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Q3 2024 Earnings Call

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Transcript

Speakers:

Bisera Grubesic

Oliver Steil

Michael Wilkens

Bisera Grubesic

Good morning, ladies and gentlemen, and welcome to TeamViewer's Q3 2024 Earnings Call. I am Bisera Grubesic, Head of IR, and today I am joined by our CEO, Oliver, and CFO, Michael, to present our results. As per usual, Oliver will run you through the quarterly business highlights, and in the second half, Michael will present the Q3 financials. The presentation will be concluded by a Q&A session. Please note that you can find the Important Notice and the APM Disclosure on Slide 2 and 3 of the presentation.

I would now like to take a few minutes to explain the introduction of ARR, which we made this quarter. As a leading SaaS company, we today introduced annual recurring revenue at the group level, and for our SMB and enterprise business. This forward-looking KPI offers a clear view of annualised recurring revenue, while eliminating multi-year-deal noise from billings. Aligning with SaaS peers, this market standard metric facilitates better growth assessment and peer comparison, and it provides a clear predictable view on our business.

We calculate ARR as annualised recurring revenue for all active subscriptions at the last day of the reporting period. Specifically, we take the daily subscription revenue at the last calendar day, and we multiply this by 365 days. The previous calculation method was based on the last 12 months billings.

As a result of the new ARR calculation method, our net retention rate is now also calculated based on ARR. Additionally, we have decided to eliminate currency effects, and we will report NRR on ARR in constant currency.

For more background and historical comparison information, please refer to the appendix of the earnings presentation, Slides 21, 22, and 23. And for transparency purposes, we will continue to disclose both ARR and NRR in all of our materials for one more quarter. Additionally, this information will be included in the comparable table on Slide 23 until Q4 24. And now I hand over to Oliver to kick off presentation.

Oliver Steil

Thank you, Bisera. Good morning, everyone. Also, a warm welcome from my side. Thank you for joining our Q3 2024 Earnings Call. Before we start with the content of this presentation, let me remind you that we are organising an in-person field trip for investors and analysts in the UK on 11th December.

The focus of this event is to experience our products through several demo stations first-hand, and also to hear from our customers what benefits they generate with the help of our solutions. And we think this is an ideal opportunity to learn and understand more about our technology and solutions. If you're interested in coming and have not yet registered, please reach out to our IR team. I think it will be very beneficial to see you there in person.

Now, let us look at the highlights of this quarter on Slide 5. We've delivered another strong quarter, from our perspective, and I'm very satisfied that we've met our expectations for revenue growth and even exceeded our ambitions for profitability. And I'm also pleased with the continued strong momentum in our enterprise business.

In terms of revenue, we achieved a strong growth of 8% in constant currency year-over-year, with continued positive contributions from all regions. Enterprise, again, showed strong revenue growth, with 23% in constant currency year-over-year, which is a continuation of our already strong momentum that we saw this year.

Our ARR, important measure, as Bisera’s note, was up 7% in constant currency year-over-year, and this shows that our underlying growth dynamics are healthy when we eliminate distortions and quarterly volatility that occur in billings, especially from the multi-year deals with upfront payment.

In addition to our revenue and ARR growth, we achieved an outstanding adjusted EBITDA margin of 48%, supported by the scale back of our Manchester United partnership, but also by our maintained strong cost discipline. Net income, therefore, increased significantly by 49%, and adjusted earnings per share by 30% year-over-year.

It is important to note that we continue to navigate in very challenging market conditions. Particularly in this context, we have seen a good execution in the third quarter. We delivered on our growth ambitions with continued strong enterprise momentum and achieved outstanding profitability. Our strong, healthy fundamentals are underscored by high single-digit ARR growth.

With the first nine months of the financial year behind us, we have narrowed our revenue guidance range for full-year 2024, to between 662 and 668 million, which is within our original revenue guidance range. And we have raised our adjusted EBITDA margin guidance by one percentage point to now at least 44%. Michael will elaborate on this in more detail later.

I would also like to share our growth expectations for the fourth quarter. As a reminder, we will be facing more challenging comparison in Q4 due to last year's exceptionally strong billings performance, especially within enterprise. We anticipate a similarly challenging trading environment to continue in Q4, and as such, we expect to see low single-digit growth in billings for this period. This is also reflected in our updated revenue guidance range, which implies that we expect to see revenue growth in Q4, but at a lower level than what we've seen in Q3 and year-to-date. Michael will explain this in more detail later. However, I want to emphasise that we remain well positioned for significant growth once the macroeconomic conditions improve.

