



Transcription

TeamViewer Q3 2021 Results Call & Webcast

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03 November 2021



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PRESENTATION

00:00:03 Operator

Welcome to the conference call of TeamViewer AG. At our customer's request, this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. If any participant has difficulties hearing the conference, please press * followed by 0 on your telephone for operator assistance. May I now hand you over to Daniel Fard-Yazdani, who will lead you through this conference? Please go ahead, Sir.

00:00:34 Daniel Fard-Yazdani

Thank you. Good morning. Welcome to the TeamViewer Q3 2021 results call. In a minute, Oliver, our CEO, and Stefan, our CFO, will take you through the business and financial update and the highlights of the last quarter. And as always, you will have an opportunity to ask questions after the presentation. Given that we had the pre-release a bit less than a month ago, today's release should be relatively straightforward, but we nonetheless, of course, wanted to offer this call to you today. More importantly, and as a reminder, we will be hosting a virtual Capital Markets Day next week Wednesday, on November 10 at 2:00 p.m. CET, to which you are all, of course, cordially invited. Information on the event and also the link to participate next week can be found on the IR section of our website. Before we start, and as a little housekeeping exercise for today, as always, please take note of the forward-looking statements that you find on Page 2 of the presentation. And with that, let me now hand over to Oliver.

00:01:43 Oliver Steil

Thank you, Daniel. Good morning to all of you. Thank you for joining. Before we dive into Q3 and the nine-month data points, I'd like to quickly take a step back and look at 2021 more broadly. From our perspective at the moment, clearly everyone is much more focusing on the negative aspects of the business and the announcement of Q3. And clearly there have been some – no question – but there's also, from our perspective, very positive developments that we should not forget completely when we look at our business. And I think, on the one side, there's the positive strategic positioning and the things that have gone well. And then of course, we work on measures to improve the situation, the growth, which we will also present in more detail, as Daniel mentioned, in the Capital Markets Day. But I think, if you put that together, so on the one side the ability to take measures to act and refine and reconfigure initiatives, and on the other side, the strategic positioning and the positives in the business, then from our perspective, that's the basis for an overall quite optimistic outlook on TeamViewer.

First point I'd like to make when we look at 2021: yes, we have been below our expectations in billings growth, but we still believe it's a very healthy billings growth – 19% in the first nine months of this year is still very good. And 48% adjusted EBITDA margin, I think, is also not too bad. In a combination of the two, I think it's a very strong profile. Having said that, we will still reconfigure our initiatives. We will also look at our cost structure. We will make sure that we set the business up in the right way to reflect some of the more recent developments, clearly. We are also progressing very well in terms of delivering on our expansion into the enterprise space. Our billings on a LTM basis are up by 75% in the first nine months this year, and we are optimistic for a continuation of that journey going forward. If we could look back at IPO and where the enterprise business was at the time, I think this is a very strong progress. And we believe there is room for further expansion and also increasing ACV in the enterprise business, very much supported by the megatrend in the market. We have now a much broader solutions portfolio. We have very highly competitive products in place, especially in the augmented reality space, and new use cases for enterprises. And I think we're very well positioned to unlock this potential there.



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Cash position, healthy, and we do generate strong cash flow. So, I think that puts us in a good position, with significant flexibility, which I think is also worth noting. Finally, and of course quite importantly, it's about restoring confidence, very clearly. And we should prove to you that we are able to deliver the guidance that we had put out. As you can imagine, more than anyone else, we want to end the negative news flow around this. And we strongly believe that the reset guidance that we've given out provides the floor which is necessary to achieve this. So, we feel good about this. As mentioned before, in one week's time we will have a Capital Markets Day and that, I think, is a very good opportunity to really elaborate in detail on our strategy, the markets, the market growth, the product portfolio, to explain it better, and also the initiatives that we've put in place in different part of the business. So, generally, not an easy year, but we remain very positive for the outlook.

If we then go to Q3 specifically, so the disclosure for the last quarter – Daniel has mentioned it already – a good part of the [result?] today has been published with preliminary numbers on October 6th. On Chart 5, you see a summary of many of them, and the largest part of them stayed unchanged relative to this preliminary publication. One area in which the final numbers have come out significantly more positive is the growth of billings in the enterprise business. The number is now up 75% year over year. Originally, without the time to assess all the billings, we had assumed an already solid growth of around 60%, but now we are happy to see that the growth has accelerated versus the prior quarter. As a reminder, in Q2 the LTM growth stood at 66% percent, so it's significantly up.

