TeamViewer AG

Transcript - Q1 2020 Results Webcast

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PRESENTATION

00:00 Carsten Keller

Hi, good afternoon, everyone. Thank you all for joining TeamViewer's earnings call for Q1 2020. Oliver and Stefan will guide you through our results in a minute. As always, after the presentation, we'll be happy to take your questions. But, before we start, I'd like to remind you of the cautionary note regarding forward-looking statements that you can find on page 2 of the presentation. Let me now hand over to Oliver.

00:25 Oliver Steil

Thank you, Carsten. Good afternoon to all of you. As always, before is Stefan is going to presents what we believe are very strong Q1 in detail, I would like to take you through our achievements during the first quarter, talk about how the measures to contain the COVID-19 pandemic has affected TeamViewer, and of course, our global operations.

If you go to page 4, the megatrends on how we positioned, I think you know by now our strategy is built on the long-term drivers of digital transformation, the connectivity between an ever really increasing number of devices, and the fast-growing demand for secure remote management solutions. And during Q1 2020, we've actually have seen all these megatrends significantly accelerated by the global efforts to fight the pandemic. Clearly to keep up productivity, businesses around the globe have implemented contingency plans, including remote work set-ups, now often for their entire workforce, and not just for a portion of their people or a certain department. And, as we have to continue to live with these distancing measures, I think there will be a higher degree of working from home, and digital collaboration will remain the new normal from our perspective. The reduced mobility not only affects the office environment. Clearly, other than in the normal home office discussions, all kinds of services conducted by employees in the field, as well as maintenance of distributed operational technology, infrastructure, all of these parts have been impacted. And companies have to find a way to deal with them. And this makes reliable and secure remote management and augmented reality solutions more business-critical than ever before. So, we really believe the pandemic has created an extra push on development that otherwise would have been pursued by companies anyway.

This has clearly caused increased demand for these technologies, and we believe that these technologies will help generate efficiency gains in the future. And those are required to weather the crisis and to support a global economic recovery. So, we really believe what we deliver is key to companies of all sectors and in all countries, globally. Therefore, we see TeamViewer in the middle of accelerated megatrends, uniquely positioned to tap into the growth opportunities they present. Our high-performance connectivity platform is expanding further. It serves all sectors, all verticals, and all customer segments. Especially our enterprise offering has grown substantially during Q1 2020, with more than 300 Tensor licenses sold globally. And, despite the global lockdowns to fight the pandemic, our operations have been largely unaffected due to the effective contingency planning that we had, virtual sales processes, and of course also fast and fully remote deployment of our products. So, we can really effectively work from home in sales, in service, in pre-sales, and also in R&D. That was very important, that we were able to organize that pretty quickly. And it worked out really, really well.

All of this has manifested itself in a significant subscriber base, growing to more than 514,000 now, with 75% billings growth, an even higher growth in profitability, and a strengthened balance sheet. As you can see on page 5, we have significant extra demand in Q1 2020. Billings were up 75% compared to Q1 2019, getting to a level of EUR 119.7 million for the first three month. This extraordinary growth was driven by a significant extra demand for remote access and home office solutions since the outbreak, especially in March. And that has resulted in an overall good performance. That came on top, I should say, of a very good performance already in January–February. So, even without the pandemic, we had a very good growth in the first two months also, a very good traction enterprise, and then the extra demand in March came on top of it. Naturally, in our business model, these extra billings translate into extra profitability, so Q1 EBITDA grew by 96% year over year, to EUR 73.9 million. This is a margin of 62%, 7% improvement over last Q1's margin, so very significantly.

On the back of this accelerated growth, we will continue to invest along our three growth initiatives, strengthening customer segment coverage, use case innovation, and geographical expansion; this is very much unchanged. We are also screening extra growth opportunities through technology-driven M&A transactions – so, smaller tuck-in M&As in technology areas which are interesting for us. This is also unchanged to what was communicated to all of you before, but of course, we had a little bit of time now after the immediate crisis handling to also broaden our scope a little bit and scan the market a little bit more carefully. What we would say is that especially the investments into the enterprise segment are paying off. The key billings driver and there has really been a jump for us, especially in larger deals in enterprise customers. So, I'm very pleased with that development.

When you turn to the next page, you can see the statistics that we like to show. As a reminder, we like to focus on two statistics here. One is the customers with annual contract value of above EUR 10,000. Why is that? A large portion of our business is driven by our inside sales organization. For this inside sales organization in the past, probably a sweet spot of selling was a contract value of EUR 1,000–3,000. Now, with the Tensor product, we have really successfully enabled them to also sell bigger ticket items. We see this trend continuing. We had on March 31st 1,183 customers with a contract value of above EUR 10,000. That's an increase of 153% compared to end of March 2019, and also compared to the end December that's a 69% increase. Where normally the step-up in Q4 is very strong, we now had a very significant step-up in Q1 due to the strong start in January–February, but also then the extra demand. So, that's very pleasing. That's the one statistic we like to track and show you. You see here the continued development until April 30th, just to give an idea of how the trend continued into the second quarter.

