

TeamViewer

Q2/H1 2023 Results Call & Webcast

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Transcript

Speakers:

Oliver Steil

Michael Wilkens

Ursula Querette

Ursula Querette

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

As always, the presentation will be followed by a Q&A session. Please note that, as always, you can find the important notice and the APM disclosure on slides two and three. 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 Q2 2023 Earnings Call. As always, let me start with a glance at the second quarter of 2023. I think, after a solid first quarter, we continued to make progress in Q2 in many different ways, not only in terms of business growth and financials but also in terms of our product offering, the use cases, our go-to-market approach and, just in general, our overall leadership in the marketplace.

Let me start with the numbers first. We saw double-digit top line growth, with revenues up 12% to €154.2 million and billings up 13% at constant currencies in the second quarter. And our adjusted revenue EBITDA margin came in at 41% despite additional investments in R&D and marketing, underlining that TeamViewer is a highly profitable company.

A strong driver of our success in this quarter was once again the SMB business that showed a strong billings growth of 14% on constant currency. And it's great to see that our core business is so resilient.

To further strengthen our leadership position in the SMB space, we recently launched TeamViewer Remote, which is the next generation of our remote access and support product. And due to the dedicated communication campaign around the launch, we were able to generate additional awareness for the product in Q2.

And since our last quarterly call and also since some of you met Michael, Peter and Hendrik in London, we've received very constructive user feedback that we are building upon to continuously optimise the product and improve the offering for our SMB customers.

Not only SMB business showed a strong performance in Q2. We also did well in the enterprise business that had a slower first quarter, if you remember. Despite a difficult market

environment, we were able to close some larger deals within the quarter, and we successfully replicated use cases across regions and initiated and executed several measures to increase the traction again and to end the quarter with 9% enterprise billings growth on constant currency.

And given the challenging market in the enterprise software industry in general, we believe this is a good achievement, even though we saw much higher enterprise growth rates in the past for us.

In addition to remote connectivity, we are also well positioned to benefit from an increased augmented reality momentum in the market. With Apple recently presenting their new Vision Pro device, we believe that we will see further adoption of AR and mixed-reality technologies across use cases, regions and different industries. And the whole industrial metaverse space is an ongoing innovation play, certainly takes some time, and will happen in phases, but we are ready to capitalise on that development.

According to our verticalization approach, in the quarter we had focused on increasing our footprint in the logistics sector, with a dedicated go-to-market strategy for Frontline vision picking solution.

And then, lastly, we've added new experienced leaders to our management board and senior leadership team. Mei Dent will join the management board as new Chief Product and Technology Officer at the end of August, clearly strengthening our focus on product development and innovation and centralising all technology responsibilities at management board level.

And Constanze Backhaus joined our senior leadership team as Chief Human Resources Officer in mid-July, so she is on board already. Both are, from our perspective, fantastic additions to the team and will help us double down on a variety of strategic initiatives and further increase our innovation capabilities.

From my perspective, to sum it up, we achieved double-digit growth in Q2 while focusing on improving TeamViewer across the board with many different activities, and we see that our investments into people, product and marketing are paying off.

Let's have a quick look at the development of our SMB business, which was driving our growth in Q2, similar to Q1 actually. And I will be looking at billings on a constant currency only here. Michael will share the full picture, including revenues, later. But as you know, billings are

rather an indicator of current trading and business momentum, while revenues are the result of past successes.

So you can clearly see on the left-hand side that after a difficult phase for SMB last year, at the end of 2022, SMB billings came back and continued to grow stronger than actually I think a lot of people in the market had expected. But we have worked all the time on our SMB product offering, on sales and all the marketing channels and on our website, and we are now happy to see the results of these ongoing efforts. And as previously mentioned, plus 14% billings growth on a constant currency in Q2 is really strong.

On the right-hand side, you see the increase in average selling price in our SMB business within one year. Plus 12% in ASP underlines once again our strength in up- and cross-selling to our existing customer base as well as demonstrates also our pricing power.

If you go to the next slide, a quick look at enterprise. You can see the development of our billings here. As said before, we see plus 9% growth on constant currency in Q2 as a success, given where the market for enterprise software is at the moment.

We told you in Q1 that the slow performance in enterprise was a temporary weakness, and we worked thoroughly on a number of measures to be able to turn the growth rate around again. What I explicitly want to highlight is the nice increase in the enterprise subscriber number. Within one year, we were able to win 29% more customers, enterprise customers, and are now close to 4,000.

Another important topic is upselling from SMB to enterprise. So if we take a closer look at the billings split for Q2, looking at the chart on the left-hand side, you can see our increased growth momentum in the SMB segment, with LTM billings in Q2 2023 up 13% on a year-on-year basis to almost €530 million. With the largest SMB bucket up 28%, this may come as a slight surprise, but I'd like to take a moment to highlight the development of the smallest SMB bucket here as well.

The bucket containing customers with annual contract values below €500 has developed from minus 6% in Q4 2022 to minus 1% in the first quarter of this year and now actually evened out. This is a very good development at the entry level, where we have seen increased competition in the last years after the COVID spike, if you remember.

Before I continue with the enterprise development on the right-hand side, let me point out that we once again

managed to record a great net upsell from SMB to enterprise, amounting to €22.3 million.