What is important, I think, is subscriber growth and retention, so we have put a full slide on this one. In line with what we have published a month ago, and I think fair to say initially, when we came up with the numbers, many market participants have pointed out the relatively low number of net new subscribers in Q3. And as you can see on Slide 6, in prior quarters, we have added around 20K net new subscribers each quarter, and that was also the rough guideline that we have given when were in discussions with investors. So, now churn has been quite stable, has even slightly improved in the last quarter, which we were also expecting. However, if you look at the development of the new billings and put that in relation to the net new addition of 5,000, it's showing that, due to the transition to an even higher-quality business we are making and we constantly try to do with our product mix, the number of subscriber adds is really not the only metric anymore that is relevant. I think in the past, going back, the intake from free-to-paid measures was higher and there were discussions and more discussions about it. Enterprise business was in its infancy. The whole notion of additional product, upsell, and cross-sell was only in its infancy. And therefore, the subscriber additions was relatively more important than it is today. And clearly, we're not satisfied with 5,000 net additions. That's also clear, and we want to improve that. So, we're working on it, but it's also important, we think, to focus on the value per customer that we are attracting and the upselling and cross-selling that we're able to do. Again, [it's] one of the areas we will deep-dive at the Capital Markets Day, because I think it shows the quality improvement of the business over the last years. So that's in the velocity part. And that's then also kind of continuing into the enterprise business, which we show on the next page.

During the third quarter, the number of enterprise customers now increased to 2,419. And again, reminder: enterprise customer, for us, the definition is ACV above EUR 10,000, which of course is low, but we put it in place at the time of the IPO to show that we're slowly progressing into higher ACV clusters. And EUR 10,000 was the initial mark that we've given ourselves at the time. [There are] now more than 2,400 of them, which is up 46%, and the enterprise billings from these customers expanded by 75%, to EUR 77.8 million over the LTM period. That's pretty remarkable from our perspective, if you compare that to the time of the IPO. This also means that the average ACV per enterprise customer came up, now more than EUR 32,000, and also the mix has improved significantly.

Enterprise billings has an ACV of more than EUR 200,000, and are 19% of our billings compared to 11% a year ago. And almost 50% of our enterprise customers generate billings of more than EUR 50,000. One year ago, that cohort has only made up one third. So, you see that the number of enterprise customers is increasing. They spend more with us, so in all clusters we see an improvement, an upward movement, which is true for the entire business, also in the smaller-ticket velocity part, but then at the higher end of the velocity business, the SMB business, customers move above 10K into the enterprise, become more sticky, more cross-sell opportunities, and hence the very positive development of the enterprise business per se.



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As always, a few use cases – and that's certainly an area where we can talk more about in the CMD, as well. First example, RICOH, is arguably more traditional IT space. However, it already showcases, really, the breadth of our offering. It's not only including remote access and support for Office devices, but it has moved also into augmented reality to remotely support and train on-site engineers, so in the OT world. And there's also remote training that takes place on the back of our product, really broadening from originally IT support into other areas. And then we have a use case with Cimballi group through which coffee machines can be serviced from remote – again, one of these OT examples. I think we're showing these examples in every call now, sometimes health care, sometimes consumer goods, B2B coffee machines, important elements from a customer perspective. These cases reduce downtime for these machines, thereby reducing their revenue loss. So there's really an operational, value-added business case behind it, not just IT spend. And that's very important. It makes it all a bit longer in terms of sales cycles and convincing customers to deploy, but once they deploy, these are very sticky solutions. Things are done remotely, less travel costs for technicians, and again, an example of where we expanded our solutions from IT devices to machine equipment and how, really, more tasks, everything can be done remotely.

So with this – again, we will cover much more of this in the Capital Markets Day – I'd like to hand over to Stefan to take you through the financial results in more detail. Stefan.

00:12:44 Stefan Gaiser

Thanks, Oliver. Hello, and good morning also from my side. Let me quickly summarize the financial highlights in terms of top line and profitability. As you can see, billings increased at constant currencies 18% in Q3, and 21% for the first nine months, clearly confirming the pre-release financials, and I think showing that TeamViewer continues to grow across all customer segments and solutions. IFRS revenue, which can be derived from the billings net change in P&L effective deferred revenue, those revenues grew 9% for Q3 and 10% for the first nine months, respectively, And I know we have explained this quite a few times, why there's such a gap between billings and revenue growth, but we continuously get questions on this, so, let me quickly cover it again.

The revenue growth rate is below billings growth due to the base effect from the recognized perpetual license revenue last year. As you all know, we discontinued perpetual license sales in 2017, but the recognition of those license sales still continued for a few years. And therefore, during 2020 we still recognized close to EUR 40 million in the first nine months of perpetual license revenue. And obviously, we don't have that anymore in 2021. And that means it depresses our overall reporting revenue growth. However, this effect will completely disappear in 2022. And therefore, if you only review revenue from the subscription model, those revenues actually grew 18% in Q3 and 24% in the nine months period year over year.

If we now move on to profitability, I think we still enjoy very attractive margins, despite the significant investments into our future growth, but clearly, the billing shortfall as well as the higher marketing expenses significantly impacted adjusted EBITDA, and therefore, it was materially below the prior year quarter and was flat on the nine months view, so to say.

