

13-Feb-2024

WithSecure Corp. (FSC1V.FI)

Q4 2023 Earnings Call

CORPORATE PARTICIPANTS

Laura Viita

Director-Investor Relations, WithSecure Corp.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

OTHER PARTICIPANTS

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

MANAGEMENT DISCUSSION SECTION

Laura Viita

Director-Investor Relations, WithSecure Corp.

Good afternoon and welcome to WithSecure, Finland. My name is Laura Viita. I am the Investor Relations Director of WithSecure and wishing you welcome to this result release. So, this morning we have published our Quarter Four 2023 Results, and we are happy to report our first-ever breakeven and cash-flow-positive quarter since the F-Secure demerger.

So, today we have Juhani Hintikka, our President and CEO, talking about the business, the markets and the plans in general; and then our CFO, Tom Jansson, who will go through the financial results. Questions and answers will be taken at the end. On the webcast, you can put in questions all the time. We will also take them at the end of the session.

With that, welcome, Juhani.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

Thank you, Laura. Good afternoon. 2023 was not entirely smooth sailing, but we had a positive finish to the year in Q4. So, as mentioned already, we had our first cash-flow-positive and EBITDA-positive quarter since the inception of WithSecure.

In terms of the metrics we report, we start with the cloud annual recurring revenue. We had an 8% increase on a year-on-year to basis to the level of €86.8 million. Our cloud NRR was 99%. And that, of course, raises the question since it's below 100%, and we're generally targeting a higher level. And we clearly saw the market impact in our demand. So, while customers were buying, we saw some diminishing numbers in terms of the amount that we're buying. And that is, of course, reflected in our NRR figure. Good news is that we were retaining

those customers. The cloud revenue in itself grew by 13% on a year-on-year basis to the level of €21.2 million. And in terms of the regions where we operate, the German-speaking region, DACH, and France continued to perform well.

Regarding DACH, it's good to mention that we have earlier talked about our Managed Detection and Response business. In DACH especially, we have been orienting that business towards the mid-market with good success during 2023 and the Q4. And in France, we continued our strong Elements-based performance throughout the year. In UK and in the Nordics, we have faced some challenges. Clearly, in UK, we were impacted on a company level by some of the demand and competitive issues and also the fact that we are behind there in terms of our go-to-market for the channel, which we are now building and are moving forward with good progress. And in the Nordics, we had varying degrees of market and competitive issues that were impacting but already there. We're also seeing some good traction now in the beginning of the year. All in all, growth in all product areas in Q4, which of course, is positive.

Our on-premise products, there the revenue declined by 10% to €5.9 million. This is something that we have earlier indicated we expect to happen as we are migrating customers from the on-premise product suite to cloud. And the fact that it actually hasn't decreased more than 10% is also kind of impacted by our ability to manage the pricing related to our on-premise product portfolio quite well. And consulting in Q4, the revenue declined by 2% to €10.8 million. But at the same time, of course, it was a very strong quarter for consulting, and we made good progress in terms of our ability to operate and deliver to major customers. And we are moving into 2024 with strong backlog.

Some key takeaways further in Q4. So, as said, positive EBITDA, we were at the level of €0.2 million. And if we look at the comparative OpEx of Q4, it is an estimate without the TSA work for F-Secure, so it's not fully comparable. As you may recall, we were coming out of a divestment with the F-Secure, and there has been some work between the companies as a result of that earlier. All in all, I think the whole of last year was characterized by major cost savings and restructuring. And we, of course, saw the impact of those conducted during the first half of 2023 being visible in our numbers in Q4.

As you may recall, we also announced our new strategy during the – towards the end of last year. So, we are focusing on the Elements Cloud portfolio. We're focusing on our partner-based go-to-market. And we are focusing on mid-market customers as end customers. We are already operating consulting as a separate independent business unit and, as announced, we are conducting a strategic review concerning that business. Also, towards the end of last year, we restructured the company, the organization, to better reflect the execution of our strategy. That has been done, and we have started operating January 1 with renewed organization and organizational focus.

Cloud Protection for Salesforce as a separate unit is also subject to a strategic review. Here, the focus is more in terms of assessing how to increase potentially investment into that business from external sources, and that work continues. And finally, we have our new Chief Customer Officer, Lasse Gerdt, who started working 1st of January at our company. He's already well onboard and fully up to speed in running the customer operations organization.