Enterprise LTM billings increased by 21% on a year-on-year basis and amounted to €132.6 million. The bucket containing largest deals with annual contract values of €200,000 and more returned back to growth from an LTM perspective, after decreasing by 6% in the first quarter. And enterprise growth, in general, was skewed by some larger deals coming through after we had seen some deal slippage in the last quarter.

And as always, let's look at two recent enterprise deals from the upper bucket and why they are relevant in the grand scheme of things on the next slide. One example is from APAC. We've been able to close a Tensor deal of more than €600,000 in volume. One of the "Big Four" banks in Australia and New Zealand is using our enterprise connectivity solution to streamline IT support for their more than 40,000 employees.

The main reason why they decided for TeamViewer is our leading security posture and our compliance with all relevant security and privacy requirements. This means that we are well positioned to serve demanding customers from highly regulated industries such as financial services or the healthcare sector, where security of sensitive data is absolutely key.

And the other example I want to share with you is Nadro. It's the largest Mexican wholesaler for the healthcare industry. Nadro operates 14 warehouses across the country and recently optimised its product picking using TeamViewer Frontline together with SAP's Extended Warehouse Management software. This led to an improved logistics performance of up to 30%.

We were able to win Nadro as a joint customer, based on our SAP partnership, by the end of last year. And now, in Q2, we saw similar pilot projects, with Frontline vision picking and SAP integration taking place across all regions. And that shows, while the sales are quite long and it takes some time, but it's clear that our investments in the SAP partnerships are really starting to pay off now.

And let's now have a dedicated look at our regional performance on the next slide. Billings and revenues increased across all regions in the second quarter, with the strongest operational performance in APAC, where billings were up 20% year on year at constant currency, a good sign that the recent investments in the organisational structure in that region are paying off.

The Americas regions, where reorganisation of the sales team setup has been initiated in Q1 2023, showed the lowest billings growth rate. And this also leads back to longer procurement cycles in the current macroeconomic environment. But clearly, we are driving the reorganisation at full force to lead the region back to previous successes.

If you look at revenue, the Americas region showed the strongest growth rate. It was 16% year on year. Clearly, this can be explained by currency tailwinds from previous periods, billings converting into revenue. EMEA reported the strongest Q2 billings growth at nearly €79 million, up 14%. And the region contributed 52% of total billings in the second quarter.

Looking at growth drivers, all regions' revenues benefited from successful up- and cross-sell measures, targeted monetisation campaigns and an increasing number of multi-year deals stemming from a well-developed and loyal customer base. And with that, 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 also from my side. I'm happy to guide you through our financials for the second quarter of 2023. On slide 12, you see our Q2 revenue of €154 million and our Q2 billings of €151 million. As expected, revenue is higher than billings after a strong Q4, and respective billings converting into revenue this year, supported by currency tailwinds also from last year.

Oliver already mentioned the Q2 growth rates, 12% revenue increase and 13% constant currency billings increase. Our reported billings increase was 11%. Other than last year, we now face headwinds from currency, but we are well prepared. As you know, we hedged part of our adjusted EBITDA and we based our guidance on last year's average exchange rates. For the US Dollar, for example, this was 1.05. Applying these on Q2 revenue and billings, both would be slightly higher, as shown in the footnote.

The ARR, which is the LTM figure and annualised the billings value of active contracts, increased by 13% year over year. Our LTM net retention rate remained strong at 109% on group level, and is up eight percentage points year over year. Compared to last quarter, it is up two percentage points.

This is clearly a sign for a sustained high customer satisfaction with our products. I'm aware some of you pointed out that this number is influenced by our multi-year deal activity, so we adjusted the multi-year deal effect, which

leads to 103% NRR and ARR for Q2 LTM billings.

In Q2, the adjusted EBITDA increased by 7% to €64 million. This translated into an adjusted EBITDA margin of 41%, which is well in line with our guided full year margin of around 40%. Let me assure you, while we invested into our growth, we managed our cost base prudently, and we told you in Q1 there would be some catch-up effects in Q2. I will talk about cost in more detail later in my presentation.

In Q2, our levered free cash flow grew by a strong 68%, which resulted in €47 million and a consistently high cash conversion rate of 74%. The adjusted EPS grew by 26% to €0.22 year over year. Let's first have a closer look on quarterly sequential developments globally and for SMB and enterprise.

I already explained our global revenue, billings and margin growth and the influence of currency. Let us have a closer look at the bottom right side of this chart, new business, the development of which needs to be seen in the light of a still challenging macro environment and our ongoing sales reorganisation in the Americas region.

New business activity in Q2 was slightly below Q1, although in percent of total billings, it increased even from 8% to 9%. Let me remind you, our definition of net new is quite strict. We only count a customer as new when there were no billings in the prior LTM period. For example, the large Australian deal which Oliver just mentioned derived from an existing relationship, although with a very small ACV before the renewal.

It goes without saying that we are not happy with our new business development yet. We have initiated several measures for a reacceleration. To name just a few, our intensified engagement with channel partners through TeamUP, a stronger verticalized sales approach and the replication of successful use cases with new customers.

Let's move to the next slide, please, and look at our core SMB business, where the strong momentum from the last quarters carries on, as Oliver already highlighted. Slide 14 depicts a strong SMB business with a nicely growing subscriber base over the last quarters, while churn remains rather stable.

