

**TeamViewer SE**  
Q1 2024 Earnings Call  
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Transcript

**Speakers:**

Oliver Steil

Michael Wilkens

Bisera Grubestic

Thank you, Operator. Good morning, ladies and gentlemen, and welcome to TeamViewer's Q1 2024 earnings call. I am Bisera Grubestic and I am joined by our CEO, Oliver, and CFO, Michael, today. As per usual, Oliver will run you through the quarterly business highlights and, in the second half of our call, Michael will present the Q1 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 slides two and three of our presentation. With that, I hand it over to Oliver to kick off our presentation.

Oliver Steil

Thank you, Bisera. Good morning, everyone. Also a warm welcome from my side. Thank you for joining our Q1 2024 earnings call. As usual, let us kick off with the highlights of this quarter.

Overall, we had a good start into the year. As usual for the first quarter, we focused a lot on customer work, partner relationships and also investing in our product offering to lay the ground for the quarters to come throughout the year.

From a financial standpoint, we delivered an overall 9% year-over-year revenue growth in constant currency in Q1. In the mix, the enterprise business contributed a very strong revenue growth of 19% in constant currency. Besides all of those early investments, development of profitability exceeded our expectations, so our adjusted EBITDA increased to €65.2 million. That's resulting in an adjusted EBITDA margin of 40%. This is remarkable, as already now in the first quarter we have strategically reinvested part of the Manchester United sponsorship contract savings that will then positively affect our cost base in the second half of the year, as we explained it multiple times.

We specifically invested in marketing and sales. We've also strengthened our R&D and our R&D function. In the last months we have developed new AI features for our remote connectivity offering and we plan a comprehensive AI-related product enhancement later in the year. We are convinced that the impact of these investments will become apparent over time.

We've clearly seen that our efforts in terms of engagement with customers brought great results. On the one hand, we recorded a new all-time high of subscriber numbers in both categories, leading to a total of 640,000 subscribers now. On the other hand, we achieved a strong 25% year-over-year increase in billings from new subscribers. This demonstrates the continued relevance of TeamViewer's products and our leading market position. Which is, by the way, also supported by continuously improved brand equity. It's great to see how our investment in brand and marketing is paying off with new customer wins.

Regarding partnerships, we are proud to have joined forces with Manhattan Associates, a top tier provider of supply chain solutions. They will integrate our vision picking solution into their cloud based Manhattan Active Warehouse Management platform. Moreover, we've entered into a go-to-market partnership with Deloitte, also in the warehouse operations and logistics space. With these new partnerships we underlined our position as leading vendor of vision picking software.

In addition, we further strengthened our debt maturity profile with an agreement to issue a promissory note loan in the amount of €100 million in May. We will refinance part of our outstanding debt with repayment in two tranches. We've not only extended maturities, but also flattened out the overall maturity profile. The first month has clearly set a positive tone for the year with our strategic initiatives in full swing, both with our product enhancement and strong partnerships. We are firmly on track to deliver on our guidance for fiscal year 2024.

Now let's look on the annual contract value split of SMB and enterprise billings over the past 12 months. Let's start with our SMB business. As you can see on the left-hand side, the highest SMB bucket with contract volumes between €1,500 and €10,000 increased by 8%, and thus saw the highest growth rate in this category. Regarding enterprise, we also saw particularly strong growth in the larger volume business. The highest bucket, which includes contract with an ACV of over €200,000, grew by an impressive 38% over the last 12 months, which is really good, especially in the context of the current macro environment. This achievement is based on winning new enterprise customers, as well as successful upselling.

Now let's look at our regional performance and customer category split. In the first quarter, all our regions and categories contributed to our 9% revenue growth in constant currency. Our largest region, EMEA, showed the highest revenue growth with 11%, followed by APAC with 10. In Americas, we can clearly see the effect of last year's weaker billings momentum in the region, which resulted in a 6% revenue growth. All values are in constant currency and on a year-on-year comparison.

With growth in all our regions, we maintained well diversified from a regional mix perspective. Looking at our customer categories, we saw a strong contribution from enterprise with revenue up by 19% in constant currency year-on-year. The SMB segment also recorded good growth with 7% increase in constant currency, compared to the previous year. With the stronger growth in enterprise, this customer base is slightly up in the mix, now contributing 21% to our total revenues.