The second statistic we like to follow and track is the accumulated amount of the Top 50 deals, just to also show not just the broad sales motion for Tensor in our inside sales force, but also the success and traction of our direct sales in enterprise across the regions, predominantly EMEA at this point in time. There, you can see that the Top 50 deals accumulated contract value was EUR 5.5 million in the last 12 months, ending March 31st. That's a 142% increase compared to last year's March, and also 63% increase compared to December. So, again, there's a very pronounced effect on the large customer, large ticket size. And while, at the end of December LTM, the range of the Top 50 deals was EUR 36,000 to roughly EUR 300,000, we now have a range of EUR 53,000 to more than EUR 500,000. So, there's a very significant improvement of the large ticket size, and we're very pleased with that and we will continue there.

Just to give you an idea of selected deals, you see that the deal size is really cross-sector, cross-geographies, very healthy ACV. The license type is mostly centered around Tensor and occasionally also the so-called "old corporate license," quite often with a combination with remote access solutions for a larger group of employees, for remote management of IT/OT equipment. We also saw a good uptake of our Pilot product, the augmented reality product that helps to remotely steer field technicians out there in the field. So, it is very pleasing to see that we are able to gain traction in all these different parts of Europe, and the US as well, although we are slower in building the enterprise sales force in the US. But it is working now quite well.

To give you some examples, although we cannot give you the names of the companies, we have one business with an Italian pharmaceutical and diagnostics company with activities in over 100 countries. They have chosen TeamViewer for remote access to distributed diagnostics equipment located in various hospitals and community healthcare facilities all over the country. Basically, this allows medical experts to access and review test data, including but not only, COVID-19 testing, from any iOS or Windows device, thereby critical support and swift test results can be provided, while the risk of infection is reduced, of course – if you don't have to go there but can do it remotely, that's a significant advantage. The client benefits from the full set of features, including enhanced security, single sign on, data auditability, Tensor account management for everything that comes with the Tensor suite. It's 100% GDPR-compliant, of course. And those were all key to win this deal.

Another example: in France, the enterprise sales team has done an upselling to an existing client, from a TeamViewer core license to Tensor. The company produces a range of self-service kiosks, and has 40,000 installations around the world. Tensor not only enables the company to remotely access and support those kiosks in 80 countries, without any human interaction, but it also comes with improved security and auditability for higher efficiency. So, they've really changed the process to make much more use of remote capabilities, and all of that in a very secure environment.

We also have a good foothold in the public sector. I think there was an extra push because of corona in the public sector, in municipalities and government authorities, to think more and fast about digitalization. Here we had a key win with a European ministry, with over 10,000 clerks and civil servants across the country. TeamViewer deployed instantaneously very comprehensive business continuity solutions, so that was really in the moment of truth when they needed a solution, we immediately bundled the remote access, which is the single-user license for small businesses to work from home, into the overall Tensor framework, allowing users to access on-premise workstations using their own devices at home. They didn't have, of course, company devices, so everyone could use their own device to remotely and securely connect into back-end systems, and that's very important if you want to be able to perform your duty, which goes beyond meetings, video collaboration, or telephone conferencing. These people have to access back-end systems in order to issue transactions or handle cases, and that's all possible with our solution. So, it's a very nice win.

On this page, as you can see, are many more examples of TeamViewer connectivity helping customers around the world to digitalize their processes. And we really see this development as proof of our successful enterprise strategy, because that development wouldn't have been possible without the Tensor product. As we explained many times, Tensor is really bringing the full manageability of connections, and that was the moment when enterprise could step more forcefully and broader into our solution. And that turned out to be very successful and is one of our most successful growth initiatives.

If we turn to page 8, it's also important to report what we have done in terms of work on our long-term growth initiatives. As you know, we've changed the picture here from a cube to a circle. One big area here is customer coverage, and we have continued to work on this, clearly. We talked about enterprise penetration; we've also increased the number of channels partners and resellers added to our business. And also, we expanded our global partnerships and integration. We've talked a lot about our back-end integration into software, hardware, and other technology place this quarter. What's interesting to report is the integration into Microsoft Teams that we are working on, the integration into Elo, which is POS terminals, and also IBM Maximo. So, this is the move to be even more relevant to enterprise customers by having the relevant integration.