The ASP continued to grow to an average selling price of €840 per SMB customer as of Q2 2023. Besides cross- and upsell, this development also reflects our price-change motion which we started in Q4 last year. We are currently assessing which follow-up measures we will take, starting in

Q4 this year.

The quarterly revenue and billings, or more specifically, the respective growth rates, well reflect a re-exhilarated SMB business. With the recent launch of TeamViewer Remote, we underpin our leadership position in that space even more. SMB revenue grew by 9% to €125 million in Q2, and billings were up 12% to €122 million or 14% on constant currencies. Please be reminded that the SMB billings also include multi-year deals.

By the way, since start of this year, the effects of multi-year deals are considered more precisely in our revenue split calculation. The comparable figures and their respective growth rates were adjusted accordingly, which is already reflected in the upper left charts. You can find a more detailed description of our refined revenue split methodology in the appendix. Next slide, please.

Of course, the refined split also applies to the enterprise revenue, which grew by 25% to €29 million in Q2. As you already saw, in Q2, we executed well on our enterprise growth plan again, after a slow start to the year and despite a difficult market environment.

So billings were up 7% to €29 million, or 9% on constant currencies. And I can tell you that we are all pushing hard to accelerate that growth in the months to come. The fact that our enterprise customer base increased by 29% in the last 12 months is a positive sign in that context.

Before we turn to the next page, let me draw your attention to the enterprise NRR, which well reflects our current situation. While in Q2, it was lower year over year at 111%, it increased over Q1 by two percentage points.

Let's have a closer look at our cost base. Recurring costs, consisting of cost of sales and total opex, increased by 16% in Q2. Around half of the absolute cost increase of €12.3 million was mainly personnel related, but let's have a look at some of the cost drivers in more detail.

As a significant portion of our sales force is based outside of the Euro area, sales cost benefited from currency effects, which overcompensated the effects of increased FTE costs and higher bonus levels. Like in Q2 2022, the largest portion of the marketing costs was made up of sponsorships. As expected and shared with you before, marketing cost also increased due to targeted marketing measures in connection with the introduction of our TeamViewer Remote launch.

Let me give you some additional colour on the Manchester

United sponsorship. You probably all saw the new kit, with TeamViewer on the shirt-front. While this was presented at the end of June, the club's focused sales process for a new long-term short-front partner continues.

And we have decided that once such a new sponsor is found and Manchester United exercises its option, we will let €35 million of the respective savings drop through to the adjusted EBITDA on a full year basis. The remainder of the savings will be reallocated to other marketing measures, which Pete and his team already work on.

We also told you before that we continue to invest into our future product offering, which is reflected in the 18% increase of R&D costs. While G&A costs were influenced by the centralisation of training and GDPR teams against positive one-off effects the year before, the other item was positively impacted by a gain from US Dollar hedges. Next slide, please.

The table on slide 17 dives deeper into our different profitability metrics, starting with the adjusted EBITDA. I already explained the 7% increase in that before. Now, deducting a decreased amount of non-recurring items fuelled our unadjusted EBITDA, which is 13% higher year over year.

The decrease in non-recurring items was mainly due to reduced IFRS charges, more specifically M&A-related vestings coming to an end. With just slightly increased D&A expenses and a significantly improved financial result, the profit before tax grew much stronger, at 79% year over year.

Let's briefly look at the tax item. As you can see, income taxes decreased by 88% in Q2 compared to last year. This is due to an improved tax scheme which we have been working on for some time. With a formal resolution taken in April, we decided to implement a profit and loss transfer agreement by which a future taxable profit at the level of TeamViewer SE is now being assumed.

This allowed for a corresponding capitalisation of existing tax loss and interest carry forwards for the first time in Q2 2023, resulting in a Q2 tax rate of only 3%. The full year 2023 tax rate is expected in the high 20s, and beyond 2023, we expect a tax rate in the low 30s, which is a significant improvement from the low-40s levels that we saw in the last two years.

Due to this tax effect, the Q2 net income almost tripled year over year to €34 million. Our earnings per share increased even stronger, from €0.06 to €0.20, which in addition reflects

the reduced share count following our share buybacks. The adjusted EPS, which mainly adjusts for non-recurring items and PPA amortisation, increased by 26%. In Q2, we also adjusted the positive one-off effects from the new tax structure which relate to prior years. Next slide, please, which reflects our highly cash-generative business model.

In Q2, our pre-tax operating cash flow increased by 30% year over year, reflecting our growing operations and positive net working capital effects. The pre-tax unlevered free cash flow and the levered free cash flow increased even stronger, by 37% and 68% respectively.

Reasons are a decreasing amount of capex and lower interest paid plus favourable timing effects in lease payments and cash tax. The resulting cash conversion rates were 93% for the pre-tax unlevered and 74% for the levered free cash flow, and hence significantly higher compared to last year. Let's move from cash flow to cash position.

On slide 19, you can see that cash and cash equivalents stood at €72 million at the end of Q2 2023. This is a very comfortable cash position, considering we bought back €77 million worth of shares and repaid €100 million of debt since the start of the year. Netting this cash position and total financial liabilities brings us to a net debt position of €462 million at the end of Q2.

Since the beginning of this year, we calculate our leverage ratio on adjusted revenue EBITDA and on adjusted billings EBITDA, because our capital allocation target was originally based on the latter. With 1.5 times net financial liabilities over adjusted billings EBITDA, we are fully in line with our capital allocation target. The respective revenue EBITDA leverage ratio is at 1.9.