With that, I'm going to hand over to Tom, who is going to walk you through more in detail some of the financials. Over to you, Tom.

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

Thank you, Juhani. Good afternoon from my part as well. So, a short recap of our numbers. So, as mentioned, our cloud revenue and especially ARR performance in Q4, on the ARR as you've all seen, we came out to the market with the real performance after ending the quarter four, and our end of the year was not as strong as we expected. And also what we saw in the previous year overall especially on the ARR side. Cloud revenue, though, did continue to perform overall, but there were some, as mentioned earlier, some slowness and so on in the market. And we did not see the end of the year similar to 2022 or our expectations. And as said, we had regions that were doing quite well and executing as we expected; France and DACH being those two. And then we had a bit more challenges in – specifically in the UK and the Nordics market. And then, of course, the CPSF that we come a bit later to was slower than what we expected for 2023.

Then if you look at the on-prem, as said, we declined 10% on the ARR and the revenue. This is a [ph] plan did (00:08:36) decline. And we have, as also Juhani mentioned, had some improvement in our pricing and so on that also have impacted the level of decline. Consulting had again a good Q4, and we saw a good rebound of the consulting business in the fourth quarter, and also we – consulting goes into 2024 with a strong backlog. So, from that perspective also, things are looking a little bit better, and there has been a lot of work during 2023 to kind of readjust in terms of demand and so on to the new levels that we then were facing during the year.

And here you can see the deferred revenue and the SaaS portion of that. And this is, of course, something that has been growing all along during 2023, as well; is this monthly subscription part of the business. And that, of course, is then slowly also visible in this graph.

In terms of our revenue, as said, we came up a total of €38 million in fourth quarter, and our gross margin continued to be in a quite good level. And we have seen during 2023 good improvement on the gross margin and a lot of work has gone into many parts of the businesses. On the software side, we're working on hosting costs continuously and then, of course, in terms of the consulting and delivery capacity, it was something that we kept adjusting during the year in 2023. And then on the operating expenses, we have, as said, done substantial restructurings already beginning of 2023 and then, of course, at the end of 2023, that is not visible yet in the cost structure. And that is something that will come in effect, first of – or beginning of 2024. And all in all, we are very happy that we reached a breakeven. That was the target for us for the entire year for Q4.

Then if we look at the outlook. So, today, we announced the outlook for 2024, and we are also adjusting this a little bit according to our new strategy. So, we are guiding the annual recurring revenue and also the cloud revenue based on the Elements. So, what we have done is we dropped the Cloud Protection for Salesforce out of this. And as you can see, for the Elements Cloud products and services, our guidance is that we will grow 10% to 20% from end-of-2023 level. The cloud revenue we are guiding to be between 10% and 16%, and total revenue, which includes then also cloud protection and consulting, for the year, we are guiding 6% to 12% growth. And for the profitability that is adjusted EBITDA, our guidance is that we will be positive in 2024.

And here we have also provided – opened up the cloud protection and so on for everybody who are following us to be able to update your models and so on. And as said, the cloud protection 2023 did not meet what we were expecting in beginning of the year. So, that, of course, was a bit of a disappointment for us.

So, with that, I would call back Juhani, and we would be ready for questions from the room or however Laura will be doing it. Go ahead.

QUESTION AND ANSWER SECTION

Laura Viita

Director-Investor Relations, WithSecure Corp.

Go ahead, Matti.

A

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Good afternoon. It's Matti Riikonen, Carnegie. Couple of questions. I'll take them one by one. First, regarding the last slide that you just showed, where you – we can see the Cloud Protection for Salesforce. You showed the numbers, but you didn't talk so much about the growth rate except that it was below your expectations in Cloud Protection for Salesforce. So, was the growth rate very significantly different? So, was the Elements portfolio clearly outgrowing the Cloud Protection for Salesforce? Can you give that color?

Q

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

So, regarding 2023, as we have communicated, the growth rates have been below expectations. But I think some of it we consider to be temporary. The customer base in Cloud Protection for Salesforce is first rate; the very large number of large company references. But in overall, I think we saw an impact of many enterprise-grade companies diminishing their spending on IT quite substantially, and we were impacted by that. But we still see that in that market space, there is a very good opportunity for us and not too much competition. So, we're quite optimistic that this year will prove to be better one.