Let me finish my part with two enterprise customer examples, as

always. They're both from the healthcare sector this time, but it's quite different use cases, which illustrate nicely how customers use our solutions in many diverse ways and, at the same time, how broad the benefits are that they achieve with our software. We have a Frontline and a Tensor example here.

On the left, we have UnitingCare. This is an Australian provider of healthcare services. Their clinical nurses use TeamViewer Frontline on smart glasses to get a second opinion from a remotely connected doctor on clinical issues when they are on site in patient care. As a result, they were able to remarkably reduce hospital admissions, also meaning less stress for patients, and referrals are processed much faster. They saved on travel time and cost, which made it pretty much a cost-neutral investment for Uniting. Finally, they could also expand their operations geographically due to TeamViewer Frontline.

I think this is a great example from TeamViewer in the healthcare sector, with not only a decent business case, but also significant societal impact. Furthermore, addressing global challenges, such as clinical staff shortage, so absolutely replicable in other markets, which is actually happening already.

Skilled labour shortage is also a challenge in the success story of the customer on the right side. This is Integris Neuro. Integris Neuro offers an EEG patient data monitoring service for hospitals. They have a team of skilled, certified technicians that use TeamViewer Tensor to remotely monitor the EEG data 24/7, 365 days a year. They are really heavy users because each technician has several TeamViewer sessions permanently open and is monitoring several EEGs at a time. Thanks to TeamViewer, Integris can easily scale and basically address the whole US American market with a relatively small team and also hire their own staff from coast to coast, as most of them obviously work remotely.

On the other hand, by outsourcing this task US hospitals save cost and time, and again mitigate the shortage of clinical staff, same as in the Uniting case. As you can imagine, sensitive patient data is transferred and processed in Integris' service offering, which is only possible because TeamViewer is compliant with the necessary security standards, in this case it's HIPAA standard, which is a must for the US healthcare sector.

This use case, again easily replicable. We have several other customers that use TeamViewer in exactly the same way. The bottom line, it's very diverse use cases for our solutions, many opportunities for process digitalisation.

With this, I hand it over to Michael for the financial overview. Thank you.

Michael Wilkens

Thank you, Oliver. Good morning and a warm welcome also to all of you from my side. I am happy to guide you through our financials for the first quarter of 2024. Let's jump straight into the next slide, please. Our Q1 2024 results marked a good start into the year. We delivered growth in both revenue and adjusted EBITDA, which is a notable success given a persistently tough macroeconomic climate. Mindful of these conditions, we are carefully balancing investments and profitability. Q1 revenue was rounded €162 million, which translates into a 9% growth in constant currency year-over-year. And as anticipated, revenue saw notable FX headwinds from last year's billings. More on this one later.

Billings for the quarter landed at €174.5 million, a 1% decrease on a reported and on a constant currency basis, also as expected. This decrease is mainly caused by lower contribution from multi-year deals as anticipated, which I will also explain in a bit. On the other hand, as Oliver also mentioned, we saw a remarkable increase in new billings of 25% year-over-year. ARR based on billings increased by 7% to rounded €657 million, compared to one year ago, which is in line with the reported revenue increase. Overall, NRR was 103%. The decline of 4 percentage points against the strong comp was particularly driven by FX effects.

Our adjusted EBITDA grew to €65.2 million year-over-year. As communicated, we made strategic investments in marketing, sales and R&D in this quarter, which are set to enhance our performance as the year progresses. After this, our adjusted EBITDA margin was 40%. As anticipated, the slightly lower Q1 billings and increased cost base from strategic investments impacted free cash flow, which was €40.5 million, against the strong comp last year, that also benefited from a positive one-off tax effect. Our adjusted EPS remained largely stable at €0.22.

Let's have a closer look at the details of our Q1 results. Next slide, please.

Looking at the top-left chart, you can see the development of quarterly revenues. Our revenue saw a reported growth of 7% year-over-year, including FX headwinds of €3.5 million from the 2023 billings. As we have pointed out during our last call, this year's reported revenue will see total FX headwinds of around €10 to €12 million, which is related to the last 12 months' billings.