I just mentioned share buybacks in the volume of €77 million. This indicates that the first tranche of our 2023 programme in the amount of €75 million was completed within Q2 and the second tranche started. We also cancelled a portion of the Treasury shares previously acquired, which resulted in a reduction of our share capital to €180 million or 180 million shares. The debt maturity profile has not changed since the end of Q1, so let's move to my last slide, where I want to reiterate our guidance.

After six months into the year, and despite a difficult market environment, we already have €305.5 million of revenue in the books. This corresponds to a growth rate of 12%, which is well in line with our communicated full year growth range.

We therefore confirm our annual revenue guidance,

expecting growth within the range of 10% to 14% for 2023 and IFRS revenue in the range between €620 million and €645 million. This will be achieved on the back of the strengthened SMB business and continued execution of our enterprise growth plan.

Combining the first two quarters of the year brings us to an adjusted EBITDA margin of 42% for H1 2023. While we are continuing to invest into people, product and marketing, we are also confident to reach our adjusted EBITDA margin target of around 40% for 2023. With that, I would like to end the presentation. Thank you all very much for your attention. We now look forward to your questions. Operator, back to you.

Operator

Ladies and gentlemen, at this time, we will begin the question and answer session. Anyone who wishes to ask a question may press star 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.

So anyone who has a question may press star and one at this time. One moment for the first question, please. And we have the first question from James Goodman with Barclays. Please go ahead.

James Goodman

Yes, morning. Thank you. My main question is just on the H2 outlook and whether you can talk us through a little bit your thinking there around the phasing, Q3 to Q4. I guess there's a couple of sub-questions in that. You mentioned already pricing, that you'll reconsider, as you get towards the end of the year, what you're going to do there. But if you can help us with the parameters of what you might do, given how much pricing has helped so far and given that that annualises, I think, at the end of Q3.

And then, secondly within this, the enterprise performance. Much better this quarter, but I think it was an easier comp. And I'm wondering if there's, in your view, a real underlying stabilisation there or not, whether you've seen slipped deals from last quarter close or what really the implications are there for the enterprise business as we go through the second half. Thank you.

Michael Wilkens

Yes, James, hey. Let me start with the first question on the H2 outlook. As you said already, pricing was of course very strong in Q4 as Q4 last year was a super-strong quarter anyhow. So we have not decided yet how we move into Q4 this year, and the Q3 pricing is well underway as we speak. Of course, we don't see also very much increase in churn

rates. However, in total, if you balance H1 versus H2, H1 should be looked at as a little bit stronger, given a very strong performance in Q4 last year.

With regard to the enterprise, yes, indeed, we see stabilisation. A couple of slipped deals from Q1 came in Q2, which is nice. We also saw some slipped deals now in Q2 into Q3, where we are working on and we are confident. So the pipe of Q3 and Q4 is building up nicely for both of the quarters.

Very important to mention, as we all know, enterprise is always back-end loaded. We obviously also work and we see very nice development in the pipeline building from our partnership, especially with SAP and Siemens. And this is building up. Of course, in the end, it's all about the execution.

And a very important point is our overall AMS turnaround, which we mentioned. And Georg at least needs two quarters. He started in March, so he needs another quarter. But he has now done a lot of changes already into the business. He's working way more collaboratively with the other regions. We believe that because of many, many changes now taking place and ongoing, that we will also see even more strength in pipeline as we walk. This will be my answer.

Oliver Steil

Yes. Just to add, I think...

James Goodman

Yes.

Oliver Steil

Just to add, I think in general, if you look back at the last years, we have a tendency in the business to have, not just because of enterprise, but a slight seasonality towards the second half of the year. Typically, we have tough comps in Q1, and then the first half of the year is always a little bit slower, organisationally, Q3-Q4 mostly stronger, especially when we come back from summer. And I think with all the trends, initiatives and indications that Michael just mentioned, I would be surprised if that's not again the same story this year.

James Goodman

Yes, understood. Thank you for the detail.

Operator

The next question is from the line of Mohammed Moawalla from Goldman Sachs. Please go ahead.

Mohammed Moawalla

Great. Thank you. Morning, Oliver, Michael. Two from me. Firstly, when you think about the second half and the SMB, when do you start to expect to see some of the impact of TeamViewer Remote? Is it more likely to be in the back end of H2, or more incremental in 24-25?

And related to that, obviously, on SMB, you're going to start to lapse on some tougher comps. But the good news is the drag from the lower bucket seems to be going away. So how do you think of the SMB growth, particularly into the second half and next year? Can these kind of levels be sustained?

And then the second question was just on the multi-year billings contribution. I know it was a little bit higher than what we were thinking for the quarter, so is it still on track for 50 million to 60 million for FY 23, or could it be more towards the upper end of the range? Thank you.

Michael Wilkens

Yes. Let me start with your first question on Remote and when it's kicking in. So first of all, we mentioned that that was also for us a follow-up on what competitors did. This was for us super important that we got this Remote play into our overall equation. And we are very happy with the development.

We, by the way, also receive a lot of very constructive customer feedback. Where we work on and release also new features, they are very happy. But as you indicated in your question, I think that we will see positive impact in our numbers rather in 24-25. This is this one.