Let's now go back to Q3 and look at the regions and customer categories on Slide 6. All regions contributed to revenue growth in constant currency in the third quarter. We are satisfied with this development in light of a continued, challenging macroeconomic environment, as the global economic growth for 2024 is forecasted to be barely above 3%, according to OECD. We see continued demand from customers and are building on our pipeline already for the year ahead.

In constant currency, our growth trajectory was as follows: EMEA, our largest region, grew by a strong 9% year-over-year. Americas grew 7%, and APAC grew 5% year-over-year. On the right side, you will notice that our enterprise revenue has shown robust growth and increased by an impressive 23% year-over-year. Meanwhile, our SMB revenue achieved mid-single digit growth and grew by 5% year-over-year in the third quarter.

Enterprise ARR was up 20%, and SMB ARR grew by 4% both year-over-year and in constant currency. In the third quarter, Enterprise made up around 22% of our revenue mix, which is a significant increase from just 17% two years ago, and it reflects our efforts to successfully drive sustainable growth in enterprise.

Let's move on to Slide 7 and look at the development of our different ARR value ranges in enterprise and in SMB. Before we dive into this slide, I want to highlight that all numbers here are now based on ARR, which demonstrates sustained underlying growth in our business. Previously, we reported last 12-month billings per ACV, annual contract value, bucket. We will continue to disclose this information in the appendix of our earnings presentations for one more quarter, so you can still find it on Slide 26 in this deck.

Coming to ARR now, as you can see on the right side, enterprise showed strong double-digit growth across all ARR buckets. We saw 16% growth in the lowest value range, a very strong growth of 23% and 26% in the middle range, and an outstanding 30% year-over-year growth in the highest value range of over €200,000 ARR. For SMB, we saw 4% growth in the lowest value range, and a good mid-single-digit growth of 8% in the highest value range, of between €1,500 and €10,000. The decline of 1% in the middle SMB value range was mainly driven by upsell.

Now, let's move to Slide 8, with an overview of new logo wins and interesting use cases. On this slide, I would like to highlight three interesting customer stories, to demonstrate the breadth of our solution portfolio and the value that our products bring to our customers.

The first one is Coop, I'm sure you know, a large retail wholesale company in Switzerland. One of the biggest Swiss companies overall. They are using Tensor for secure support of 22,000 devices. And they also decided for Frontline to improve their warehouse picking processes. I want to highlight this deal to underline our cross-sell potential. We offer a wide range of solutions for enterprise customers, and we know these companies also like buying more than one product from the same trusted vendors.

The second example is CaetanoBus, a Portuguese OEM. You probably all have experienced their products multiple times already because they build airport shuttle buses that bring you from the terminal to the airplane. They also build and run other types of buses. For example, they provided the bus shuttles at the Olympic and Paralympic Games this year in Paris. CaetanoBus started to use our augmented reality solution for fleet management, so technicians can get remote expert help. If you know a bit about commercial vehicle business, you will know that they have strict SLAs in place. Every longer downtime of buses means penalties, so keeping maintenance as short as possible has a real financial impact for Caetano.

The third one is YPF, one of the largest energy companies in South America, $20 billion in revenue. They are using TeamViewer Frontline for inspection and workflows in their refineries. These need to be 100% correct. Otherwise, the operations of a whole plant can be compromised. That's why they decided to go digital with us and improve the entire workflow. Frontline now ensures that their operations are safer. Moreover, the documentation of the inspection is much easier now.

Before I hand over to Michael to run you through the financials, let me quickly talk about another business highlight that is worth mentioning here. At the end of October, we've launched Session Insights as a new AI-powered feature in our remote connectivity solutions. It will empower IT support teams to resolve issues faster and scale expertise, even with limited staff.

AI-generated session summaries serve as automated case documentation and relieve IT service desks of the critical yet time-consuming task of report writing. Moreover, it speeds up troubleshooting and handovers, reducing mean time to resolution and boosting customer satisfaction. Additionally, powerful analytics dashboards allow businesses to track and meet service level agreements, identify recurring issues, and troublesome applications to drive improvement and optimise resources. We got great feedback from our beta users and are looking forward to our customers experimenting with it and adopting it in the future. And of course, we are already working on additional features and integrate AI more broadly in our platform and solutions. And with this, I hand it over to Michael for the financial overview. Thank you.

