than in Q4. It has to do also with the cohort size.

Oliver Steil Can we go ahead with the next question?

Michael Wilkens I guess so, yes.

Operator The next question is from the line of Victor Cheng with BofA. Your question, please.

Victor Cheng Hi, thanks for taking the questions. A couple, if I may. On the SMB side, can you talk a little bit about how the free base has trended in the last two quarters? And since you mentioned the free-to-paid conversion contribution was lower this quarter, from a billings perspective, I'm curious as to how much of that 6K net new SMB subscribers are from the free-to-paid conversion. And then lastly, maybe can you give us some updated colour on your partnership with SAP, Siemens and Google? And are they more focused on augmented reality?

Michael Wilkens Victor, very difficult to hear you but I'll touch base on the SMB growth in the context of free-to-paid campaign. As I said before, free-to-paid, we do this very moderately, this was a mid-sized-million amount in Q4, and this was part of the growth but not all of the growth. And Oliver mentioned basically all of the elements. Of course, there was a factor of currency embedded in this, but most of it came from all of the campaigns.

And from the free base, this is actually nicely developing now because we see they stuck to a more or less flattening out between Q3 and Q4, between the active devices, if you refer to this topic.

Oliver Steil

Yes, free user base is kind of stable, despite the fact that we are extracting a bit of subscriber growth. As you say, as you pointed out, this is a small additional subscriber number, mostly at entry level. We explained before, also, even if we have a few thousand more subscribers at the entry level, that is significantly less relevant than a significant upsell in one existing subscriber to drive billings to enterprise, the example I made before, so that's the play that's happening here, but the ecosystem is largely stable while were doing that.

On your last question, partnerships, SAP, Siemens, Google, I would say mostly focusing on workflows. Part of is it augmented reality, yes, frontline, based on glasses for handhelds, that can be part of it, but it's effectively a workflow integration, SAP and Google specifically. And then Siemens, slightly different, here we talk about integration into the product lifecycle software of Siemens, where we provide mixed reality visualisation capabilities to generate digital twins of actual industrial equipment. So it's slightly different.

Victor Cheng

And are there any changes to pipeline conversations and what you are seeing into the next few quarters?

Oliver Steil

On those partnerships?

Victor Cheng

Yes, on those partnerships.

Oliver Steil

Yes, clearly the partnerships are now a year in, a bit more than a year in for SAP, Siemens a bit less, and Google I think a year or so. We have some pipeline conversion in the fourth quarter, the first quarter where we saw meaningful deals coming in. One was with a Mexican retailer or logistics company, if I'm not mistaken. That was sizeable, a nice six-digit deal. So it's starting to happen. A good pipeline for Q1 and beyond, and the organisation working through and progressing, obviously, these partnerships and these deals and these customer relationships are [inaudible 00:57:57] they are significantly longer than what we would normally see in a classical Tensor deal which converts faster. It's smaller and converts faster. But it looks good.

Michael Wilkens

Yes, and for Siemens we are not even done with the integration, so we need to be a little bit more patient. But from the overall product line-up, it looks good.

Victor Cheng

Got it, thank you.

Operator

The next question is from the line of James Goodman with Barclays. Your question, please.

James Goodman

Morning, thanks very much. Firstly, on the sponsorship situation, wondered if you could help us a little bit there with how you're beginning to think about the margin opportunity versus reinvestment of that, as we start to think about the business post the sponsorships moving away. I guess some of the current investments that you're putting in the business are clearly in the context of knowing that you have that tailwind coming through.

The second question from me, on the second sizeable buyback that you've announced today, is it a fundamental shift in how we should think about the business, that you're now just prioritising almost the complete payout of the free cash flow generation of the business? And how do you balance that versus the ongoing leverage in a rising rate environment for you? Thank you.

Michael Wilkens

Let me start with the Manchester question on the margin. We expect a clear, high-single-digit margin uptake once Manchester decides to take the option back. And we also think that we will only reinvest a couple of margin points, so the major part will flow to the bottom end. And this is why we think that we will see also, going forward, whenever it happens, a strong margin increase based on this exit.

The other one, on the shareholder buyback, this is not a change in structure for us today, it's a reconfirmation of an existing capital allocation strategy, and we love the share buybacks. By the way, more than the dividend, because there's always a discussion would we do a dividend policy, yes or no, we think the share buyback offers both shareholder value creation and gives, on the other hand, also a little bit more flexibility. Plus, with the share buyback amount of what we now announced, we still keep all optionality in our hands and if there are small, right, tuck-in M&As coming along the way, we can actually pursue both. And especially with our, we think, wonderful refinancing structure which we have in place, we have a wonderful basket for all and everybody. We feel super-strong about this.