Looking at adjusted EBITDA and margin, let me just reiterate that we will see back-end loaded margin phasing throughout the year, with the first and second quarter coming in a bit lower due to two main factors. First, the FX headwinds from the previous year's billings have a negative impact on this year's revenue and margin. Second, the planned early reallocation of future savings

from the adjustment of our partnership with Manchester United. As mentioned, we have started this already in the first quarter. I will go into this in detail when talking about the cost development. But let's be clear, considering the persistently tough macroeconomic climate, we are carefully balancing investments and profitability, which has positively contributed to an adjusted EBITDA margin of 40% in Q1.

Coming to billings, first bottom-right chart on this slide. Oliver already highlighted this. New billings, which are exclusively from new customers, increased by a strong 25% year-over-year. This amounts to around €4 million increase, as shown on this graph. This is a very positive development, as we also saw year-over-year growth in Q4 last year. To me, this is a clear signal that we are successfully reaching out to new customers around the globe and can convince them of our solutions.

Total billings were slightly down 1% year-over-year. Billings were negatively impacted by €6.8 million lower contribution from multi-year deals with upfront payment. This decline in multi-year deals was anticipated going into the year. We said in our last call that multi-year deals with upfront payments will be lower in 2024. Those customers with multi-year deals with upfront payment will become eligible for renewal from Q3 24 onwards, which is a natural course of business, as it is three years after we started with this type of deal. Therefore, we expect to see the largest negative impact in the first and second quarters from this multi-year deal change.

In addition, there's a seasonality effect in billings from our back-end loaded enterprise business. This is a normal start of the year where we build up our pipe. Let's now move to slide 12 and look at our SMB business.

With around 636,000 SMB subscribers Q1 2024 marks a new all-time high. This marks a very nice achievement and demonstrates the continued relevance of our products. At the same time, SMB revenue grew by 7% in constant currency to €128 million year-over-year. This development was supported by continued pricing measures over the last 12 months and successful cross-selling. SMB billings remained largely stable in constant currency at €141.8 million. As already pointed out, this compares to a strong Q1 2023. ASP is up 2% year-over-year. At 15.3% churn was a bit higher than in the previous quarter. This is due to increased churn from very small, low-end subscribers. However, we do see a positive trend in value churn.

Moving on to our enterprise business on slide 13. As you can see from the top-right chart, the number of enterprise customers has been growing nicely over the last 12 months, thanks to our continued upsell motion and new customer wins. We now count

almost 4,200 enterprise customers, an increase of 11% compared to last year. On the back of this, enterprise revenue grew strongly with a double-digit increase of 19% in constant currency. Enterprise billings decreased by 3% in constant currency year-over-year. This is mainly caused by the already mentioned impact of lower multi-year deals on top of the usual seasonal pattern of the enterprise pipeline buildup, which is more back-end loaded throughout the year. This is even more accelerated with ongoing macroeconomic uncertainty that led to prolonged decision-making processes. Lots of interest, appetite and great discussions, but relevant decision takers obviously sometimes postpone also smaller deals because of uncertainty.

Despite these challenges, enterprise NRR improved quarter-over-quarter by 2 percentage points to 108%, which is a good signal and also underlines the stickiness of our enterprise business. To conclude this, we remain on a positive trajectory here with a good start into the year. This makes us confident to deliver on our 2024 targets.

This brings us to the cost side of the business. As I said, we have already started reallocating some of the projected savings from the adjustment to our Manchester United partnership in Q1 to bolster marketing, sales, and R&D. These strategic expenditures are set to support our performance further down this year. However, you know us and that we like to keep an eye on cost, particularly in the current climate we are making sure to carefully balance investments and profitability. Nevertheless, we firmly believe that it is important to continue to invest also in weaker cycles, to continue to expand our market-leading position.

Let's have a closer look on where the 11% total comes from. With an increase of 20%, cost of goods sold has a large share in this. This was mainly driven by investment in our customer platform, such as service and routers and higher cost from development of front-end projects. Expenses were up 10%, which was due to increased headcount to boost our enterprise sales. As you know, onboarding sales people takes some time, so we started early to have them fully productive later down the year.

In marketing, we also increased our FTE and we additionally invested in new brand awareness initiatives focused on enterprise customers and important markets, such as Great Britain, Germany, North America and others. This brought marketing cost up 7% year-over-year. Marketing also includes the cost of the current scope of the Manchester United partnership.