The SMB part, especially on the lower end, yes, we are happy that the drag is going away. That is important. And as we also did in the past free-to-paid campaigns, we should assume now, since we are continuing with those but on a way lower dimension, that this is now obviously paying off all the investments that we did into marketing, into our webpage. Customers obviously understand us better. The simplicity of the product explanation is obviously helping. And of course, also some price motions help here and there. That is important.

And to your third question on the multi-year deals, we are in line. However, this may increase a little bit. So if you would ask me today, without full confirmation, but it could end in the rather higher end of what we think for the full year.

Mohammed Moawalla

Got it. Got it. Thank you.

Oliver Steil

Maybe to add on, Mohammed...

Mohammed Moawalla

Could I ask...?

Oliver Steil

Sorry. Maybe to add on the TeamViewer Remote, it will also be honestly quite difficult going forward to single it out. We make this product available as the new UI/UX, with new functionalities, for all our customer base, step by step, which is obviously very important, as you point out.

At the same time though, we now have Peter, with his new

organisation that he has strengthened quite a bit, on board for more than a year. So we see significantly more marketing activities, better campaigning, better user flows. We also see clearly very positive impact on the brand from our partnerships, so this is also adding. So the whole marketing, product mix and positioning in the SMB has improved significantly over the last 12 months, and that's what you see.

And we always said we want to reinvigorate our positioning there and our growth, and this is coming into play, and we feel confident that we're on a good track there. But yes, there will be tougher comp quarters, and it will not always be at 14%, for sure.

Mohammed Moawalla That's great. Thank you, Oliver. Can I just sneak in a quick follow-up? In terms of the price increases, within the SMB ACV of 12%, how much was pure pricing versus mix?

Michael Wilkens Pricing was, from the top of my head, rather around 6 million, if I'm not mistaken, so the rest is in the mix.

Mohammed Moawalla Got it. Thank you.

Operator The next question is from the line of Daria-loana Sipos from JP Morgan. Please go ahead.

Daria-loana Sipos Good morning, and thank you for taking my questions. Two from me, please. Firstly, is there anything we should consider on the cost side in the second half, given the EBITDA strength that we've seen now in Q2 and also in Q1?

And my second question is around the new business development. You mentioned a few measures that you were taking, including engagement with partners, a stronger verticalized approach, more successful use case application. Can you give us a bit more detail around what you think the main driver of that is and if there are already early signs that this will be able to drive an acceleration, in the new business development? Thank you.

Michael Wilkens Yes, happy to start with the first question, cost in the second half. So first of all, we have given the guidance around 40% for the full year, and we are at 42% in the half year, but you saw 42% first quarter, 41% second quarter. So even if we would end the year with 41%, this would be in the range around 40%, number one.

Number two, we have some salary increases now kicking in as of July. So this is for the entire FTE base. We must not forget that. And we will obviously also continue to invest, also what you have seen from our change in R&D and product and Mei coming on board.

We will continue to invest into more R&D features, as we did in the first half. This is for us important, also to underpin the growth and the healthy development for 2024. So with all being said, we feel very comfortable with what we see right now with the cost, despite us obviously managing the cost piece very well.

Oliver Steil

Yes, maybe the second question, new business development. What are we concretely doing? If you think about the way we run or what we have for the market in terms of enterprise, on the one hand, we have connectivity of devices, in the IT space but also in the operations space, so connecting machines everywhere, across the operations of our customers, which is embedded into the Tensor products, it's actually called Tensor Embedded, on the one side.

And then we have the augmented reality and mixed reality proposition with Frontline to support workers. So we keep pushing the development of both, very clearly, together with partners also. The AR/mixed reality piece is integrated into SAP and into Siemens, and we do co-marketing, co-selling with them. We visit their respective events to go specific to certain verticals, so logistics, manufacturing, service aftersales and the likes.

We also position Tensor more strongly even into the embedded space, the OT space. There's also an integration underway with major partners, including also SAP, to position this more. And what we do by this, we have an end-to-end offering to enterprise customers to either support workers or support machines or a combination of both.

We do the selling motion together with partners, and we do it more vertical than in the past. And that leads to the build-up of enterprise pipeline that Michael was mentioning across industries and across use cases. And that's what's continuing as we go through the year. And we do see the first successes.

These projects, especially the Frontline enablement project, they mostly start with a proof-of-value, proof-of-concept or a pilot, and scale from there. And I think Nadro is a great example, where we landed the pilot or the proof-of-value late last year, and we're now in roll-out stages.

And as we see already that we're winning more of these smaller pilots with SAP, and specifically SAP, we also have quite some likelihood that there will be converting and scaling deals in the remainder of this year and then also in next year.

Daria-Ioana Sipos

Thank you.

Operator

The next question is from the line of Victor Cheng from Bank of America. Please go ahead.

Victor Cheng

Morning, and thanks for taking my questions. Three, if I may. I guess, first of all, on TeamViewer Remote. Can you give us some colour, how it's performing in terms of user metrics, how it attracts more account creation or usage in general? And then secondly, can you provide a rough split across enterprise and SMB on multi-year deals? And thirdly, you talked about free-to-paid monetisation shrinking over time on these other initiatives, should we expect roughly 5 million per quarter?

Oliver Steil

Let me start with TeamViewer Remote maybe, and then Michael can do two and three, or I can also quickly cover the free-to-paid monetisation. TeamViewer Remote, in general, it's obviously early days. It's a phased roll-out of the product for different segments.