Michael Wilkens

Thank you, Oliver, and good morning to everyone in the call today. As Bisera mentioned, I'm very pleased that today we introduced annual recurring revenue. This milestone is significant for our company. And let me also emphasise in this call that we have chosen for a textbook example of the ARR definition, by analysing the daily subscription revenue at the last day of the reporting period.

This forward-looking KPI provides a clear predictable view of our annualised revenues, and more importantly, it eliminates lengthy discussions and distortion from multi-year-deal noise in the billings. Today, I am pleased to also present our performance through this forward-looking KPI. ARR underscores our healthy growing business and facilitates better growth assessment and peer comparisons.

Let us now start with a look at our financials for the third quarter, and first nine months of 2024. Next slide, please.

We again delivered a good set of results. Our Q3 topline performance was solid, with 8% revenue growth in constant currency and reached €169 million. Our ARR showed a healthy 7% growth in constant currency and amounted to €669 million. Enterprise NRR and ARR remained stable, sequentially, at a solid 99%. Billings execution was solid amidst a consistently challenging macroenvironment and delivered a 4% growth in constant currency for the quarter.

We are, in particular, pleased with a 15% higher adjusted EBITDA in the third quarter and a very strong adjusted EBITDA margin of 48%. This further enhances our best-in-class margin profile. Adjusted earnings per share strongly increased by 30%, to €0.29 This growth was primarily driven by the increase in EBITDA and by lower number of shares due to our ongoing share buyback programme. Levered free cash flow was €41 million and €143 million year-to-date and developed as anticipated. As we saw the positive cash flow effect from the revised scope of the Manchester United partnership already in the second quarter, there was no cash effect in the third quarter.

Now, let's dive into the details of our results. Next slide, please.

We delivered on our growth ambitions with continued revenue and ARR growth, and we achieved outstanding profitability this quarter. Revenue developed in line with our expectations and increased by 8% year-over-year in constant currency. This percentage is corrected for fixed headwinds of €2.4 million from last year's billings. Our ARR increased by 7% year-over-year in constant currency, whilst our billings grew by 4% in the same period.

Regarding billings, we saw an increase in multi-year deals with upfront payment to €17 million, up 10% year-over-year. As previously stated, our first customers with multi-year deals with upfront payment became eligible for renewal in the third quarter. We are pleased to report that renewals slightly exceeded our expectations. We now expect multi-year deals with upfront payment to range between €60 to €66 million for the full year 2024. Billings from new subscribers were, again, notably above €10 million in the third quarter. In fact, we consider the actual inflow of €14 million from new subscribers another strong result.

Our adjusted EBITDA was €81 million in the third quarter, significantly up with 15%, as we maintained our cost discipline, whilst we continue to invest in innovation and enterprise growth. As previously announced, the scale back of our partnership with Manchester United also had a very positive effect on our cost base. With this, we have realised a significant uptick in adjusted EBITDA margin of four percentage points, compared to Q3 last year.

Let us continue with our enterprise business on Slide 13. All enterprise KPIs in the third quarter demonstrate our strong momentum in this part of our business. The growth in enterprise ARR, and NRR on ARR, confirms the health of our business and reassures us of our steady progress towards becoming a more enterprise-focussed company. Enterprise revenue increased by 23% year-over-year in constant currency and reached €37 billion in Q3. Enterprise ARR increased by 20% year-over-year in constant currency and amounted to €139 million.

The bottom left chart illustrates a consistent growth in enterprise ARR above 20% in 2024 thus far. This confirms the robust fundamentals of our strong enterprise business when removing distortions from multi-year deals in billings. You can clearly see their large effect on the quarterly billings in the second line of this graph. As the bottom-right chart shows, the enterprise NRR on ARR has been trending upwards since the end of last year and remained stable sequentially from the second quarter, now at 99%. Enterprise ASP was up to €35,000 and shows both year-over-year and sequential improvement. Our customer base expanded by more than 11%, compared to 12 months ago, now totalling almost 4,500 enterprise customers.

Let me now come to our SMB business on Slide 14. SMB revenue increased by 5% in constant currency year-over-year to €132 million. ARR grew by 4% year-over-year in constant currency, whereas billings slightly declined by 2% in the same period. Also here, as illustrated in the bottom-left chart, multi-year deals have caused negative distortions in the quarterly SMB billings trend. The SMB ARR, however, reflects the true underlying fundamentals of a growing SMB business, at a mid-single digit growth rate.