R&D expenses increased by 9% year-over-year, driven by strategic investments in our product offering and highly



important, improving our best-in-class security even further. G&A remained broadly stable and other costs increased mainly due to lower proceeds from derivatives, followed by slightly higher bad debt. All this resulted in an adjusted EBITDA margin of 40%, 2 percentage points below Q1 2023. However, excluding the negative 2 percentage point effect from the FX headwinds, revenue from the 2023 billing, our adjusted EBITDA margin would have been 42%.

This considered, we did a very good job in balancing out investment and profitability. Please remember, this is well in line with our full-year guidance. As communicated, we expect a back-end loaded margin phasing throughout the year. We are ramping up investments further in the second quarter, which will have an impact on bottom line and profitability. But with the full impact from sponsorship savings effective in H2, profitability will see a notable step-up in the second half of 2024, which underpins our expected adjusted EBITDA margin of at least 43% for the full year.

This leads me to slide 15. To start with, TeamViewer's business remains highly profitable, as we just saw. Net income was €22.3 million in the first quarter. Non-recurring costs increased mainly due to fair value changes in derivatives, which was offset by our new tax scheme, improving profit before tax disproportionately. Other items have developed largely in line with our growth. Our financial result was largely stable year-over-year, despite higher interest rates.

Share of profit and loss of associates is a new line in our P&L related to our equity investments. Overall, we have recognised €1.1 million loss from associated companies this quarter, all as expected and in line with the investment horizon. These investments are an integral part of our innovation strategy, especially with regard to our capabilities in smart factory and augmented reality solutions. Please note that we have also recognised losses related to at equity investments of around €500,000 in Q4 2023, which were previously accounted for as financing costs.

Our earnings per share was €0.22, 3% up year-over-year, due to a lower number of outstanding shares as a result of our ongoing share buybacks. With this, let's move on to our cash flow on slide 16.

Pre-tax unlevered free cash flow was €58.2 million in Q1 2024, which was impacted by slightly lower billings and an increased cost base, as anticipated. Capex was around €800,000 higher than last year. The increase is mainly related to spending on replacing hardware bought at the start of the pandemic in 2020. On the bottom of this table you will see that levered free cash



flow in Q1 was €40.5 million. Two items that I would like to point out here are interest paid and income taxes. Interest paid increased by only €700,000 in the first quarter, despite higher interest rates and a one-off upfront payment for the new RCF2 we placed in January 2024 with €75 million.

On the income tax, we paid slightly higher taxes on the back of full-year 2023 results. Let me remind you that income taxes Q1 2023 was positively impacted by a tax refund of €3 million, which of course increases the year-over-year delta comparison considerably. All in all, cash flow is in line with our expectations. As we said in the last earnings call, we aim for a growth of around 12% of full-year 2024 pre-tax levered free cash flow, which is adjusted for income tax paid in the same vicinity as in 2023. I will elaborate on our debt management and capital allocation on the next slide.

In Q1 we returned around €68 million to our shareholders as part of our current €150 million share buyback programme. Our financial leverage ratio has slightly increased from 1.8 times per end of 2023 fiscal year to 1.9 times per end of the first quarter. This was mainly due to a slightly higher net debt. Net debt increased due to lower cash and cash equivalent, driven by lower cash flow from operating activities, followed by the cashout of our ongoing share buyback programme. This is all as expected, and for the full year we expect leverage ratio of around 1.3 times, based on adjusted revenue EBITDA per end of 2024, while also targeting an equity ratio of around 10%.

We strengthened our debt maturity profile compared to last year for several debt transactions: First, we paid back an €85 million promissory note in Q1 that was set to mature this year. This was partially refinanced by a net RCF drawdown of around €75 million, which will mature in 2027. Second, we successfully agreed with our financing partners to issue a new promissory note with a total value of €100 million in May 2024. It will serve to refinance a term loan facility as part of our existing syndicated loan that is currently set to mature in 2025. The new promissory note is set to mature in two steps, €48.5 million will be due in 2027 and €51.5 million will follow in 2029. This will improve our maturities by extending the timeline and strengthening the profile.

Let us now take a look at our full-year guidance on slide 18.

Let me summarise. The quarter was a good start into the year and we delivered growth in both revenue and adjusted EBITDA. We were able to win subscribers in SMB, as well as enterprise, bringing the total number up to an all-time high and a very good increase in new billings. I can confidently say we are on our way to meet our guidance for the full year 2024. We reiterate our

revenue outlook of €660 to €685 million, based on an average FX rate of 2023.