The stats. So what we're tracking obviously is the usage, is people choosing the new product. Quite a few customers need to toggle between the two, because they have the older versions installed on many devices out there in the field. And in order to avoid discontinuity or disruption, they need to manage that in a proper way.

We do have a very high number of daily active accounts. We have a good share of people using TeamViewer Remote already, lots of feedback. New customers obviously like the modern UI, the modern user flow which is more in tune with other products that you find out there in the market.

Existing customers sometimes need to find their way through the functionalities, because they have been using TeamViewer since maybe ten years. So for them, it's quite new, and that is sometimes also creating challenges, quite honestly.

There is commentary also on the product, where people felt we left out or we changed things and flows which are not optimal for them anymore. So we take this very seriously. We work on that. But I think, in general, we feel it's a good uptake if we compare to what other companies have done and launched over time.

You mentioned one specific metric which is important, which is account creation. Very important to note that TeamViewer Remote is also the beginning of an era where you need to have an account, a registered account, in order to do outgoing connection, which is very important to increase the security for all users. And obviously, that's the driver behind

the account creation.

So this like-for-like comparison wouldn't tell you anything, because we're really moving customers to create accounts. And everybody who wants to use the new UI/UX for outgoing connection by definition has to have an account, so that number increases. There's a huge number of accounts that are being created, but naturally so. I think that's on TeamViewer Remote.

Quickly on commercial blocker, yes, it's part of the business. Michael can quantify the impact. As in the past, we use it in certain phases. We make sure the ecosystem stays more or less stable. Now, with the account creation that I just mentioned, that has anyway an impact on the ecosystem, but in general, we try to let people onto the platform, use the product, get sticky and then drive the monetisation.

That gives us a few million contribution in one quarter, and maybe a bit less or a bit more in the next quarter. But we try to level that out across the year, pretty much like you know it since years. And maybe Michael can give you the numbers, and also in the multi-year question.

Michael Wilkens

Yes. Quickly, the second part of the free-to-paid question on the numbers. So this was, in Q2, 4-point-ish million. And to your question, hey, outlook for the remainder of the year, we expect, because of the installation, what Oliver just has given, because of the account creation, that this will come down a little bit. But it's for us also a normal course of business, so getting customers in and then developing them as they are with us.

And on the multi-year deal, for the split, we don't disclose the split on SMB and enterprise. But what is important for us is this has become, as we mentioned very often now, a normal course of business. It's in all of the segments, multi-year deals, which is for us also positive and helpful. And there is also demand in the SMB space for multi-year deals.

We have inflationary times, so if customers can for themselves create planning stability, which for us is also planning stability, they do it. We do it. We actually love it, and we also believe that this will continue. So we are de facto happy also with the continued multi-year deal development.

Victor Cheng

Thank you. Very clear. Maybe one quick follow-up on the point on account creation. With account creation now, does that create better ways to monetise, given you have more user data to work with?

Michael Wilkens

Over time, we expect that we will also have more user data

to work with, yes, for sure, but one important part is obviously also security for the customer.

Victor Cheng

Got it. Thank you.

Operator

The next question is from the line of Ben Castillo-Bernaus from BNP Paribas Exane. Please go ahead.

Ben Castillo-Bernaus

Good morning. Thanks for my questions here. Just a couple, firstly on the costs. You're running at roughly €90 million a quarter. If you maintain that through H2, you'd end up on your margin at 42-44%. So I'm just curious as to what deliberate maybe R&D or marketing projects do you have in the pipeline for H2? Perhaps you could share some colour beyond just the general salary increases you mentioned in July that would keep you around that 40% margin for the full year.

And the second question is on slide eight, on the mix within the enterprise buckets of the deal value, ACV. We're just seeing the slower growth in the high end, which I think is unusual. How much of that is just the current selling environment being a little bit more challenging to sell those larger deals, or is this a deliberate perhaps repositioning of your enterprise solution, maybe targeting those lower ASPs for now? Would be grateful for some colour there. Thank you.

Michael Wilkens

Yes. Let me start with the first question on cost, and then we continue. So first on the cost, as I said, we have the salary increases kicking in now, 1 July. So that is for the entire FTE base, and this is why costs will ramp. And we continue also with our investments, especially marketing and R&D. This is where we see the development which is important for the second half.

And when we set the full guidance around 40%, then 41% is also around 40%, and this is why we are, for now, also a little bit cautious. The year is not over, and we want to stick to the guidance where we have been.

On the second part of the question, I'm not sure whether I understood everything. I think you asked about the higher bucket of the enterprise, the 1%. Yes, we see some deals also in bigger sizes kicking in. Oliver mentioned two. There are a few more. But it's obviously also a longer breadth in order to make it back to the full equation where we were before, which is maybe normal in the overall challenging times which we are faced with.

Oliver Steil

Yes, maybe... I'm also not sure I got the question correctly. But I think the general motion out there at the moment is there are certainly companies that are innovators, and they

keep investing. They have sound business models. They are very profitable. They are embarking on new solutions. And with these companies, you can have larger deals, also larger multi-year deals and very innovative use cases.

And that's coming through, for example, the example I gave with the large Australian bank. And obviously, that's an industry where innovation has to happen, and funds are available, so we were successful there. And there's many other examples.