Secondly, very important, is to drive use case innovation. As you know, we continuously improve our product and we really try to put the customer at the center of innovation. One thing is that we bundled Tensor with a remote access license, which I mentioned before, so that was the way to really roll out or home working solution very quickly. Other improvements included the update of Pilot, which is the augmented reality product. We are among the first applications to leverage the new iPad Pro LiDAR scanner, for example, for enhanced accuracy of the distance and the measurement. So, if you see a situation through somebody else's camera, it helps you have the most exact view of the world around you, in order to be able to help that technician in the field as best as possible. Of course, strengthening the innovation and development capacity is a very important focus for us in 2020. And, in that sense, we are also screening the market for interesting technology acquisitions. We hired lots of people. We built our R&D force; it's now 286 FTEs. We also strengthened our IoT team by hiring a new leader and more dedicated salespeople.

Lastly, on the geographic expansion, as you know, we've opened the APAC offices. That continues to be very successful. Especially Japan during the recent months has had a very good development, but also our US enterprise sales team is a big initiative now. Remember that we hired a good amount of enterprise salespeople for EMEA and we had said that, in the next phase, we would also do that in the Americas, especially in the US, and we started to do so. And the first people that were onboarded are now also being productive and bringing in deals, as you have seen on the list that I've showed before.

If you go to the next page, page 9, I will speak a little bit about how we positioned ourselves in this challenging and interesting times. The first priority for all of us was the wellbeing of our employees and business partners. That always comes first. We implemented very strict hygiene and safety guidelines, which also included very early on a working-from-home policy, as well as travel bans. So, we started these travel bans, then we had to put people in the home office in China, in the Shanghai office. And then the same story rolled over into Japan, and also Adelaide. And, as the pandemic continued, we were rolling this across the globe. Clearly, as the pandemic continues, we remain alert and adjust our measures constantly. So far, we've been able to largely avoid infections, for which we are very grateful. I think the fast action-taking paid off. And it's also important to see that the organization, our people, our employees have done a very good job in these very challenging times. Of course, other companies have more hardship to carry than we do, but we had a significant increase in customer requests, both in sales and in service, at the same time that we had to send everybody home to work from their computers in all departments. And there was a significant effort by the company and very high commitment, and that helped us to navigate the crisis quite well, on the one hand protecting our organization and our people, but also run the business of our customers and bring business in.

What was also important, of course, is that many customers were turning to us to increase capacity, and also many free users needed the product to be able to connect. You might remember that very early on we told the free users that we will be very relaxed in assessing commercial use. In fact, after a while we decided to completely allow any personal use and not check whether it could potentially be business use. That has increased, of course, the number of connections and the load on our systems. So, in parallel to everything else we had to do, we also had to boost our routing capacity, both for the video conferencing part, so the Blizz product, but also for the TeamViewer core part. And we've been able to do that in parallel to everything else that was going on.

We also saw significant extra requests for our video collaboration product. We also found through personal experience that schools and universities around us were not in a good position to provide home-schooling solutions and we decided very quickly to make our Blizz product available for free for schools and universities, and we saw a good pick-up there. In turn, we also had to increase our routing capacity. And, last but not least, a bit later in the crisis, we do see the customers having issues with payments, asking us for more relaxed payment terms or installments and we try to be as responsive as possible, depending on market and segment, to make sure that we keep our customers happy and adjust our processes to the needs of customers and society. And we hope that, with all these measures, we can show our customers and free users that we do care, and that we are trying to do the best we can to help, and at the same time run a business and grow a business, of course.

Last but not least, thanks to the good start, we built an extra cash position. We were able to ramp down the leverage faster than we thought. We further diversified our business, and therefore, we believe we are very well positioned for the year to come and the future. I think, all in all, everything we did and everything that happened in Q1 confirms our strategy and gives us confidence that we can overachieve our targets. And I would now like to hand over to Stefan, who will lead you through the financials and the outlook in more detail.

23:10 Stefan Gaiser

Thank you, Oliver. Good afternoon to everyone. Clearly, we got off to a very strong start, as Oliver mentioned already. Trading in January and February started very strong, and then the corona-related lockdown sharply accelerated our billings growth in March and we pre-announced that late march.

So, let us move on to Slide 11, and the subscriber and billings dynamics for the last quarter. Based on the dynamics Oliver explained, we experienced a significant expansion of our subscriber base, growing by 62% year over year. And we now have more than half a million subscribers, 514,000 in total. So, since the end of last year, we added on a net base more than 50,000 subscribers, net of churn. And those subscribers really joined us from all customer segments in various sectors, which in the past were somehow underpenetrated, including larger government bodies, financial institutions, and the like. So, it's really a very broad customer win across the globe and across all segments.