This revenue outlook includes FX headwinds from 2023 billings of around €10 to €12 million on a full-year basis. Corrected for these FX headwinds, guided revenue range corresponds therefore to 7 to 11% growth in constant currency. Let me also remind you that this FX headwind saving will gradually tail off towards the end of the year. In Q1 we had a negative impact of €3.5 million. In Q2 this is likely to be around 3.8 and in Q3 around 2.5, and the remainder in Q4 of around €1.5 million. Then we expect an adjusted EBITDA margin of at least 43% for the full year of 2024. There will be a back-end loaded margin phasing throughout the year. In the first half, we will focus on investing in marketing, sales, and R&D projects.

Broadly speaking, adjusted EBITDA in absolute terms will be flat in H1. Savings from the sponsorships will then start to materialise in the second half. Considering the persistently tough macroeconomic climate, we are carefully balancing investments and profitability. Cash generation and ongoing share buybacks will keep creating shareholder value, which I think makes us a very attractive investment. With that, I would like to hand back to the operator and open for Q&A.

Operator

We will now begin the question and answer session. Anyone who wishes to ask a question may press star and one on their touch-tone telephone. You will hear a tone to confirm that you've entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use only handsets when asking a question. Anyone who has a question may press star and one at this time.

The first question comes from the line of Gustav Froberg from Berenberg. Please go ahead.

Gustav Froberg

Good morning, everyone, thank you for taking my question. I just have one and it's just on billings, flat to slightly down billings year-on-year in Q1 for the group as a whole. You're talking about the multi-year deal effect being the reason for that. How should we think about billings growth for the remainder of this year? Should the effects then be seen firstly in H1 and then wash out, and then we should go back to this kind of 8% of growth that you showed last year? Or is there a different way to think about the billings growth?

And maybe as a follow on to that, what should be contributing to billings growth this year, such that we can, as the year progresses, look into 2025 revenues with a bit of confidence that growth will continue? Thank you.

Michael Wilkens

2025 is a little bit out, although as you said, you should expect a

billings acceleration in the second half of the year, as we also think the multi-year deal impact will be in a split first half of the year to the second half of the year two-thirds to one-third, so that is roughly the part of the equation. But Q2 we are positive that we see already acceleration in the billings.

Gustav Froberg

Okay, super. Thank you.

Operator

The next question comes from the line of Deepshikha Agarwal, Goldman Sachs. Please go ahead.

Deepshikha Agarwal

Good morning, everyone. Thanks for taking my question. One is basically just a follow-up on the billings growth trajectory. You alluded to a back-end loaded year in terms of enterprise. Apart from the multi-year deal dynamic, what are the factors that are giving you visibility into that back-end acceleration? Any colour on the multi-year deals impact for the full year? You said it's two-third to one-third, but on an absolute basis, how should we think about it?

Second is basically on costs. You said that you will continue to pull forward the investments in the first half. Can you talk about some of the levers that you have around flexibility on costs?

Oliver Steil

Maybe I start with the first on enterprise. There's a very significant seasonality in enterprise. If we look at the pipeline of our billings and business across all regions and across all product segments. As you've seen in the last years, the difference between the quarters in enterprise is very significant. In that sense, there is the multi-year effect which is washing out, which Michael can comment as well, but the bigger effect is the seasonality of the business. And that we feel very confident about because we see the same dynamic that we've seen in other years before.

Michael Wilkens

On the multi-year deals, last year we had 68 million. We said already with the Q4 call that we think for this year something in the vicinity of 48 to 50 million, so roughly 18 to 20 million. And if you then do the math, two-third first half, one-third second half, then you have all of the quarters de facto up and ready.

On cost, we have always flexibility in our equation, so we ramp, but we can also obviously go a little bit onto the brakes if needed, but for now we don't see it. For us it's important, as we said already in the speech, that we also invest in tough cycles.

Oliver Steil

And of course we have super clear visibility on a very big cost item for the second half of the year, so that's why we can be very confident and have very good line of sight on how costs will develop and how we will get to our guidance, at least 43%, so that's very, very clear.

And then on multi-year, just a comment from my side. It's not

surprising that in the current environment companies are a bit more cautious and don't necessarily aspire to pay multi-year deals all upfront, so they tend to do annual payments more. We talk about multi-year with full upfront payment deals here and it's less so the case, which again in this environment, macro, not so surprising. Which also means that obviously the underlying quality of the deals we were bringing in, or annual deals or multi-year deals with annual payment, is actually pretty good.