What are the adjustments? Next to the change in deferred revenue, our adjusted EBITDA is adjusted for IFRS 2 charges related to share-based comp and other non-recurring costs relating mainly to one of projects, financing, and acquisition-related transaction costs. I think that, clearly, the most significant portion here are IFRS 2 charges in relation to share-based incentive schemes, as you all know, which are set up by the selling shareholders in the IPO and stock-based comp in connection with the Ubimax acquisition last year. Both of those charges will significantly reduce in 2022. So, just from a reporting perspective, profitability will substantially go up. Please note that both of those charges are not cash-relevant, and therefore the charges are booked directly against the capital reserve in equity. Nevertheless, as a result of those charges, the EBITDA, in accordance with IFRS, decreased by 42% in Q3 and 27% in the first nine months of the year.

Let's move on to our subscriber base. Oliver already explained on the next slide, Slide 11, that our subscriber base expanded by net 5,000 subscribers during the third quarter and showed an increase of 11%. And, as Oliver already said as well, only 2,400 of those subscribers fall into the enterprise category, which means generating more than EUR 10,000 on an annual contracted volume basis. This basically leases us with a very large group of loyal customers we can still up- and cross-sell. As you can see, our net retention rate for the last 12 months is now 96%, lower than in the past, clearly



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due to this one-time effect of rightsizing, which we mentioned in Q2. That being said, you can clearly see a markable improvement in our third quarter. It reached 99% again, after a steep decline to 88% in the second quarter. So, a very substantial improvement from our perspective.

If we turn onto the next page, the geographical performance, I think you've already seen this at the pre-release. No changes there, therefore only the rough outline here. EMEA, the most established and largest region, clearly benefited the most from last year's extra demand and this year, I would say, [was] the most affected by the one of rightsizing. Nevertheless, despite this headwind, the business actually grew quite nicely, with 25% in the third quarter and 22% for the nine months – I think, overall, quite a good performance. Americas delivered 17% growth in Q3 and 23% for the nine months, based on constant currencies. Growth was clearly more driven by the enterprise business generally. And then APAC, the smallest region by billings, the largest number of markets, clearly, remains very diverse. I think we've talked about the APAC performance, and we mention it again and explain it in more detail at the CMD, but clearly the growth was below our expectations. Specific points to mention here is Japan. You all know Japan 2020, fast growing market, a little bit of a dip in 2021, but I'm sure we'll get out of this growth dip again in Japan. China, clearly not a satisfying overall growth there, and that's something which we are going to address also at the CMD because we clearly see in some markets in the APAC region which are more mature – Australia and New Zealand, for example – we are performing really, really well. So, I think the right set-up and right go-to-market model actually showcases that we can generate a significant growth in those regions. But again, we'll provide more details here at the CMD as well.

Let's move on to the next page, covering cost structure. Nice development with our GP margins. With, again, around 93%, the GP margins remained comfortably above 90%, clearly showcasing that our infrastructure scale quite nicely, and even as we expand more into enterprise sales, and that's a fast growing business of ours, we are able to keep GP margins significantly north of 90%, so a very good development, I would say. And clearly, as you can see from the expense line items, we've invested quite a bit over the last couple of quarters. Clearly most pronounced in marketing, but also into sales and R&D. Q3 was the first quarter with the full impact from the brand investments, as you can see in the significant increase in the marketing expense lines. Net debt is around 3%, a bit more, but overall we expect that to be in the 3% range for the full year, and going forward as well.

Take a look at the cash generation on the next slide. I would say, overall, a very good picture here. We continue to have a very strong cash flow and high cash conversion rate, as you see in this chart. Pre-tax cash flow was clearly impacted, at least for the first nine months, by the payments for the sports partnerships. But if you take a look at the levered free cash flow in Q3, it stood at EUR 32 million, and benefited from a strong cash conversion, as well as significantly lower CapEx and interest payments, both of those in line with what we announced a couple of months ago, that CapEx as well as interest payments should come down substantially. And you can see that here now in our cash flow results. For the first nine months, levered free cash flow decreased 18% to roughly EUR 90 million, and overall that means we have a cash conversion rate of 47% of adjusted EBITDA in the first nine months of 2021. But clearly, the cash flow also shows that we are able to actually generate or convert a significant amount of our adjusted EBITDA into cash flow, and therefore driving a pretty good balance sheet position overall, as you can see in the next slide.

Net leverage is down to 1.5. Clearly, balance sheet continues to be strong. Net financial liabilities have decreased by around EUR 30 million. And as I said, leverage ratio is down to 1.5 adjusted EBITDA. And that gives us clearly flexibility and firepower to execute on our growth initiatives going forward.

So then maybe just revenue, up on Slide 16. Clearly, the outlook we have provided early October stays unchanged. No changes there for this year. I think that concludes our presentation. We will now open it up to Q&A.



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Q&A

00:21:00 Operator

Thank you. We will now begin the question-and-answer session. If you have a question for our speakers, please dial 0 and 1 on your telephone keypad now to enter the queue. Once your name has been announced, you can ask the question. If you find your question is answered before it is your turn to speak, you can dial 0 and 2 to cancel your question. If you're using speaker equipment today, please lift the handset before making your selection. One moment, please, for the first question. The first question is from George Webb of Morgan Stanley. Your line is now open.