As we explained, the enterprise offering was really key to the success in Q1 and it allowed us to serve our customers with the required, very scalable solutions, and therefore was a key billings contributor in the quarter. Those new accounts will also provide us with a significant cross and upsell opportunity going forward. And as you can see, we also maintained our very good high-single-digit churn rate. Of the 317,000 we had a year ago, we retained more than 90%, or 289,000 subscribers. If we move on to billings, the strong new subscriber growth, combined with the extra demand for remote access and working-from-home solutions led to this exceptional billings growth of 95%, to EUR 119.7 million year over year. We recorded nearly a doubling of new license subscriptions in the first quarter to around EUR 42 million. And we also still successfully migrated the long tail of our previous perpetual customers but, as expected, this is now fading out. However, it's still a nice contribution of EUR 3.5 million. Renewal billings, which include additional capacity sales, are at more than 100%, contributing to our significantly increased net retention rate of 106% at the end of Q1.

If we move on to the next slide, it shows a broad billings breakdown by regions. Again, it's a very balanced picture. All regions have contributed significantly and showed a very strong acceleration during the quarter. America is leading the field again, with 82% growth, followed by EMEA and APAC. APAC was 62%. We talked about APAC for quite some time, and also about our investments in those local markets, and it's very satisfying to report that we had an exceptional month in Japan in April. With the full lockdown effects, we experienced significant growth in April in that location. We also sorted our investments into sales resources across all regions and go-to-market routes. This clearly contributed to our success. Having sufficient sales capacities to deal with all the customer requests was clearly a key success factor. All sales channels contributed equally strongly. The increased inside sales teams, which we expanded in EMEA and the US, also the enterprise team in Europe, the recently ramped up enterprise team in the US and APAC, and also [inaudible] performed extremely well under those remarkable circumstances. Once again, having local people on the ground and the ability to act fast was very important. I would also like to take this opportunity to thank our employees, from sales to customer satisfaction, as well as R&D, IT, HR, who were under severe stress in those times but were still able to cope with the additional customer demand and the load on our systems. So, big kudos to the team's fantastic efforts, really!

And this additional demand from the existing subscribers is also the key driver behind the substantial increase of net retention rates, now up to 106%, as I mentioned, due to the strong upsells driven by higher capacity requirements. The (low) churn numbers have remained largely stable, but we are closely observing the situation to assess the impact of the corona-related economic hardship on our customers, and how their renewal of business with us might be affected. The dollar value of churn remains very stable.

Let's move on to the next slide, covering the full picture of our Q1 performance. Q1 felt a little bit like a stress test regarding our ability to deal with unprecedented circumstances. And I'm very glad to report that, apart from some glitches here and there, we were able to adjust very quickly. A very strong growth in billings, in combination with scale effects across all functions and our efficient go-to-market model led to this exceptional growth of 96% in adjusted EBITDA, to EUR 73.9 million compared to EUR 37.7 million in Q1 2019. It was great to see how the scalable technology platform was able to significantly increase traffic. And, actually, thanks to our R&D and IT departments, who made sure that we added enough capacity in a very fast time, we were able to deal with the significantly increased load on the systems.

Our GP margins lightly increased to 93%. They were already pretty high in the past and were even higher in this quarter. That being said, investments into additional routers and infrastructure will mean that the GP margins are expected to revert to the usual 92% rate for the remainder of the year, because those new router costs really start kicking in in our run rate for the rest of the year. And the other SG&A costs, while significantly increasing in actual terms, decreased as a percentage of billings across the board. Therefore, the adjusted EBITDA margin also increased from 52% to nearly 62%. We told you. A few times that we continue to invest across all functional areas, clearly with a higher focus this year on R&D and product innovation. To this extent, I'm super proud to say that we've been able to sign on more than 300 engineers in total now – so, we have 30–40 additional engineers on board now. This is significantly up compared to the last few quarters. We clearly accelerated our hiring across all functions. Besides that, our enterprise team in the US has also gained some critical mass. I think they have now about a dozen sales reps who joined in the last few months, who are already showing some billings in the last quarter. Overall sales headcount is up by close to 50 FTEs across all go-to-market routes, sales channels, and geographies. But we are clearly also investing in other key areas like marketing, customer service, and infrastructure, as well as G&A. So, we are really accelerating all of the investments to capture the market opportunity and, based on this, the runway effect of those investments in our continued capital allocation. We basically expect the full-year EBITDA margin to be around last year's level or slightly better, but not at the exceptional level seen in Q1 2020.