Michael Wilkens This is also why we explain that we over time will develop more and more into the ARR logic, which gives you the annual ACV logic, which is then taking out also the distortion from the billings of the past.

Deepshikha Agarwal Okay, got it. Just one more thing, a quick clarification. You said that the billing growth is most likely expected to accelerate from 2Q onwards versus what we saw in the first quarter.

Oliver Steil Say that again, sorry we didn't hear you.

Deepshikha Agarwal The billings growth, you alluded to an acceleration into the billings growth from 2Q onwards.

Oliver Steil Absolutely, yes.

Michael Wilkens Q2 starting and then increasing.

Deepshikha Agarwal Thanks.

Operator The next question comes from the line of George Webb, Morgan Stanley. Please go ahead.

George Webb Morning, Oliver and Michael. I've got two questions, please. Firstly, new subscription billings Q1 actually looks pretty strong in the grand scheme of things. It looks like some of those channel initiatives have been working through maybe on the product side as well. On the channel side, can you talk a little bit more about why you think that's come through in Q1 in particular? Do you think this overall step-up in the new subscription billings towards this high teens level is sustainable?

Secondly, I think you mentioned, Oliver, there might be some AI-related products later in 2024. Can you share anything around what that functionality might be? Thank you.

Oliver Steil First of all on new billings, what is driving this, if you see our initiatives and our investments that we've done over the last quarters and are still doing, enterprise sales people, marketing campaigning, using the large partnerships, SAP, Siemens, Microsoft, to really drive our enterprise and also larger SMB billings.

As it happens when we invest in those things, there's more activities that are outreaching to completely new logos, and I

think that you see coming through by now, the activities that we have there. I think we were always very good in upsell, cross-sell into the base, migrating SMB customers to the Tensor product. Which has always been the biggest chunk of what we were doing, but now you see a little bit of a shift because we are well distributed with our sales people around the globe and we do have these partnerships and they start to kick in more. I think that's a key driver in winning in new logos.

Then new logos often come in with higher ASPs because they don't have the long time with us at relatively low ACVs, which we then need to upgrade over time. They typically start pretty high from the get-go, so that's clearly one of the drivers of the new billings.

Second question, AI functionality, too early to give more detail, but fundamentally what you can think of, we do digitalise workflows in IT and both OT. That gives us visibility of a significant amount of data if customers agree, we can work with this data and as you can imagine, everything we do around our portfolio and functionalities and products is then the use of this data and using AI to analyse this data and to generate instruction and improvements across the product. But again, more to come later in the year.

George Webb

That's helpful. If I can just push a little bit on that, and again, happy if you wanted to circle later, is that data you seek to get once you bring out the functionality to get people to opt in? Or is that something that you're already collecting?

Oliver Steil

Good question. The functionality is mostly there, so it's a matter of discussing with the customer and agreeing with the customers to use the data. Certainly something where, depending on the use case, depending on the segment and region, some customers might not want that, but others might be very fine with it. Obviously we can anonymise and sample, and what not. So, therefore, there's opportunity, but it requires an opt-in of the customer, so to say.

George Webb

Okay, thank you.

Operator

The next question comes from the line of Toby Ogg, JP Morgan. Please go ahead.

Toby Ogg

Hi, morning, Oliver and Michael, and thanks for the questions. Maybe just coming back on the billings development, in the quarter again obviously minus one ex-FX. I think if we add back the 6.8 million lower contribution from the multi-year deals with the upfront payment, then the billings growth was still low single-digit growth. Could you just give us a sense for how much worse the macro was in Q1 versus the trends that you'd seen in Q4? Have you seen any increase in competitive intensity?

Then just again coming back on the acceleration and the billings growth in Q2 and then the acceleration in the second half, what are you assuming happens with respect to the macro through the remainder of the year and how much visibility do you have on that acceleration from the pipeline at this point? Thank you.

Oliver Steil

I'll go first on the billings. Competitive intensity is not the case, I think it's pretty much the same that we see with the deals in general. As we pointed out, customers are slower in decision making, more approval cycles, so there's not a competition point, it's the buying behaviour point. I think that's clearly macro related. We hear that from our partners and many other players, as well, that we meet regularly.