At the end of the third quarter, the SMB subscriber base was around 639,000 customers, which is, again, a slight increase, both sequentially and year-over-year. Also, the subscriber churn improved sequentially to 15.4% in Q3. As mentioned during our previous earnings call, the uptick in churn in the first half of this year was mainly the result of increased free to paid activities in the comparable prior year period. Since we typically reduce free to paid activities in the second half of the year, this effect was now less pronounced in Q3, as we had anticipated.

Let us take a look at our cost base on Slide 15. Our adjusted EBITDA increased by 15% year-over-year in Q3 and surpassed the 7% reported growth in revenue. Our total cost base in the third quarter remains stable year-over-year. Consequently, adjusted EBITDA margin expanded by four percentage points to 48%, which is an outstanding achievement. Adjusted for FX headwinds in revenue from prior year billings, adjusted EBITDA margin would have been even higher at 49%. Cost of goods sold increased by 12% year-over-year, which was mainly driven by higher deployment costs of frontline projects.

Marketing decreased by 33% year-over-year, and now reflects the reduced scope of our partnership with Manchester United, which took effect for the first time in Q3. We continued to invest into our future growth over the last 12 months. Sales costs increased by 18% year-over-year, driven by the FTE build-up throughout the last quarters. Costs allocated into R&D were up 13% year-over-year, as we have increased investment into our products and built up FTEs, which was partially offset by a reduction in external R&D contractors. In addition, some of our investments in our product platform are allocated into COGS rather than R&D.

The increase of 16% in G&A cost is the result of phasing effects. Far more important is the year-to-date G&A was only up 5% year-over-year and remained stable as percentage of revenue. Other costs increased from a very low base due to slightly higher bad debt expenses.

Let us move on to net income and EPS development on Slide 16. Our non-recurring costs in Q3 decreased by 37% year-over-year, primarily due to positive valuation effects, related to our FX hedging. This contributed to the increase in reported EBITDA. E&A decreased by 36% year-over-year as the PPA related to the acquisition of TeamViewer by Permira in 2014 was fully amortised in July this year. This resulted in a positive, pre-tax year-over-year effect of €5.3 million. Post tax, this positively affected the reported net income by €3.8 million in the third quarter. This PPA effect will continue to have a similar positive effect over the next three quarters, and as a result, our net income in Q3 increased significantly by 49% year-over-year to €39.5 million, and our basic earnings per share increased significantly by 60% to €0.25.

Our adjusted earnings per share were up 30% year-over-year to €0.29, supported by a higher EBITDA, and a reduced number of shares outstanding, due to our continued share buyback programme. In August, we cancelled 4 million ordinary shares that had been repurchased through our share buyback programme and were held in treasury. As a result, the share capital has been reduced from 174 million to 170 million ordinary shares outstanding.

With this, let's move on to cash flows on Slide 17. Our levered free cash flow year-to-date is €143 million, broadly flat year-over-year, and fully in line with our expectations. Let me address the main developments in Q3. The year-over-year decrease in levered free cash flow was mostly the result of a 43% higher in income tax paid. This is because of a 49% higher EBIT in the quarter, which benefited from the reduced Manchester United Partnership.

Let me give some more colour on some year-to-date cash flow components presented on this slide. Pre-tax unlevered free cash flow was up 7% year-over-year to €200 million, with a corresponding pre-tax levered cash conversion at a stable 88%.

On the other hand, our income tax paid year-to-date increased by 46% to €45 million, which is the result of two things. First, our profit before tax in the first nine months was up 20%. And second, our levered free cash flow in the first nine months of 2023 was supported by a €6 million one-off tax effect. For the full year 2024, we remain confident that our levered free cash flow will increase by around 8% year-over-year, primarily driven by positive working capital contribution, including positive effects from the sponsorship adjustments in Q4.

I will now give you a short update on our financing, on Slide 18. We have again improved our leverage during the quarter. At the end of Q3, cash and cash equivalents were €24 million. We generated a robust operating cash flow of €167 million year-to-date, offset by cash outflows of €120 million, related to our share buyback programmes and net debt repayments of €65 million. Consequently, our financial liabilities improved to €468 million, compared to the end of 2023.

Net financial liabilities were slightly higher at €444 million, compared to year-end 2023, as a result of reduced cash and cash equivalents of around €24 million at the end of Q3. Our financial leverage ratio also improved to 1.6 times per end of the third quarter. We continue to aim for a target ratio of 1.3 times per end of the year, on the back of a further improving adjusted EBITDA in the remaining months of the year.