Let's take a look at the next slide and our cash flows. The quality of our earnings remains very high and we had a very strong quarter in terms of cash generation. Adjusted EBITDA of EUR 73.9 million, plus a positive change in working capital, and CapEx in line with our guidance resulted in this very strong cash conversion, with a pre-tax cash flow of EUR 72.4 million versus EUR 33 million in the prior year, so more than doubling. On CapEx, an extended note here: remember that the EUR 25 million of planned CapEx for 2020 includes two one-offs. One-offs account for roughly EUR 16 million of total CapEx spend. One one-off is based on the new accounting, CRM and e-commerce front-end in the new headquarters, across the street from our current headquarters here in Göppingen. Thankfully, both projects largely continue in line with our planning, but also suffer from corona-related delays. We decided to push out a roll-out of the ERP migration because taking a step back and doing an ERP migration whilst in the middle of a peak billings time doesn't feel like the right thing to do. So, we decided to push it out a little bit, and therefore had to change the project timeline to reflect the current circumstances. Regarding the new building, we are happy to report that it seems we will be able to move into those offices during Q3, but also slightly later than expected because, clearly, the construction side also suffered from some corona-related delays. Therefore, we expect CapEx to be somewhat above the initial guidance, and more in the range of EUR 25 –30 million versus the EUR 25 million we expected a couple of months ago.

Finally, let me comment on the data management. We clearly acknowledge that many of our customers experience very difficult times, with significantly reduced revenues and significantly reduced cash reserves. In light of this, we have also relaxed our cash collection efforts and how strict we are in terms of shutting of services. But, despite this, I am glad to report that, as of today, we have already collected a very significant amount of our Q1 billings, close to EUR 120 million. So, the remaining exposure is very, very limited regarding our Q1 cash collection.

Let's move on to the next slide. The net debt and the leverage balance sheet has been strengthened significantly. Deleveraging is ahead of plan. Net leverage has now fallen to 2.4 EBITDA by end of Q1, due to the strong cash collection and continued EBITDA growth. We deleveraged now 1.3 times in the last six months, so we're very strong in accelerating deleveraging. We have cash of EUR 105 million on the balance sheet and RCF remains undrawn, so it's a very healthy situation. The continued substantial cash generation for the remainder of the year will basically mean we can reconfirm our deleveraging plans for the year, and we expect to be significantly low, two times by the end of 2020.

I will move on to our increased and revised guidance on page 16. In summary, our market position, our product portfolio, and the scalable business resulted in an exceptionally strong performance in Q1. April continued to be strong, albeit COVID-19-driven demand softened later during April. Nevertheless, a strong trading during the first four months supports our confidence in over achieving the original full-year guidance. That beeing said, we should keep in mind that the continued macroeconomic uncertainty clearly reduces visibility for the remainder of the year. On this basis, and provided that we see a certain general economic recovery, we have raised our outlook for the full year 2020, and the new targets are billings of around EUR 450 million – up by EUR 10–20 million, form EUR 430–440 million, which was the old range – and revenues of at least EUR 450 million. So, they are in line with billings whereas previously we have guided for them being lower than billings. Due to the significant Q1 billings intake, this will result in higher subscription deferred revenue releases before year-end, and therefore we have increased our revenue guidance to at least EUR 450 million. In terms of adjusted EBITDA, I talked about our investments and what this means going forward. And we expect an adjusted EBITDA margin of around 56%. And that concludes our presentation. We open the lines for any questions.

Q&A

35:11 Operator

The first question is from George Webb, Morgan Stanley. Your line is now open, Sir. Please go ahead.

35:16 George Webb

Good afternoon, Oliver and Stefan. I've got a few questions, please. First, in terms of what you saw in Q1, it looks like you had this EUR 42 million of new subscription billings in the quarter. How can we think about the phasing of that by month? Would a pattern of EUR 10 million, EUR 10 million and EUR 20 million in March be broadly representative of what you saw? And linked to that, when you talk about some softening in April, how far in the month was that? And would the reduced level of COVID-19-related demand still be significantly above the run rate of January and February? Lastly, in terms of Tensor, has there been any change in the breadth of your larger enterprise sales, in terms of the penetration – whether you're selling to a specific department or are these now higher-level discussions within these businesses? Thank you.

36:08 Stefan Gaiser

Hi, George. Thanks for your questions. Stefan speaking. In terms of the new billings, it's actually not a bad assumption. I told you than in Q1 we got off to a very good start, and if you take our new billings over the past year and the pattern would be about EUR 8–9 million in organic billings – that's new and upsell billings – I think your overall split of 10–10–20 is not bad. In terms of April, clearly April, especially the beginning of April was significantly better than January and February. We were still seeing some customer demand to enable operations to work remotely. That then faded out, but more in the second half of April. Then, in the second half of April, Japan also contributed very strongly. And now as of May, I think we are back to a more normalized billings level.