00:21:34 George Webb

Hi, morning, Oliver and Stefan. I've got a few different questions, please. Firstly, just on the FY '21 guidance, obviously, still, it's quite a wide range. The low end would imply a further deceleration over Q3, the upper end a pretty material acceleration. What have you been seeing so far in Q4? And does it make you confident in any particular part of that range? Or does it at least take the low-end scenario off the table?

Secondly, on the pre-release conference call you were looking to make sure that costs across the business, as you go forward, make sense against that reset growth profile, or at least incremental investment may slow. Has that process for analyzing the cost base already begun in Q4?

And then lastly, the marketing spend in the quarter is up to EUR 34.5 million. Is that the new baseline we should think about moving forwards, or is it an element of the marketing expenses that you can you flex downwards to a degree moving, forwards and with only one-offs in that line in Q3? Thank you.

00:22:32 Stefan Gaiser

Thanks, George. Good questions. Let me start with the '21 guidance and Q4. What we are currently seeing in the business clearly, as you pointed out, is a pretty wide range of outcomes for Q4. Why is that? Clearly we have experienced quite a volatile performance in the business during the first couple of quarters, and that's been reflected in our guidance. I think it'd be too early overall to say where we come out now at Q4, but clearly, we aim to achieve a good result here in the fourth quarter. As you know, enterprise billings will be an important pillar of the final outcome of the fourth quarter. It's just a bit too early to assess.

And then maybe on the cost base, yes, absolutely, that process has already started a few weeks ago, undoubtedly so – a very detailed process across all functional expense line items. And there will be more details around that at the CMD, as you would expect. So stay tuned for that one.

And then marketing baseline, yes, clearly a significant amount of the Q3 increase is due to the brand partnerships. That's now part of our brand investments going forward. And I think, as a rough assumption, that's not a bad baseline going forward.

00:23:43 Oliver Steil

Maybe just to add for my side on the cost question – number two – generally, I would say you can assume that we are moving at pace, really, in analyzing the cost base and also in developing measures, both on the cost side and also on the growth initiatives. Clearly, the guidance revision has sparked a significant amount of projects, initiatives, good interaction internally within the management team and also supervisory board, to really have a strong action plan at hand and execute as fast as possible. So that's fully in the works already.



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00:24:23 George Webb

Thank you. And just on the enterprise side, I guess to a certain extent maybe it's conservatism, but the fact that Q3 enterprise billings growth was stronger than you previously messaged, does that leave you more confident about Q4? Or is it actually what you needed to deliver there and it's no real change?

00:24:39 Stefan Gaiser

Good question. I think it's just like, probably, early October- we've just been disappointed. I mean, the growth itself is clearly very good, as you point out, right? I think we've just been disappointed against our expectations of growth in the enterprise business, but overall, it's very solid growth, absolutely. I think when we put the numbers together, early October, we had an ad hoc news which we had to release immediately. And therefore we just were not able, from a time perspective, to put together all numbers, and we want to be conservative rather than being too aggressive when we provide those news. That's been the main reason. What does it mean from our assessment going forward for the enterprise business? I think we said it: Q3 closure good, but below our expectations. Q3 is a summer quarter. I think what we're seeing so far in Q4, that's all pretty much in line with our expectations, but again, that very much depends on November and December closure of the enterprise business and the pipeline.

00:25:37 Operator

The next question is from Stacy Pollard of J.P. Morgan. Your line is now open.

00:25:43 Stacy Pollard

Thank you very much. A few questions from me. First of all, looking at the growth initiatives and cost structure, I know you're going to detail this at the CMD, but can you let us know whether we should be expecting any additional costs, either exceptional or ongoing?

Second question, looking at the longer term, what percentage of revenues could enterprise be three–five years from now? Maybe talk about how you see that developing. And can you touch on the geographic split of enterprise billings so far?

And then final quick question, what free cash flow conversion rate do you see going forward, given the marketing partnerships? So how should we think about that conversion going forward?

00:26:24 Stefan Gaiser

Again, sorry, Stacy, I have to defer to the CMD in terms of analyzing any exceptional impact. So, if there is anything, that will be announced at the CMD next week. We're pulling together all of the numbers, and rightsizing, and cost freeze, and whatnot. So all of that is going into a detailed analysis right now, and we will provide more color around it at the CMD, as well.

00:26:47 Oliver Steil

But I think you're talking- I mean, from a margin profile perspective, we look at the growth initiatives, and we want to take the right initiatives to work against margin recovery, as we had said. I wouldn't see that there's additional costs, maybe then one-offs, if we do changes.



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00:27:06 Stefan Gaiser

That was the question, yeah. The one-offs will be around, but there's no additional cost freeze to rightsize the company. That's certainly not the case.

00:27:14 Oliver Steil

Yeah, or investment areas, outsized investment areas, or anything like this.

00:27:18 Stefan Gaiser

No. Correct. And the enterprise growth, again, also points towards the CMD here, frankly. I think we said a couple of months ago that the enterprise business could become a third of our business a couple of years down the road. I think nothing has fundamentally changed. And you can clearly see from the LTM billings growth that the enterprise business is significantly outgrowing the SMB business. And we expect that to be the case going forward, as well.