To give you an update to our ongoing share buyback programme, we returned €26 million to our shareholders in the third quarter. And as of Monday, 4th November, so including shares bought back after the end of Q3, we have now bought back shares with the combined value of over €141 million, and thus completed around 94% of our ongoing €150 million share buyback programme, which we started in December 2023.

Our debt maturity profile remains unchanged from our latest earnings call. Our existing syndicated RCF facilities, 2022 and 2024, are fully committed until the end of 2027 and 2029, respectively. We paid back €35 million of utilised credit from the 2022 RCF in the third quarter and reduced the current utilisation of €20 million per quarter end.

Let us continue with our financial guidance on Slide 19. To sum up, we continue to navigate in challenging market conditions. Particularly, in this context, we have seen a good execution in the third quarter. We delivered on our growth ambitions with continued strong enterprise momentum and achieved outstanding profitability. Our strong and healthy fundamentals are underscored by a high single-digit ARR growth.

Year-to-date Revenue was €494 million, which corresponds to 9% growth in constant currency year-over-year. We have narrowed our revenue guidance range for full-year 2024 to between €662 to €668 million, which is well within our original revenue guidance range. Guided revenue range corresponds, therefore, to 7% to 8% growth on a constant currency basis.

As you know, we continuously build on our pipeline, but let me repeat again, current macroenvironment is unchanged and still very challenging. We continue to see a delay in customers' decision-making, and we also hear this more broadly in the industry and across all our regions.

We anticipate a similarly challenging trading environment to continue in Q4. As such, we expect to see low single-digit growth in billings for this period. This is also reflected in our updated revenue guidance range, which implies that we expect to see revenue growth in Q4, but at a lower level than what we have seen in Q3 and year-to-date.

Our revenue trajectory is fuelled by billings from last 12 months. In this context, please be aware that we have seen a meaningful contribution in total billings mix from multi-year deals of €44 million and higher than we had originally anticipated. Multi-year deals translate into revenue over more than one year. On average, over three years. Please take this into account when you also do the modelling revenue for Q4, as well as for the financial year 2025 and onwards.

In addition, our adjusted EBITDA margin is strong at 43% year-to-date. After an outstanding margin of 48% in Q3, we, again, expect to see high profitability in Q4, as well, maybe 1% lower than in Q3. Therefore, we have raised our adjusted EBITDA margin guidance by one percentage point to now at least 44%. We continue to invest in important areas as R&D, but we will also see benefits from cost efficiency, from early investments, such as automations. With that, I would like to hand it back to the operator and open for the Q&A session.

Operator: We now begin the question-and-answer session. Anyone wishes to ask a question may press star one on the telephone. If you wish to remove yourself from the question queue, you may press star, then two. Anyone with a question may press star one at this time. The first question is from Alice Jennings with Barclays. Please go ahead.

Alice Jennings: Hi. Morning, everyone. If I could just ask a couple of questions. The first one on pricing. In the past, I believe that you've done price increases often in the fourth quarter for the coming year. Can you comment at all on what price increases we should expect? Will this be within the normalised range of 3% to 4% that you've mentioned previously?

And then, my second question is just on enterprise. Enterprise is, again, up very strongly in the quarter, but it is facing much tougher comps going into Q4. How does the pipeline look for the fourth quarter? What kind of level of conversion are you assuming? And have you seen any change in the pipeline conversion recently, like already in the first month of the quarter? Thank you.

Michael Wilkins: I can start with the price. Actually, you're spot on, so 3%. This is what we had throughout this year. We also expect that for the fourth quarter, and this is exactly also from the comp comparison last year, it was in the vicinity of 10%. But this is exactly what we also mentioned at the beginning of the year.

Oliver Steil: And I think you had a reference to, especially in Q4, we roll the price increases through the base, so there's no specific