37:15 Oliver Steil

On Tensor, I am not sure I fully got the question. But in terms of the type of discussions we are having, I think it's fair to say that over the last quarter we have elevated the level of discussion and the breadth of the discussion across companies. So, if I go back to Q1, we were having very different types of discussions of all natures. So, we have the very technical-oriented solution for field service enablement based on TeamViewer Pilot, which is primarily with the Operations department and Field Service department, of course supported by IT. We also have that for the retail organization for warehousing in other companies. So, it's really function by function, broad-level discussions. But we also have C-level discussions where there is a broader deployment of TeamViewer for different use cases. The largest customer win we had at the beginning of the year already was something like this. You can think of it like an enterprise license agreement where the customer has the right to use TeamViewer for almost any workplace or any employee, in different departments.

When corona came, it went all the way to emergency calls and emails by C-level to our C-level sales or myself, asking for a broad-based, remote access, employee home working solution across the company. They figured out that they work VPN-based but that's not secure enough, not fast enough, not flexible enough, and doesn't enable enough employees to work from home and have access to the back-office functions. That also happened. So, with the Tensor product, we are right the right spot for the right discussions, which doesn't mean that we are not selling Tensor smaller tickets. EUR 15,000 departmental sales are still happening, but more and more we are in broad, C-level discussions.

39:25 Operator

The next question we've received is from Mohammed Moawalla, Goldman Sachs. Your line is now open. Please go ahead.

39:45 Mohammed Moawalla

Great, thank you very much. Two questions from me as well. First, in terms of your caution regarding the reduced visibility, can you help us reframe that in terms of what element of the demand you saw in March and April, or the sales you generated, will sort of go poof? Or is it caution around some of the SMB customer base? I know you alluded to payment terms, but do you think there is a risk of churn rates later in the year because of business failures? Just maybe help us quantify or further clarify that kind of conservatism in the guidance. Secondly, it was nice to see the net renewal rate pick up. Could you give us a sense of what are the kind of use cases in cross-sell and upsell? I know deal sizes have gone up in enterprise, but any color around what's driving that uptake in renewal rate and how sustainable that is would be helpful. Thank you.

40:37 Stefan Gaiser

Sure, let me start with the first one. In terms of whether the new guidance is conservative or not, the key topic is clearly the limited visibility for the remaining 7.5 months. The year still has quite a few months ahead, and I think it's fair to say that probably this remainder of the year feels less secure and visible than the same time of the prior year. Nobody knows, at this point, how severe and long the economic recession will be. And that's very tough to quantify, frankly. But if we take a step back, what we have seen is that we've now significantly outperformed our first quarter by EUR 20 million, give or take. We had expected growth to be anywhere between 30% and 40% in any given quarter, and now we had 75%. In actual terms, that's around EUR 20 million. And we've increased our previous guidance, if you take the previous mid-point, by EUR 15 million, which basically indicates to the market that we expect a substantial amount of the outperformance in Q1 to remain for the entire year. And we expect trading for Q3 and Q4 to be in line with past trading, i.e., a 40% growth.

In the EUR 20 million outperformance we also included some demand that has been pulled forward that is hard to quantify. So, that's going to be tough for us. We have assumed that our cross churn rate will remain fairly stable. As you know, Q4is a big renewal quarter for us. So far, we have seen dollar churn exactly in line with past trends, so we conclude that this is the case going forward. We just don't have enough data points on whether the churn rate will remain going forward or change. So, that's the key foundation for our guidance for the year.

And then on the second question on upsell/cross-sell NRR, what happened generally speaking very much differed by company type. I think the classical situation was that either new customers, but often in the space of net retention existing customers that will come to renewal at some point or have already been our customers for a long while, basically go through the employee base, work through the emergency planning, trying to understand how many people potentially could work from home or from remote locations and what the new set-up should look like. And then they call us to ask for more capacity. So, that is the old corporate world, where they need more channels because they want to have more parallel connections at the same time. This is a smaller percentage. The biggest percentage was Tensor-based: more users, and when they go into more adjacent business functions – for example, remote management – they want to have an extra remote management license, to be able to remotely control and manage OT and IT equipment. Some companies needed or wanted the Pilot license because they also wanted to enable field service or make it better, or have the field service supported by somebody else. So, they went for the Pilot license. Some companies wanted to add the usage of TeamViewer for Meetings in the bundle and the license they had, because they wanted to significantly step up the use of TeamViewer for Meetings or Blizz. Therefore, they increased the license of different pieces. This either resulted in the upsell of more people, more channels, more capacities, or also adding new types of licenses in the cross-selling. I would say the product that naturally had less attention during the crisis times was the IoT arena, with new proof of concept. On this, not much was happening. We had the same level of activity as before, but no step-up, I would say.

45:20 Operator

The next question is from Sven Merkt, of Barclays. Your line is now open. Please go ahead.