From a regional perspective, in the past, it was mainly driven in EMEA for the first couple of years, I'd say especially 2018 and 2019, but also in 2020. And now America's firmly catching up from an enterprise perspective, probably surpassing EMEA, at least in terms of speed and deal sizes right now. I think overall, rightly, [it's] pretty much balanced. Again, more color coming, but America should actually lead here versus the EMEA region. That being said, we have a pretty large install base in EMEA. So I think the potential is, in both regions, pretty attractive, frankly, with America probably more playing catch-up, I would say. And APAC region is still early days, and overall enterprise contribution is relatively small. That being said, we have seen quite some progress also there in the more mature markets – Australia, New Zealand and Japan – where we've closed a couple of nice enterprise deals. So I think, in some of those markets, APAC things are coming together as well.

Free cash flow conversion, I think what you can see for the nine months as a total, I think that's pretty reflective of the free cash flow conversion going forward, as well. Generally speaking, you should not expect any major changes there, frankly, in terms of free cash flow. The business remains a high-quality business, generating a significant amount of cash flow. There are no major changes in working capital structure needed. So the only volatility is really relating to the advanced payments regarding sports partnerships, which we had earlier in the year and in the middle of the year.

00:29:19 Operator

The next question is from Hannes Leitner of UBS. Your line is now open.

00:29:25 Hannes Leitner

Yes, thanks for letting me on. I have also a couple of questions. On the enterprise, you stated in the ad hoc release 60% growth. It came in at 75% growth. Maybe you can talk there through the moving parts and the total billings numbers staying unchanged. Clearly, non-enterprise grew slightly slower in Q3, so maybe you can comment there.

And then in terms of headcount, is there any competitive pressure from people, incentivization etc., especially in particular in the US, with the labor market being quite hot? Maybe you can talk about it.



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00:30:06 Stefan Gaiser

Sure. Maybe enterprise quickly, again: early October, we clearly had to issue an ad hoc press release in the enterprises. So it takes a bit more time to calculate those numbers, because it's on an LTM basis, including all customers which generate more than EUR 10,000. So we just need a few more days. And I want to be in the conservative side, basically, when we put those numbers out, and don't want to correct them downwards again. So, maybe a bit too conservative here.

Clearly, that also means, as you rightly pointed out, that's obviously at the expense of the SMB, because overall billings stayed unchanged. SMB did not perform particularly strong in the third quarter. We know why: because also in Q3 last year, we did run a significant amount of free-to-paid campaigns. This year in Q3, very little effect of the free-to-paid campaigns, as you pointed out, early October. So [it's] clearly not the best model for the SMB business, but a very strong quarter in the enterprise business.

FTE headcount and sales increase, I would say from what we've seen over the last couple of quarters, it's clear that for certain functions, there is inflationary pressure. I think we are very competitive with our salaries. And we've onboarded a significant amount of new sales guys, as you know. And I think the issues we face from a productivity perspective were not because we didn't pay enough. I think it's more like ineffective onboarding, which we experienced also due to COVID, generally speaking, that makes life easier for the sales guys to onboard efficiently. I think from my perspective, there is maybe a little bit of inflationary pressure in certain functions, but I think this is well reflected within our margin guidance. I don't expect any negative or detrimental impact here going forward.

00:31:54 Hannes Leitner

And then just a follow-up. In terms of the enterprise segment, what is the churn rate, in terms of just really customers?

00:32:04 Stefan Gaiser

That will also be disclosed at the CMD, or more details to be provided at the CMD. But as we said in the past, that churn in the enterprise business is significantly lower than the SMB business, as you would expect. And I think now the enterprise business is at a scale, where you can take a look at your number separately for the business. So that's something where we'll provide more details going forward. I think, past numbers, low base, kind of volatile, but always lower than the SMB business. And now, since it's becoming a more meaningful business, we'll provide more details there, as well.

00:32:41 Operator

The next question is from James Goodman of Barclays. Your line is now open.

00:32:46 James Goodman

Morning. Thank you very much. Maybe, to come back to the subscriber additions of the 5,000 in the quarter, we discussed it at the pre-announcement, and you added some commentary to that today. But I wondered if you could go a little bit further. I'm trying to square still, I guess, the EUR 20 million or less a half of that, of new billings, which didn't come from enterprise, with the reduced churn and the improved net renewals. So I'm working up to, what customers have been lost within that? Is it right to think that that's a cohort of particularly low-value customers in there? And if so, can you help us just with what's going on in terms of the substructures of those customers in the base? And I guess, to maybe clarify on this, as you look forward, say, to Q4 at the midpoint of guidance, would you expect the subscriber number to re-accelerate back to those historic levels you called out? Or is it more of a case that, actually, you're saying, look, you don't need to see large net subscriber numbers to re-accelerate the growth in the business? That's the main question.