	seasonality on the price increases. It's upon renewal, we inform customers that there is an increase in price, and that's rolling through the base, so there's no specifics on seasonality there. I guess that was a question.
Michael Wilkins	And on pipe, I can continue. We see a good pipe. And actually, you saw the 32% billings growth in enterprise in Q3 or 23 on ARR. Actually, in this growth of Q3, there were also some deals which slipped into Q4, so too early to say whether we will be able to close them in Q4 or whether it will move into H1 of 2025, but we see a good pipe, and this is why we are also confident. What is important to note is that Q4 comp last year was very strong, and this is why we also ease it a little bit, with regard to the second half of the billings' growth.
Oliver Steil	And you asked for conversion rates, I would say, largely unchanged, in terms of how we see the business developing. As Michael said, good pipeline for Q4, and we also good pipeline for Q3. This is a not an easy market, as we've said, I think repeatedly, customers take time, a lot of uncertainty in the system, and not the least with elections in the US, and so forth. Conversion could have been better at the end of Q3, but not materially different than what we've seen in the last quarters. And that's also what we're assuming into the fourth quarter. Now, fourth quarter is a bigger enterprise quarter, so there's many more deals inflow, obviously, than in other quarters.
Alice Jennings	Thank you very much.
Operator	The next question is from Gustav Froberg, with Berenberg. Please go ahead.
Gustav Froberg	Good morning, everyone, and thank you for taking my question, as well. I just have one, actually. You said we're 94% through the share buyback programme. You're still generating a lot of cash. You're expecting free cash flow to be up 8% year-on-year, once we get through Q4, as well. What are the thoughts around capital allocation and the continuation of a buyback programme? Is that something you would like to do, or would you like to put money to work elsewhere?
Michael Wilkens	Yes, quick correction on the cash flow, around eight, not at eight, but this is a minor one. But with regard to the share buyback. First of all, we intend to completely finalise it, as mentioned. And with regard to 25, share buybacks, is, for us, always a part of the full equation, the capital allocation strategy. But we obviously also do that in the absence of M&A, so let's stay a little bit tuned, Gustav, with us, until we have the full set of numbers for the full year, and we will give an update then with the guidance next year.
Gustav Froberg	Okay. Thank you.

Operator	The next question is from Agarwal Deepshikha with Goldman Sachs. Please go ahead.
Agarwal Deepshikha	Hi. Thanks for taking my questions. I just I think two on just understanding on the enterprise dynamics, definitely, it was better than what was expected in this quarter. How should we think about [00:34:15 inaudible ?] quarters, given how this [00:34:18 unclear ?]?
Oliver Steil	No chance to understand you. Sorry, the line is fuzzy, and very low volume. Can you repeat, please?
Agarwal Deepshikha	Sure, can you hear me now?
Michael Wilkens	Yes.
Oliver Steil	Yes.
Agarwal Deepshikha	First one is basically on the enterprise, in terms of there is obviously macro, which is weighing on it, but how do you see the pipeline for enterprise going forward over the next few quarters in that context? That's my first question. Second one is on the SMB front. The SMB saw a decline on the billings, basically, on a constant currency basis for the first time, I think, when we look at it. Is there anything to be mindful of, that we should keep in mind, going forward, in terms of what drove that? And third one is basically a follow-up to the question on capital allocation. You mentioned buy backs will definitely be there in the absence of M&A. When it comes to the pipeline that you have, in terms of M&A, what are the things that you are currently focusing on when it comes to M&A pipeline?
Michael Wilkens	Let me start with the SMB question. First of all, SMB, as you know, and heard, was driven in the positive upswing by the price increase of 10% last year, so this year 3%. One driving factor, and the second main driving factor is, of course, the lower multi-year deals in the SMB structure. These are the two driving factors, but this is why we on purpose introduced now ARR, to show and demonstrate that this is a healthy mid-single business. And you saw now the first four quarters back, six, five, four, four, which is the growth in SMB, and this is what you also should anticipate going forward.
Oliver Steil	I think it's important to note it's not in decline, it's an ARR growth. Period.
Michael Wilkens	Yes.
Oliver Steil	Enterprise pipeline, I think, in fact, first question, as we discussed already, previous question, good pipeline, good pipeline coverage for the year, which we had seen. Also, good