But there's also the flip side of it of companies increasingly focusing on cost and cautious and not trying to not overcommit and not committing for longer cycles, longer term. So that's the day-to-day struggle we're going through. And it's on that backdrop where we got back to growth. So that's why we're saying it's quite a good achievement, given where the market is at the moment.

Ben Castillo-Bernaus

Understood. Thank you.

Operator

The next question is from the line of Gianmarco Conti from Deutsche Bank. Please go ahead.

Gianmarco Conti

Hi there. Yes, thanks for taking my questions. I have a couple. So maybe we can start talking about what perhaps is the main driver for the lower ASP in the quarter in enterprise. Given your client base in absolute terms actually went up, is the mix going to slow down as you ramp up more volumes of enterprise customers in terms of the ASP? And my second question is, are you actively pushing for larger multi-year deals in enterprise, or is this simply a byproduct of customers requesting it?

Oliver Steil

Yes, maybe I'll take that. Thanks, Gianni. So main driver on enterprise lower ASP, it goes back to my previous answer. The market is not in a great state in terms of people investing into technology. So there's many customers that are aware that they need to invest in digital transformation, they are aware that security is increasingly important, and they try to cope with this in a way which is requiring less funds.

And therefore, I think if you go back, already in Q3 last year, we started to have a dedicated proposition to take the Tensor product and make it available with less integrations and less features for entry-level enterprise customers. And that is influencing the ASP. And therefore, the ASP over the last periods is smaller than it was before.

If you go back where we were, before interest rate increase and before recession trends, it actually was the opposite. We were winning more on the upper end of the enterprise

bucket, because we were moving customers into this 300,000, 400,000, 500,000, 600,000 deal size, which happens still, occasionally, but not as regular anymore, or not anymore, at the moment, I should say.

I think this will turn around. This will revert when the markets open up more, especially in the Americas. We've always seen this, that once we get positive momentum going, customers want bigger deals, and they want certainty, and they want a long-term outlook.

So in this sense, in good markets, customers want longer-term, bigger investments. Budgets are available. In difficult markets, customers want price stability. So if we are able to land a bigger deal, yes, it's mostly the customer on enterprise asking for some price stability.

But we also take it, very clearly. We like the effect of lower churn and predictability of our business as well, and we try to position longer-term deals to customers and then secure them. Ideally, multi-year secured, with annual payment, but that's an equation which doesn't often work, because then customers go to their budget and use the budget that they have available to secure the deal for longer.

Gianmarco Conti

Okay. So just a follow-up. I guess, given that you've had... If I recall correctly, in Europe, you were targeting to grow your enterprise base. You were targeting some customers on the lower end, with fewer functionalities, which could be driving the ASP down, which is why you've mentioned that for this quarter.

And if I understood that correctly, you're trying to emulate that same sales tactic in Americas. So should we expect ASP basically to be going down because you're trying to do the same thing in Americas, i.e. targeting those customers that perhaps don't want the full functionalities but want an upgrade? And so you'll still be an uplift in terms of what they're actually paying, but the ASP event of the enterprise bucket will be going down.

Oliver Steil

No. I think it's overinterpreting, to be honest. So we started this movement of Tensor with lower functionalities already last year, if you remember. If you recall Q3 and then especially Q4 and Q1, we had a different business mix. It's very simple.

The market out there is more difficult. We come in with more mainstream, aggressive offerings. That changes the mix of ASP, and that's what you see in the numbers. And then in Americas, all of what we're discussing is more emphasised because of the higher volatility of decisions there.

So I wouldn't expect any negative ASP trend from here, because we're already living in a world now, since one or two quarters, two quarters, where we have a different campaign and offering mix and we don't have the big deals in that number that we had in the past. And if you put all of that together, you get a certain view of ASP. I cannot see why this is going to get weaker from here. I think if markets will open up, it will probably more come back to where it was in the past.

Gianmarco Conti

Understood. Thank you.

Operator

The next question is from the line of Florian Treisch from Kepler Cheuvreux. Please go ahead.

Florian Treisch

Yes, thank you very much. Good morning, gentlemen. Two questions I have. The first was again on the lower ACV bucket in SMB and the respective billings growth of, yes, flat year over year in Q2. You mainly mentioned, from my point of view, internal optimisation, as you mentioned, a leaner, better set-up of your homepage. But looking at the competitive landscape, in my impression at least, the key peer of you is now more aggressively monetising.

Is it also, first of all, a positive prospect that competition is less intensified than it was, let's say, a year ago? And the second bit. Is it fair to say, looking at regions like Asia outperforming now again, which is typically a tough market when it comes to price sensitivity, that now, the client is finally accepting that there is a need for the product and that they are willing to pay for it?

And the second question is around your comment around the Man U deal, that you want to let €35 million filter into the EBITDA line. The question to me is why not 100%? So you have available funds. You can spend on marketing. So does that mean, and turning it around, that you're underspending today, and do you need the funds? So I'm just struggling a bit, why not just 100%? Thank you.

Oliver Steil

Okay, let me start with the first question or the first topic, SMB. I think, yes, correct. Observation is correct. I think we had... In the COVID aftermath, many customers came to us also in the entry-level segment. Many customers went away, to not using the product anymore or to lower-price competition.

And we really had to fight hard to keep those customers on board with the Remote access product, the pricing proposition in different markets, we had to improve communication, and, and, and. So, many things that we had to do to try to create a moat around it, which is tough,

because this part of the market is more commodity, as we have said multiple times.