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And then I was just going to ask you quickly on the leverage being down. With the CMD coming up, are you going to talk about capital structure at all? And have you considered possible deployment of cash into buybacks or something else considering where we are. Thank you.

00:34:14 Stefan Gaiser

Sure, maybe on our subscriber growth, 5K net acquisitions, yes, your assumption is right. The churn which we see is clearly more biased towards the low end of our customer spectrum. And also in the prior years, during Q3, we did push significant free-to-paid campaigns after six months of pause during the COVID pandemic breakout. And clearly that reflects in a higher churn in the following quarters because that's typically when you monetize free use, in the first year of renewal, basically. Then they need to make up the decision, do they want to use a paid software or are they moving back to a free version? So, you also always see a little bit of elevated churn there. But I think, generally speaking, our subscriber churn is much more biased towards low-value ASPs. I mean, that's also reflected in the ASP development of our SMB subscriber base. There has been a consistent increase in our ASP in the subscriber base, which really confirms that the new subscribers we bring in, we bring them in – generally speaking – at a higher ASP, and the ones which are churning are lower ASP subscribers.

From a trend perspective, I would not expect that trend to reverse, frankly. We did run campaigns in Q1 and Q2. We've paused them in Q3. We've also paused them right now. And obviously, whenever you pause free-to-paid campaigns, that results in lower subscriber intake, but again, at a low ASP. So, I think that's all baked into our forecast, but I would not expect a trend reversal in subscriber growth over the next couple of quarters, frankly.

00:35:52 Oliver Steil

James, and your assumption is right. We don't need that subscriber growth to generate our billings growth. I mean really, the whole company, I think, has moved and developed over the last years towards upsell, cross-sell, move to enterprise, developing our customers into new use cases and broadening the use case, and also focusing our lead churn on higher-value customers. And you see that in what Stefan mentioned, if you compare incoming ASP/outgoing ASP. So, we will disclose much more on that in the CMD, but that's the whole point. And then additional subscribers that come in at lower ASPs are, let's say, a small addition to that. And that's the way we look at it at the moment. And therefore, please don't read too much into this subscriber addition and development. It's just one of many factors and it's becoming smaller and smaller in importance. And it's also important to focus the business on the cross-sell and upsell initiatives across the different segments.

00:36:57 Stefan Gaiser

And then from a structure perspective, that's something, clearly, which is regular on the table at the board meetings, as you can imagine. We are now in a very good balance sheet position. Net leverage is coming down, as you pointed out. So, I think that's a good position to be in. Again, something more where we elaborate on the CMD about plans going forward.

00:37:20 James Goodman

That's clear. Thank you. Maybe a super quick clarification, just on your comments last quarter on enterprise that you had some slipped deals, I think, and some that came in smaller. Was that just part of your conservatism, Stefan, in terms of



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interpreting the enterprise number? Or do those comments still stand that there were deals in enterprise that were slipping into the fourth quarter?

00:37:44 Stefan Gaiser

Look, I think generally speaking, enterprise business was performing strong, but below our expectations, so to say. That's been a little bit a conundrum which we faced in Q3, as internally being unhappy, but clearly still producing very strong growth. Some of the deals came through, as you said, but at a lower ASP. Some of that will hopefully then come in in Q4, or maybe Q1, Q2 next year. Let's see. I think we need to be cautious there after what we experienced the first couple of quarters. So I think it's a little bit of conservatism on my side. But frankly, it's a bit too early to say we've turned the ship. I think I need to see more consistent execution against our pipeline, frankly. And that will probably take a couple of quarters until we are fully back on track.

00:38:33 Operator

The next question is from Ben Castillo-Bernaus of Exane BNP Paribas. Your line is now open.

00:38:41 Ben Castillo-Bernaus

Good morning. Thanks very much for taking my questions. Firstly, on the number of new enterprise customers that you added in the quarter, that looks to be well below the run rate seen over the last 18 months or so. What's changed there in Q3? And could you help maybe explain that a little bit?

And then on Q4 the implied guidance, there were further questions previously, but it looks very cautious, particularly at the low end. I'm just wondering how much caution are you baking in there around things like conversion rates in the enterprise segment? Are you still expecting that sequential step-up in Q4, given its bias towards enterprise deals being signed? And I have a quick follow up. Thanks

00:39:21 Oliver Steil

I think it's good questions. And I think the reason why we have tweaked the guidance is really because there has been volatility in the business. I mean, let's not forget, September was really the first month we were operating non-COVID, back to office, salespeople able to visit customers. And now we are basically with the second month under the belt. So therefore, we've given a wide range. And it's really too early to tell because, again, especially in the enterprise business, October is the first month of the quarter, where in the first month you don't have much visibility, although we are positive. It's in line with expectations. Happy on how the business is going, but again, it's just one month. And then Q4 is, of course, also a big enterprise quarter. And if you are a growing company with accentuated growth in enterprise and you're going into Q4 after a Q1 and Q2 which was very difficult and then Q3 slowly coming back, visibility is just low. So, all looks good, but the range of outcome is quite significant. Nothing to worry about, but it's also too early to be super excited and super positive. So, give us the weeks that are ahead of us to understand better where we come out.