45:30 Sven Merkt

Good afternoon. Thank you for taking my question. First, you mentioned you have been more lenient about the free-to-paid conversion. Do you expect this to support growth or at least offset, potentially, if there has been a pull-forward of revenues? And secondly, based on how you see the competitive environment evolving, with the increase in remote working, there is now potentially more competition entering that market. Is that something that you see? And also, have you seen competitors being more aggressive in their marketing and customer acquisition stand, and is this impacting you at all? Thank you.

46:20 Oliver Steil

I can take that. On free-to-paid conversion: if you look at how we run our business typically, there's always a certain portion of free-to-paid, where we use our algorithms in the back-end to understand whether the usage and connection behavior of free users does actually look like personal use or looks more like business use, and then we prompt these users to pay for a license. First, we remind them, and then we remind them a bit more forcefully, and then, at the very end of the chain we might also block them from using the license, if we have very strong indications that it looks like commercial use. We have done none of this over the last almost two months now. We started in China when this came up, and then we basically rolling out the same way of not executing these policies across the globe. And this is still the status we are in at the moment, except for some very small start of testing in China, because China is arguably through the crisis.

So, having said that, the additional usage during corona leads to a growth of the ecosystem, more activity in the ecosystem. And the way forward, what happens usually is that either the company of a certain employee buys the license and enables their employees to work from home, such that this personal user would actually become a business user, but under the license of the company. So, that's one case. And the other case is that that personal user continues to regularly use the product and we are beyond the corona crisis, and if that continues beyond the crisis, then we have the opportunity to ask that user to pay for a license. But that's still some time out. I would say it's never bad if you have a growing ecosystem.

And, remember, in the past, maybe EUR 15–20 million of our billings were generated from these free-to-paid conversions. We haven't done almost any of this during this year and, from our perspective, that's a good thing.

Secondly, competitive environment. Do we see more players? I think there is more competition, especially in the video collaboration space. So many people were leaning towards Zoom. And, with all the discussions around Zoom, I think that has generated quite some interest from Microsoft and others to go more forcefully into this segment. I wouldn't say that we see increased demand in our core segments: remote control, remote access, remote monitoring. They have always been different solutions. We strongly feel that we have an extremely capable, very versatile solution that can cope with a very heterogenous environment. That's been proven to be the case. We have heard many customers that told us, "I have something, but it's not good enough. I need more. I need a better solution. I need a more ubiquitous solution." So, in that sense, competition is the same as before. There was a bit more noise, especially in the US. The US players made quite some noise around offerings for free, promotions for free, which maybe had an impact here and there, but not really noticeable in our numbers, because we were actually growing, as Stefan said, across markets very successfully.

50:25 Operator

The next question is from Stephan Klepp, of Commerzbank AG. Your line is now open. Please go ahead.

50:37 Stephan Klepp

Hi. Stephan speaking here. I was wondering if you could talk about the quality of the clients that you gained, particularly in March and the beginning of April. Is it actually the clients that you are targeting, or going after, i.e., big enterprises and IoT? You have to say that in IoT there's not very much happening. So, in other words, should we be afraid that these clients look for a tool that they can use not to go into the office, with the cancellation rates increasing at a later point in time? Secondly, I'm surprised to see that you are only guiding for a margin of 56%. I heard what you said, that's all clear, but that implies a margin down to 54% for the rest of the year despite the economical scale. So can you be more precise on what you expect to invest into so that the margin quality will deteriorate slightly?

51:45 Oliver Steil

I will take the first one and the Stefan will go for the margin. Regarding quality of clients, I would say it's a very healthy mix of clients. So, I wouldn't be afraid of later cancellations. Of course, there are certain cases and certain circumstances where there is an emergency deployment and then people change their mind. But I think from a mix of sectors and functions, and what customers have been asking us for, we have a good mix and I wouldn't be worried about this one.

52:10 Stefan Gaiser

I would actually say that the customer mix in March and April was potentially more geared towards larger enterprises.

52:18 Oliver Steil

Yes, and if you sell to larger companies, they usually come with lower churn rates, I should say, yes.

52:21 Stephan Klepp

So does that mean that, for example, people looking for just a simple tool have gone to cheap competitors like AnyDesk or something like that, where licenses are even cheaper and just give a quick fix? So, they should have seen the lower-quality part of the market – or is it wrong to think that?

52:42 Oliver Steil

I can't comment on those, frankly. What we see is that the people who are asking for our solution have typically understood very well where the complexities are and where the limitations of existing solutions are. So, I have the example of the CI of a big bank understanding extremely well what contingency planning they had – you can imagine banks have significant contingency plans – but understanding immediately that, "Okay, I can only enable so many people, limited to these functionalities, and I have the following security problem. I need something which is more capable, can run in parallel or in addition to my VPN set-up, and can help me have more employees, more access, and also to troubleshoot my other solutions, and also to cope with bring-your-own-devices situations." And that's actually pretty complicated. And we were immediately in the middle of security discussions, architecture, Tensor, managed connectivity, and so forth. And I cannot see how cheap solutions can handle that. And that's also why I'm very confident that these people will stay: because they've gone through the exercise. If it would've been so easy, they would have just done something else. But it's not.