	pipeline conversion. Yes, tough comps because last year was a very, very nice rally on the billing side. I think it's important to look at ARR again, that's why we introduced it, strong double-digit growth on enterprise consistently over the last quarters. And that's also what we're seeing. And into next year, basically unchanged, and many of the initiatives we've put in place, also, the changes, it is helping to build pipeline also for 2025. In this sense, we feel very good about the enterprise development.
	As I think we've seen, even in quarters where the market around us is weak, and other companies also report on challenges in the enterprise space, we are able to bring these deals in, sometimes bigger multi-year deals, sometimes more focussed on one year, hence, the focus on ARR, and you see that underlying health of the business.
	Capital allocation. I think M&A, there is no M&A pipeline that we would discuss here. As you know us, we have always been looking at tuck-in M&A. We like to bring on teams with solutions and add them to the platform to make our overall proposition better, especially towards enterprise customers, but also partly towards SMB. We work in partnership. We work in smaller acquisitions.
	Clearly, over the last years, valuations, we found valuations weren't very attractive, and there's more happening in this tech space now. We continue to look, but there's nothing which we would want to report on in this call, so stay tuned on this one. But I think, in general, tuck-in M&A, small- or medium-sized-type businesses.
Agarwal Deepshikha	Thank you so much.
Operator	The next question is from Ben Castillo-Bernaus, BNP Exane. Please go ahead.
Ben Castillo-Bernaus	Morning, folks. Yes, thanks for having me on. Just on the ARR metric, so plus 7% this quarter, I guess Q4, the guidance there implies revenue slow, as you've indicated. To what extent is that just caution or prudence, given the macro versus anything specific to call out on the implied revenue slowdown? I know the comps were tougher on billings, but if I recall, nothing specific to call out on revenue ARR, so maybe just some colour there. And then I just have one follow-up on the NRR metric, please. Thanks.
Michael Wilkens	Yes exactly as you assume, it's rather an overall cautiousness, which we intend to be in a better place and safer place, given also what happens around us. And we saw that now multiple times, this is why we also put out some caution already with Q2. What was your second one? NRR?
Ben Castillo-Bernaus	Yes, so enterprise NRR. So that's running below 100% NRR on

ARR.

Micheal Wilkens — Yes.

Ben Castillo-Bernaus — I guess in your enterprise business, is the ambition to see that that NRR metric be sustainably running above 100%, given you should be able to cross-sell and not [00:39:42 overtalking ?]?

Michael Wilkens — Clearly. Absolutely, Ben, this is what we are striving for. The NRR, and you see the growth from 94 now up to 99, as it should be, in the vicinity of 100, or so, not above 100. Yes.

Oliver Steil — Yes, and NRR based on ARR is the right metric to look at. It's obviously a tougher metric than any NRR based on billings, including, potentially, multi-year effects or other effects, so the ARR logic is the right logic, which is strictest definition for what we need to do. And on that one, we are close to 100 now. But, yes, absolutely, this should continue to develop upwards.

Ben Castillo-Bernaus — Okay. Thank you.

Operator — The next question is from Toby Ogg with J.P. Morgan. Please go ahead.

Toby Ogg — Yes, hey, good morning. A couple of questions from me. Maybe just firstly, just on the billings' growth of low single digit for Q4. You mentioned a more difficult comp base as a headwind, but then you've also got the potential to close out some of these slip deals. Just wondering if you included the slip deals in that sort of low single-digit assumption, and then what gives you the confidence in that low single-digit indication for Q4?

And then just on 25, any sort of early indications around how we should be thinking about 2025, any headwinds, any tailwinds that we should be thinking about across the topline metrics and on the margins? Thank you.

Michael Wilkens — As Oliver mentioned the pipe is good, and you have, obviously, in every quarter, moving factors. Some deals slip, then they close, then sometimes, you get a positive surprise, like we got in Q2. In the overall mix, we anticipated that some of the deals might also close in this lower digit growth of the billings. And this is why we also give this level of transparency and stability in the mix of billings and ARR and revenue. This is why we obviously ask you to take, also, the multi-year deals into account when you model the Q4 and 25 outlook on revenue.

Oliver Steil — And I think it's specifically to the slip deals, a little bit cautious. Yes, they slipped, and they should convert, but you never know. And therefore, we've taken the view that we looked at the pipeline for Q4, and that educates the direction that we're giving you. And then if we have slip deals coming in, and also the year-end development might be an upside, but it's too early to tell. There's too much uncertainty in the market. And therefore, we have been we have been cautious in this one.

And then same logic applies to 2025. From a current perspective, we wouldn't model or expect any specific additional headwind, but neither tailwind, obviously, now with just coming out of the US election, and that might have all kinds of impact in certain markets. You could easily argue that there's uncertainty out of the system, and that will be positive in the US, but then maybe you have the opposite effect in EMEA and APAC. And I think from today's perspective, please assume a continuation of the trends for 2025, as we speak today. And more, more concrete will then be in February when we come with the full-year numbers.

Toby Ogg — That's great. Thank you.

Operator — Next question from George Webb with Morgan Stanley. Please go ahead.

George Webb — Hi. Morning, Oliver, and Michael. Just one from me. I guess with Peter leaving the business, doesn't seem like there's been a decision to replace, replacement, chief commercial officer, instead to distribute the responsibilities amongst the management team. Can you just talk a little bit about why you thought that was the better approach than hiring a direct replacement? And if there's anything that's going to be changing, going forwards, on the commercial strategy? Thank you.