00:40:44 Stefan Gaiser

And then maybe in terms of net additions to the enterprise, actually that's not a number which concerns me. Frankly, in Q3, I would never expect there to be a stellar quarter for net additions in the enterprise quarter.



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00:40:53 Oliver Steil

It's a summer quarter, yeah.

00:40:54 Stefan Gaiser

It's a summer quarter. I think more important here also, in the enterprise business we've been able to consistently grow the ASP of new enterprise customers. And that's also what you can see, but from my perspective, I wouldn't read much into Q3 net additions there.

00:41:11 Ben Castillo-Bernaus

Okay. I just looked. I mean, Q3 last year was a summer quarter, and you added over 200 enterprise customers. By my calculations, in Q3 this year you added 160-something. So that's almost a 20% decline. I just wondered- that seems to be quite a big change.

00:41:28 Oliver Steil

Yeah, but look: there's a 20% decline in the number of logos we added, but if I add the record logo in the Americas, with more than EUR 700,000, I mean, that contributes to the enterprise growth. I think we shouldn't read too much into logo additions in enterprise, especially comparing this year and last year.

00:41:51 Stefan Gaiser

And not in Q3, certainly.

00:41:52 Oliver Steil

And not in Q3. So yes, you're right, but that's not a driver of our outcomes in the enterprise space.

00:41:58 Ben Castillo-Bernaus

Okay, and then do you have any updates on any proceeds or developments from the SAP partnership, any commercial wins or examples you can highlight, or should we wait for next week for that?

00:42:08 Oliver Steil

No, I think that's still early. We started- the cross-selling is underway, so both companies together sharing needs and working on a significant number of leads. But of course, these are enterprise deals so it's too early to talk about any conversions there. This is something which will be a discussion probably towards the end of the year, Q4 closing, maybe, into Q1. So, the sales cycle, as you know, in the enterprise business can easily be six months, three to six months. Three is really the low end. Six months is more the norm, and therefore it will take some time. I think we started officially to go out in the market together six weeks ago or so, four–six weeks ago.



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00:43:04 Operator

The next question is from Mohammed Moawalla of Goldman Sachs. Your line is now open.

00:43:10 Mohammed Moawalla

Great. Thank you very much. Morning, Oliver and Stefan. I had two questions. Firstly, just talking about the enterprise business, the mix of deal sizes has shifted year on year. In terms of how you run this business, I know you were kind of dependent earlier in the year on some very large deals, including seven-figure deals. Have you shifted your strategy on focusing on more of regular-size deals and then driving the cross-selling/upselling that you talked about? And this should be the model going forward, with the larger deals more on optionality? And related to that – I don't know, I may have missed it – did you disclose a net renewal rate for Q3 in enterprise? So, just curious to see how that's evolving with the cross- and upsell.

And then my second question was around the cost base. It sounds like there could be some cost optimization that you will do, but you're looking to kind of reinvest that back in the business. So is this now going to largely come on the enterprise side? And [are there] other additional investments, perhaps, that you need to make to further drive consistency in the enterprise business? And to what extent are some of the sports commitments fixed? Do you have any kind of clauses there, maybe not in the shorter term, but over the longer run, that allow you to downscale those investments? Thank you.

00:44:51 Oliver Steil

Let me go first. The enterprise business, there has been no strategy change. I think it's a collection of activities. I think, as you rightly pointed out, the big seven-digit deals, I wouldn't say that we strategically go after them, but they happen now and then, either by a scale-up or just because it's a great opportunity and customers want an enterprise license agreement, or at least for part or regional updates. That has happened in Q3, but no change. I think the way you describe it, high five-digit, low six-digit deal, as land and then expand from there, is probably what is more the successful motion that we're seeing, especially in the Americas and in EMEA. APAC, we are almost one step before that, low five-digit range as land and then expand from there. So, I think that's how I describe it. No explicit strategy change, just the way the business evolves.

Cost base, yes, we look at our cost base. We look at freezing the headcount and also look into the non-FTE cost, of course. I don't think what you said is correct that we will reinvest that into growth. Historically, we've always said that the cost increase that goes in line with billings growth is reinvested. If we have 30% billings growth, we have 30% cost increase, and that was reinvested into the business growth. I think the change now here, and we will elaborate more next week, is that we feel that over the last two years we have grown very nicely in terms of staff, systems, infrastructure, offices. And we can probably put a break here, a pause, and generate the growth of the coming year without significantly increasing the cost base beyond the run rate. Again, more to come next week, but that's the fundamental concepts, so a pause in the cost build-up.

Outside of the marketing partnerships, which is a special thing which Stefan can also go in more detail, or we can go into more detail next week there, these contracts are fixed. So, there is no opportunity to downscale or flex it, as has been answered to the question before. They're fundamentally five-year deals with a clear payment plan. I think, also, we have to say that, in both deals, we've got a good upside in terms of media value that is embedded there by the players and the drivers, and additional venues and locations. So I think we also need to acknowledge that, relative to the time when we did the deals, there were some inflationary trends, more media value. And I think, fundamentally, these things got significantly more expensive. So, we have to factor that into these considerations as well.