54:07 Stefan Gaiser

On the adjusted EBITDA margin guidance, I think it's important to understand that this margin guidance is unchanged from our guidance at the beginning of the year, depending on whether you take the mid-point or higher end. It's largely unchanged. Now, clearly, the Q1 margin was significantly better, but if you take a step back, you see that the new revised billings guidance implies billings growth in Q2 through Q4 of just below 30%, 28% or so. So, somewhat lower billings contribution for the remainder of the year. And if you then look at our cost base and the continued investment into (especially) R&D but also the enterprise sales, you should assume a slight increase in the cost base. And, if you add this up, then you basically arrive at our adjusted EBITDA margin of around 56%, maybe slightly better. But, really, the margin guidance is completely unchanged. I think we always said that, yes, the margin guidance might increase over time, but if we see opportunities to capture additional market share or billings growth, then we will go after this. So, this is very consistent with our past guidance.

55:30 Operator

The next question is from Miro, JMS Invest. Your line is now open. Please go ahead.

55:50 Miro

Hi. Thanks for taking my questions. The first one is: your new home office license was roughly a third of the price of your standard license. This was introduced during March. How was the pick-up of this license? Could you give us a number there in terms of how many licenses you already have? Then the second one would be on the FX loss you have shown. Can you shed some light on how this will develop during the rest of the year? Thank you.

56:10 Oliver Steil

I will take the first one. I think there's a misunderstanding. The remote access license was built more than a year ago, and that was a single-user license, effectively, for a limited number of end points, to enable SoHo users to access another computer effectively. So, what we did now is we've taken that concept – one user being able to connect to a limited number of devices – and we bundled that into the Tensor architecture, which comes with full manageability, connectivity, and so forth. And that solution was then sold to enterprises that use that as full-blown home-working, or remote working, solution. And that Tensor piece got a significant share. I wouldn't know the exact number, but that was a very attractive offer that we gave to the market. But the pricing is a customer-specific pricing; it's not the pricing that you would find on the list price if you go to our website. Because that website is a single-user product. We have actually bundled that into a Tensor bespoke pricing.

57:30 Stefan Gaiser

And then, with regard to your second question, I guess you are referring to the unrealized FX loss in the P&L. That is solely relating to our debt structure. A significant amount, or 80%, of our debt is denominated in USD. And, as the USD strengthened slightly in the last quarter, we had to account for an unrealized FX loss. So, if the USD remains at the current level, we would have 8 million of that as an unrealized FX loss for the remainder of the year. If it weakens or strengthens, it might move up or down, but it has not cash flow impact. It's a hedge for our USD-denominated EBITDA, which is quite significant. That's the reason for the USD-denominated loan.

58:30 Operator

We've received a follow-up question from George Webb, of Morgan Stanley. Your line is now open again. Please go ahead.

58:40 George Webb

Thank you. I've just got a couple of follow-ups. First, you've mentioned that you're screening for tech acquisitions. Is that when you look at your portfolio of products and think, "there's a gap we need to fill within the existing products we have"? Or is that more looking for which products or which sorts of technologies could we introduce to our broad user base and device base, and cross-sell? And then on G&A expenses in the quarter, that did pick up quite significantly, even over Q4 of last year. Is there anything in particular we should we thinking about for that? Thanks.

59:13 Oliver Steil

For tech acquisitions, I would say it's really both. We have the platform and there might be adjacent tuck-in offerings, which would make sense in order to expand the platform and offer the whole range of services to our customers, be in SBM or enterprise. It could very well be. But also the other piece, of course, where we have something, for example AR Pilot, and we have significant development resources there and we continue to innovate with the LiDAR technology that we're now using, but we find a team that could significantly accelerate our efforts in a certain space. And that could be really interesting. So, both are true, but again, we are in the early stages and more in screening mode, I would say. And the G&A question, Stefan?

01:00:07 Stefan Gaiser

I think the increase in G&A compared to Q4 basically reflects the continued investment into IT security, GDPR, the whole compliance functions. You might have read some announcements that we have strengthened our legal team. We appointed a new C there. So, there were very significant investments into that, as we talked about in the past, that drove up the run rate. But those are very good investments overall. And then, secondly, Q1 with this level of performance, general accrual levels for boni and certain one-offs for our C-set operations and the like increased significantly.

01:00:53 Carsten Keller

Thank you very much for joining. Thank you very much for the interest. We will be on the road virtually in the next couple of days, so we look forward to speaking to many of you. Thank you very much.