But when you are competing in this space and you start to monetise yourself, like others, I think, also have to do, because the market at some point is the market, and if you don't want to have all these free users, then you need to monetise, then it evens out a little bit more, and then customers compare product quality, functionality, security posture.

And I think we see now that the easy wins or the customers or users that move more easily, they have probably moved or have gone back to a free product and we keep the stable user base with high quality.

Globally, across the board, we always also said that our ecosystem, while not growing massively, is a more healthy ecosystem now because we actively avoided to have all these free users in some countries, without accounts, where lots of IDs are machine-generated and whatnot and whatnot. So remember, we always said it's a pretty clean base, and we are disciplined there, because we've done that and we've been there years ago, with lots of traffic from countries like Vietnam or so, and others.

So all of that has balanced out. Yes, in APAC, you mentioned that, we are much closer to the customers now. We have offices in all major markets. We position the product more as a premium product, also with enterprise and channel partners. We've stripped out some of these very low-end campaigns and free users, as I just said. And that all gives discipline and a better, higher quality customer and subscriber base that we can work with going forward.

The second question, Manchester United, my comment, and then I'll hand over to Michael. There was a reason we did the Manchester United deal, which is we wanted to drive brand awareness globally for our product. And we see that working, and we will need brand awareness for our products and for our new propositions also going forward. Just a question of how we do the right mix.

And that's why we will, of course, use some of the spend that we're now spending on brand proposition on Manchester United in other means and through other campaigns. And I think that's a very normal marketing mix evolution over time.

Michael Wilkens

Yes. Oliver answered it. Just a few add-ons. When we are not the front-of-shirt sponsor anymore, please do not forget, and we always mention it, that we become a global partner

for the remaining contract duration. And again, we are a very happy and satisfied partner in the partnership with Manchester United.

And the global partnership then is for us on a lower level but still super important, and this obviously is not for free. So parts of today's funds will be invested there, number one. And number two, only to mention again, we will do then, of course, other differentiated target measurements and brand-building on enterprise and SMB. And this is also something which you would expect from us.

Florian Treisch

Great. Thank you very much.

Operator

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

George Webb

Hi. Morning. Just a couple of questions to round off on, coming back to a couple of the topics we've discussed. So first question, again coming back to a couple of questions earlier. You talked about confidence on double-digit growth this year. That's reiterated in the guidance. Clearly, we've talked about some benefits being in there from the 10% price increases you started last year.

Keen to hear your high-level thoughts on how you think about pricing as part of the growth mix into the mid-term, how that's evolved. Or perhaps, to be specific, if you look at your user behaviour and discussions so far this year, do you feel your user base could theoretically tolerate another high single-digit or 10% price increase going into 2024?

And then, secondly, talking about the cost structure, talking about the Manchester United savings, as you mentioned, the new subscriber billings continue to tick down, have done quite consistently now for the last few years. You are reducing that cost base, including in the marketing piece in particular, as you look to exit that sponsorship.

How do you feel, or what are the strategies going to be to try to get that subscriber base, that new subscription billings number to tick up again? Are there any specific things you're looking at? Thank you.

Oliver Steil

Yes. So on the pricing side, mid-term, I think what we're seeing is a normalisation or harmonisation of the customer base, subscriber base, I would say. So many of the pricing initiatives we had this year and will have this year, and last year, they are clearly quite segment oriented.

Because if you remember, years ago, we did the subscription migration. We had different customers sitting on different price points. We were very cautious in how we

migrated them, given their past purchase behaviour. And therefore, we had subscription discounts which are partly a little bit below street price but, in some parts, also significantly below street price.

And the exercises we go through now or we have been going through is segmenting, analysing discount price elasticity, market pricing, usage of the product. And based on that, we did, so to say, price adjustments mostly by reducing discounts.

And that could be quite substantial for a single customer, or it could also be zero. So it's a very wide range of things we do. It could be a price measure of zero but could also be 20-30%. And I think we were discussing that in the past, how that worked out and what the average impact was per quarter.

Going forward, if you asked me for a mid-term view, we will have a much more harmonised customer base, where customers sit on more comparable price points, independent of when they came and how they use the product. And that will then also lead to more general price increases in a smaller order.

So I wouldn't see that going forward, we are in double-digit price increase land, but probably more like 3-4%, but more consistently across the customer base versus individual increases on discounts. So that's how I would look at the pricing go-forward, so going, I would say, towards more normal pricing activities and behaviour compared to other subscription businesses.

Michael Wilkens

Okay. Let me tackle the second question on the new business. So first of all, and I mentioned it also in the speech, we have a very strict definition of what is a new customer, number one. That is very important. So you must have not been with us for the last 12 months in order to be defined as new, which is very specific.

Number two, yes, we have also very sizable growth in our upsell, which, of course, the best example is in today's deck. The Australian bank is now a very big six-digit amount, and before, it was a very tiny amount. And we have customers, for example, with €1,500 of billings, and then they move up to €20,000 and €30,000.

And this is why maybe another element of the equation which has to be taken into account and what I also mentioned is, on relative terms, new in share of total billings actually increased in this quarter. That is also not to be forgotten. Will we still work on expanding also our new

George Webb

business? Yes, as Oliver laid out.

Clear. Thank you.