Obviously there's a comparison between Q4 and Q1 and, yes, you're right, if you add back the 6.8 it's single-digit billings growth. Yes, that's in line with expectations because it's Q1. Seasonality over the year is back-end loaded, which we have seen in the fourth quarter of last year, so obviously you see more deal activity in the fourth quarter, significantly more deal activity. Customers want to close deals, they have visibility on their budgets towards the end of the year which they can spend. All of that is different in Q1, so very naturally Q1 is slow out of the gate and probably a little bit more muted due to macro. That's the overall setup where we are the moment, so in that sense pretty much in line with where we wanted it to be.

Not 100% sure I got your second question, but maybe...

Michael Wilkens

One little topic, Toby, we said a little uptake in Q2 on the billings and an acceleration in Q3 and Q4, that is what we said. I think you misunderstood that maybe. And your second question?

Toby Ogg

It was just on what you're assuming with respect to the macro in the second half, given you're expecting this acceleration, and how much visibility do you have based on the pipeline currently around that acceleration in the second half?

Oliver Steil

We don't assume any improvement on macro. We live in the current environment and we don't hear incredibly positive signals from other players, so that is as we see it now, we assume. Obviously, as I said before, there's significant seasonality in the enterprise business and also in the upper part of the SMB business. We track our pipeline, it's all in the CRM system, we know what we're working on.

We also have joined pipelines, co-selling motions with our key partners, it's also visible. And from that I think we have a very good understanding on where we're heading towards the end of the year. And as always in Q2, the enterprise piece builds up as you go along throughout the year and I think you see that in the last two fiscal years, and that's the same thing we see in the



pipeline as of now.

Toby Ogg Great, thank you.

Operator The next question comes from the line of Gianmarco Conti, Deutsche Bank. Please go ahead.

Gianmarco Conti Hi, Oliver and Michael. Thank you for taking the questions. I have about three, please. The first one is what are the drivers for the lower ASP in the SMB base? Particularly, as your pricing has increased every year and last year saw a big step-up.

The second one is, is there anything to read into the gradual step-up into of subscriber churn in SMB or is this simply a function of the free-to-paid campaign?

Then finally, if you could give me just a quick clarification. You mentioned Q2 billings acceleration, is that on a sequential basis compared to Q2? Thank you.

Oliver Steil Let me start. Lower SMB beginning of the year you saw there is an additional subscriber intake, some free-to-paid campaigning typically comes in at lower ASPs and to entry level, so that's a mix effect early in the year, so nothing particular but more subscribers coming in changed the ASP a little bit, reduced the ASP a little bit.

Churn SMB, as you said, yes, an inventory of free-to-paid customers, but also Q1 always still a little bit post-COVID anniversary, so there's always a little bit of higher volume churn in this quarter, but nothing to worry about, really minor impact.

Michael Wilkens Especially the value churn is also improving.

Oliver Steil Yes, value churn improving, it's a volume thing. Q2 billings, Michael?

Michael Wilkens Yes, as we mentioned, slight uptake in Q2 in the billings expected and then an acceleration in Q3 and Q4.

Gianmarco Conti Just a clarification, Q2 sequential, right? So there'll be minor growth compared to Q1.

Michael Wilkens It's billing sequential grow in Q2 to Q1.

Gianmarco Conti Okay, thank you. That's all from me, thanks.

Operator As a reminder, to ask a question please press star and one. The next question comes from the line of Victor Cheng, Bank of America. Please go ahead.

Victor Cheng Morning and thanks for taking my questions. Maybe first of all on the SMB growth which you have just alluded to. Can you talk a bit about some of the initiatives that's driving the subscriber growth and seems like a bit more growth now on the lower-end side. Are those initiatives sustainable and how are you seeing

that in terms of competitive dynamics?

Then secondly, just following up on the AI capabilities, as well. I remember maybe 12 months ago in the product launch that you've touched a bit upon AI capabilities, as well. Just wondering what views you have, what has changed 12 months onwards, in terms of what AI capabilities you can add in your portfolio? And whether that can be developed organically or maybe you're looking at some more tuck-in M&As to add more capabilities and expand your use case on that front.