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00:48:06 Operator

The next question is from Gustav Froberg of Berenberg. Your line is now open.

00:48:11 Gustav Froberg

Morning, everyone. Thanks for taking mine as well. I'll keep it short. I just have two. Firstly, on the organization, I know we talked a little bit about hiring freeze, but could you maybe also talk a little bit about employee attrition and how you've seen that in the last months, and whether or not the attrition is improving, worsening or staying the same?

And then I was hoping you could tell us a little bit more about the regional churn dynamics that you're seeing in the business on the billings side. So, just the split between EMEA, Americas and APAC would be great, please.

00:48:41 Oliver Steil

I go first and then Stefan does the churn. I think employee attrition, largely stable. A few losses here and there to competition. Clearly more people, more companies active in more markets now, in the space we're in. So, maybe a bit elevated compared to a year ago. Clearly, a year ago, everybody was happy to be employed. No movements. We actually hired through the crisis, through the pandemic. Now we have a bit high attrition here and there. I think something to watch out for, there is inflationary trends on the labor market, as Stefan also suggested and you suggested in your questions, especially in the US. So, it's something to watch out.

I think it's on us to, beyond the freeze, also manage attrition – voluntary, involuntary – smartly, and we'll do so. I mean, we will certainly use the time to reallocate resources to the strategic areas and make sure that we are an attractive employer in these strategic areas, and in other areas downscale a little bit. So, this regrouping exercise is going to happen over the next months. It's already in the process, so to say. So, all in all, currently no big worries, but I'd watch out, as you rightly point out. Churn, Stefan?

00:50:05 Stefan Gaiser

From churn a perspective. I think the way how I color this is much more by customer segment, necessarily. I think it's a bigger drive in terms of ASP and SMB enterprise. I think that's the key driver. And then yes, you have regional flavor, but the bigger driver is clearly the ASP segment. Regionally, I think behavior is pretty much the same. We have higher churn in the low ASP segment – again, free-to-paid monetization. Those countries who depend more on the free-to-paid monetization obviously have higher churn. I mean, in China, for example, or in India you have higher churn when those customers come up for renewal, the previous free users, so to say. Enterprise, higher value ASP churn, pretty much sticky across all regions, I would say, and pointing towards the stickiness of our products [unintelligible] by regions.

00:51:03 Gustav Froberg

That's super, thanks. I'll save some questions on cost for the CMD next week.

00:51:07 Oliver Steil

Okay, very good. Thanks a lot. Thanks for the questions. And obviously, looking forward to seeing you and speaking to you at the CMD next Wednesday, in a week's time. Thanks very much.



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00:51:22 Daniel Fard-Yazdani

I just see- it came in late, but we have one more question I think that we can still take.

00:51:30 Operator

Okay. So then this question is from Victor Chang, of Bank of America. Your line is now open.

00:51:36 Victor Cheng

Hi, thanks for taking my questions. Just two from my side. Given the low net new subscribers and strong competition at the lower end, can you provide some color directionally on how the number of active free users has trended? Is it still growing, or has it flattened, or [been] in decline?

And then second question, to a point, regarding free-to-paid conversion. I believe it's correct that contributed roughly EUR 3–5 million per quarter. Just trying to understand here how this is a key driver for slower SMB growth in Q3, especially given the improved trend in the quarter. Thank you.

00:52:20 Oliver Steil

Let me take that. Active free user development, there's a lot of moving parts there because, in markets that have lots of free users, we have introduced account enforcement for better security and better user experience for other users, for paying users. I think that's a topic where I would really refer to the CMD because we will have a meaningful disclosure around that, to give you a bit a sense on countries split, behavior, users. So, bear with us on this one.

On the EUR 3–5 million free-to-paid per quarter, that's correct. That was the rough guidance. I mean, we basically gave that as a EUR 15–20 million per year, to be honest, and not per quarter, because we're saying that that happens at times when it makes sense, and it should not happen when it doesn't make sense. Specifically, this Q3, lower real contribution, very little contribution for the reasons Stefan mentioned. We had done more free-to-paid conversion in Q1 and Q2 this year, and now Q3 was a time that we didn't use it, focusing on other initiatives, as we had discussed. And the same is true in Q4 this year.

00:53:38 Stefan Gaiser

Okay. Very good. That's it, then.

00:53:41 Oliver Steil

Okay. Thank you very much for your questions. Looking forward to speaking to you next week. I think there will be a good amount of disclosure, which I think will answer quite a few of those questions around SMB and the enterprise and trends there.

00:53:56 Stefan Gaiser

So, thanks. Goodbye.



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00:53:58 Oliver Steil

Thank you very much. Bye-bye.

00:54:00 Operator

Ladies and gentlemen, thank you for your attendance. This call has been concluded. You may disconnect now.