James Goodman

That's very clear, thank you. On the ARR, which I think is a really helpful additional disclosure, given the multi-year billings effect. Are you going to be disclosing that quarterly? Just wanted to check.

Michael Wilkens

Do we disclose what, quarterly?

James Goodman

The new ARR metric.

Michael Wilkens

Yes. This is very important, for us and for you, in order to create more transparency and to get the distortion and noise out of the multi-year system. We love the multi-year deals but maybe not everybody. But ARR should close all discussions.

James Goodman

And can you say anything on ARR development in 2023? Any view on how that should grow?

Michael Wilkens James, this is a little bit too early. Give us a little bit more time. I think we gave a strong guidance today on many KPIs. Give us a little bit more time on ARR. By the way, it's a brand new KPI also for us. We also learn and grow with this KPI.

James Goodman I think it's helpful. Thank you.

Operator Ladies and gentlemen, as a final reminder, If you would like to ask a question, please press star followed by one at this time. The next question is from the line of, and I'm sorry I think I'm going to say that wrong, Deepshikha Agarwal with Goldman Sachs. Please, go ahead.

Deepshikha Agarwal Thanks for taking my questions. Two questions, if I may. First of all, on the top line, you've guided on double-digit growth for revenue for FY23, any colour on the expectation around the various elements which is basically SMB and enterprise? And any comment around outlook around enterprise IT spending based on the customer conversations you're having?

The second one is on margins. We're just trying to understand what kinds of cost flex you have. First of all, on your guidance of 40% on adjusted EBITDA, what would be the variance? Would it be around tens of BIPs or hundreds of BIPs? And how should we think in terms of a slowdown or better-than-expected performance? What cost flex do you have? Will any upside be invested back into the business? Those would be my two questions.

Oliver Steil Let me start with the top line. I think generally what we see is enterprise IT spend, they're a regional development, clearly a bit longer sales cycles and more cautiousness in the Americas, but EMEA and APAC we saw good development. And I think from what we see out of Q4 movement into Q1, what we see the first four weeks of the month, early days but it seems to be relatively consistent.

Clearly, when you think about spend, everything which is related to automation, efficiency, remote work, less people, this works well in the current environment. Everything which requires additional investment and has a little bit of time where you can also push the decision out by six to nine months or so, obviously companies are trying to do that.

So therefore I think we know the recipe of what to focus on, and also in the past EMEA's always been very resilient through economic downturns because companies need to, in these times, actually focus on efficiency even more. And generally speaking, on our top line growth guidance for 2023, it's clear that enterprise will significantly outgrow SMB, and will gain share on the basis of all the investments we have done in the past. And the second question, on margin range, I think your question was

- on that margin range, how narrow that range would be, or how wide that range would be, or what was your question?
- Michael Wilkens Maybe let me repeat the question to see whether we've got it correctly. You wanted to understand what is our cost flex in case something goes wrong, right?
- Deepshikha Agarwal Yes, cost flex as well as the variance on the margin, the around 40%. Yes.
- Michael Wilkens So the around 40%, it's, for us, then 39% to 41%, obviously, but most importantly when we talk about the 40%, first of all for us it's important that we invest and make the right decisions to grow the business going forward. This is, to us, super-important. The other topic, and this is what Pete, Oliver and I do, we steer the business super-direct. In case something goes wrong, we of course have levers and we will pull the levers where we will then adjust so that we manage our cost base diligently. I think this was your question.
- Oliver Steil And also, you should see, the margin development of last year, we had, at the end, when we were in Q3 we were talking about achieving year-end guidance without Russia, Belarus business, and then we saw over-performance relative in Q4 closing, I think we all agreed, and all would agree, that Q4 came out strong, and that is then a fall-through to margin, and we saw the margin came out at the upper end.
- So I think the way to think about the guidance for this year is we take a realistic, cautious view on the billings development and the same on margins, and I think there is flex on the cost structure to work against adverse developments, but there's also flex to the upside, if we would outperform on the billings, then obviously on revenue there's a fall-through into margins. So that's the way to think about it, and it's actually quite a narrow range that you can assume here.
- Deepshikha Agarwal Thank you.
- Operator Ladies and gentlemen, there are no further questions, and with this we conclude today's conference. Thank you for joining and have a pleasant day. You may disconnect now.
- Oliver Steil Thank you very much, bye-bye.
- Michael Wilkens Thank you, bye.