Oliver Steil — Sorry, can you repeat the exact question? I get the topic, but what’s the exact question?

Michael Wilkens — Could you repeat, please?

George Webb — Yes, sure. Just the thought process of the management board to not replace a direct replacement for a CCO role, but rather to distribute responsibilities, why was that kind of the preferred choice? And then, if anything is going to be changing around the commercial strategy as you look forward, as a result of that?

Oliver Steil — No, no changes around the commercial strategy. That's unchanged. The thinking there is, clearly, we have the right strategy, as you can see, with the enterprise growth and the success in the different parts of the business. So that's not changing. We wanted to have the flexibility, quite honestly, to put extra emphasis on certain functional roles, around marketing, around customer management, into the base, and also customer-based marketing, so campaigning.

Our thinking process is that given that Pete will only roll out towards mid of next year, we want to have a good look of which functions and skills we want to add to the team and how we do this in the best possible way. We work as a senior leadership team very consistently and coherently, so it might make sense to put these functionalities and capabilities into the senior leadership team. It will also give us freedom to see how we evolve the management board structure over time, and that flexibility was the guiding principle, so to say. And we have time. That's the whole point. There's nothing we need to rush at the moment.

George Webb: Okay, understood. Good luck in the fourth quarter.

Michael Wilkens: Thank you.

Operator: The next question is from Victor Cheng, with Bank of America. Please go ahead.

Victor Cheng: Hi. Good morning. Thanks for taking my questions. A couple if I may. I guess, first of all, going back to the ACV versus ARR in the SMB segment, I noticed, I think, for Q3 this year, the last 12 months, it's quite comparable at 530. But if we look at last year, there's a difference of 20 million. I think you alluded earlier that's a bit to do with multi-year deals. But even then, I think the multiyear difference, at least, isn't that big of a difference, is there are some other non-recurrent components in the SMB that you have taken off in the ARR?

And then secondly, on margins, congrats on the margin improvement this quarter. But if I look at sales, cost of sales, or other line items and aggregate ex-marketing, I think the cost actually has gone up mid-teens. I guess it goes back to the long recurring question of how the margins fare in enterprise, versus SMB, can you give us some colour on that?

Michael Wilkens: Yes, let me start with the later one. This margin question, SMB versus enterprise, we don't we don't do that. We don't have it. We don't disclose it. But look at look at us from a complete company perspective, enterprise share, overall, is growing, and we are able to improve the margin step-by-step, which should be a good indicator of the overall decomposition. I would leave it there for now.

On the question with regard to ACV and ARR, whether there are other components. Of course, hardware and professional services. But I think you related the question to SMB, and there, there's obviously almost nothing on provider services. It's rather the enterprise space.

Oliver Steil: In fact, in SMB, the conversion from ACV to ARR, or from billings to ARR, if you want, is effectively a multi-year deal thing, because there is no [00:48:00 inaudible ?] on SMB.

Victor Cheng: It looks like you don't have any multiyear deals in SMB, then in the last 12 months, versus maybe quite a bit more in 2022 to 23.

Michael Wilkens: No, we have multi-year deals this year, but at a lower level.

Oliver Steil	Yes. Less so. Less of them, but not no.
Victor Cheng	Got it, thank you.
Oliver Steil	And I think on the margin, just to add to this, I think we're now having this discussion for quite some quarters. I mean, as a matter of fact, we have done three investments into enterprise by investing into the brand and investing into the sales force. And now the enterprise portion of the business is increasing, as Michael say, yet the margins are expanding because we are reaping the scale benefits of better productivity of the salespeople, a reduction in brand spend, and an overall economies of scale in the business. I think it will be hard to make the case that the increase in enterprise share puts pressure on our margins. We just don't see it, Victor, and I think it's just a fact, sorry to say.
Victor Cheng	Okay. Actually, if I can squeeze one in on pricing, I think you did 10% last year, it's closer to 3% this year. Is there any kind of look into that, whether that can be a bit higher going into next year, maybe, especially on the enterprise higher-end side?
Michael Wilkens	No, actually, we don't do price-ups in the enterprise segment. Very rarely bespoke. But in general, the 10 and the 3 are referred to the SMB, and we feel today, as of today, comfortable to think, also, going forward, in the vicinity of 3%.
Victor Cheng	Very clear. Thank you.