Oliver Steil

Let me take the second one first, so AI. The product launch a year ago was on functionalities, web-based security, new UI, not at all a focus on AI, but it's still the same logic in our product structure, so to say. What we need to do, as I said before, is basically from the product, from the data log that we're using or the instructions that we're producing on frontline, have the ability to analyse this data in agreement with customers, either on an anonymised assembled format or in totality. That's what we're developing. Mostly organic and in partnerships with providers of large language models, i.e. Google and Microsoft, as we are not building language models ourselves, so we work with our partners.

Tuck-in M&A, potentially on the AI side not needed at this point in time, but of course if we want to stretch to more use cases and get more industry expertise, vertical expertise for certain use cases, then that might be something which we could consider. You saw that we did a smaller investment in a company called Sight Machine. That company is doing analytics for manufacturing environments for smart factories and they are also using AI for this. So, yes, we're doing smaller investments and might do also tuck-in M&A, but at the moment it's mostly an organic development.

SMB growth initiatives, there's campaigning on free-to-paid conversions, there is cross-sell initiatives which we have launched for new cross-sell products with our partners. There's an element of price increases. Most of these initiatives will run throughout the year, some in waves, like for example free-to-paid, conversion is a constant development, cross-sell campaigns built into our incentive system now and we're adding cross-sell features to our product range. And price increases are running throughout the year as well, we gave you an indication earlier, last earnings call, that we see roughly room for 3 to 4% price increases on the SMB base as we go along. This is running as normal course of business.

Michael Wilkens

Maybe one correction. Toby, you asked obviously sequentially billings increase and we heard here a year-over-year. You know that Q2 and Q3 are our weaker quarters of the billings and Q4

and Q1 are the stronger quarters. So, year-over-year, this is what I refer to, slight increase, but of course not sequentially because Q1 is a very strong billings quarter, just as a correction.

Operator The next question comes from the line of Andreas Wolf, Warburg Research. Please go ahead.

Andreas Wolf Hi, everyone. Thank you for taking my question. The first one is on the market opportunities. maybe you could share your view on what your assumption is with regard to market penetration of remote connectivity solutions?

And the second is on your AI solutions. Do you see opportunities in providing AI solutions to many services providers, to automate their workflows? Thank you.

Oliver Steil Market opportunity, remote connectivity, it really depends on which part of the market you are talking about. I think we operate in IT and OT and I think it's fair to say if you look at remote support in the IT space, so people helping people, it's clearly a case where most people have some kind of a solution. Either work with us most of the time, clearly a market leader there, but there's other players out there that are successful. Or some companies in some geographies still have proprietary solutions that they might swap out.

But in that sense, there is pretty high penetration already, but customers change to a more secure platform, which is then when we sell our Tensor, which is very successful. And then more functionalities around it, more manageability and more devices that they can connect because there's more smart devices, device growth in the company, every employee use more devices. So, there is growth there, but penetration is already there.

If you go to OT devices, embedded devices, remote connectivity of frontline workers in an operational environment, there the penetration is very low from our perspective. We do see those use cases, we have those wins. For example, as we also discussed earlier, with Uniting, but that's very, very early on. So we believe there is a very significant market opportunity ahead of us here, with more and more companies and more and more verticals embracing the idea of remote home working or work from home. It's everywhere, yes, but really operational processes, there is much more that we can go for and that's what we're addressing and, hence, our strong focus on IT/OT conversions, frontline workers, embedded devices and the like.

Then second question was around AI. Can you repeat it, please?

Andreas Wolf Do you see opportunities in providing AI solutions to manage service providers?

Oliver Steil

We provide our core product, our functionality of remote support, report manageability also to manage service providers. And then in that sense, if we build an AI capability, it's available to anybody, so also to MSPs. If there's findings out of the logs that we can read into, we would make it available to any customer independently, whether it's an MSP or an enterprise customer or a mid-size IT department. So, it doesn't really change the picture.

MSPs, obviously they have a platform of services and they try to work in automation a lot to make life of their customer as easy as possible and as seamless as possible, also in invoicing and time tracking and the likes. And then also bundling all these different features into one bundle and TeamViewer would be a part of it. So the answer is yes, but it's not a specific initiative that we would focus on.

Andreas Wolf

Thank you.

Operator

That was the last question.

Oliver Steil

Okay, then there's no more questions. Thank you very much for joining our call, thanks for the questions and looking forward to continuing the discussion with you. Thank you very much. Bye-bye.