A

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

All right. Then regarding the cost savings, is it so that all of the cost savings related to the €20 million plan are going to be visible as of first quarter this year so that you have not yet received kind of cost-saving benefits during 2023 based on the plan.

Q

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

We have not received any or very little of cost benefits from the last restructuring, which you referred to, in Q4 in 2023. So, that will mainly come in 2024.

A

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Right. And could you give us any color on the timing of those savings? You've been saying that it's throughout the year that you gradually – or when you start to incur the benefits. But do you think that the run rate of cost savings will be kind of 100% during the end of the year? But what is going to happen in between? So, how fast are you getting those benefits?

Q

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

Our plan is that a big portion of that will be in Q1 already implemented.

A

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Okay. So, more than 50%?

Q

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

Not speculate more than that, but the majority of that, yes.

A

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Okay. And related to the cost-saving plan, is there any costs that are related to the consulting business or into the Cloud Protection for Salesforce business? I'm just trying to find the split between how much will be in Elements portfolio and services and how much will be these businesses that are under strategic review?

Q

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

Yeah, the restructuring impacted all of our businesses, so...

A

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

All right. And then finally, before I let my colleagues ask, your growth guidance for 2024, is that in line with your kind of Elements growth in 2023? I mean, for the moment, we don't see what happened in the Elements portfolio growth isolated. We only see what we saw combined. But is the guidance that you gave in line with how the business grew in 2023, or should we expect some acceleration?

Q

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

So, I think the expectation from the more focused strategy that we launched is to be able to accelerate the business throughout 2024. But it has variable components that are impacting how it is visible on the numbers because some of it is, of course, related to, for example, acquiring completely new partners and getting more volume through that. But some of it is also about moving and migrating existing customers to the cloud portfolio Elements which will be visible and depending then on which element they migrate to, that will impact revenue per seat and, thus, that will dictate how fast the ramp-up is. So, there are multiple things. But, overall, I would say that, of course, the intention is clearly to speed up the growth and do better than what we did last year.

A

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

All right. Thank you.

Q

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Hi. It's Atte Riikola from Inderes. Still about your growth guidance. Like how much visibility do you have for the accelerating growth, and how much do you rely on that improving market situation? Like we know that the market was tough last year, and your growth rate was still slowing down in Q4. So, what gives you confidence that you're going to accelerate growth this year?

Q

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So, we've taken quite a close look at where we operate and the market conditions there are, and they are different. If we look at – we have now organized our go-to-market in six different regions, and the market characteristics are slightly different in these regions. For example, there, in some markets there are different competitors with different propositions. And I think we have a more focused approach now. We expect that to yield results. We have also done a bit of tweaking and reorganization in the sales side of things, which we also expect to have an impact overall. It is true that there is still a certain cautiousness on the customers' side in terms of the spending, but at the same time, we think that we're able to also find pockets of growth where we can find a good match with our portfolio and what our customers need.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

And I think your guidance also means that you're expecting pretty good improvement in consulting. I think you mentioned that you have pretty good order backlog in Q1. So, you think that business is getting better and better now?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Yeah, there's been a lot of very good work done in the consulting business in terms of organizing it. It's good to remember that it is a global business. So, we have now a global delivery model. For example, we operate in Singapore, US, Nordics, UK, but – and we are able to deploy delivery capability and capacity quite flexibly across these different regions, which hasn't been self-evident earlier.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

And then about your gross margin, it improved pretty nicely on Q4. So, do you think that is like the new run rate as a percentage of revenue, or is there going to be some variation between quarters, or how do you see it?

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

Well, we continue working on that, of course, as we have been doing all that all along. And we have also, I think, said on a longer term, we expect to be in a more software gross margin. So, the work will continue.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

And you mentioned the NRR figure, but how about your churn, customer churn figures? [ph] And overall (00:20:55), I know you're not disclosing those, but if you can just comment how those are developing.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

I think this churn is an important indicator. We continue to monitor that as any SaaS company would. And of course, when there is competition, there's also typically churn. It is a key thing that we continue to work on.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

All right. Thanks.

Q

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Hi. Walteri Rossi from Danske Bank. Thanks for the presentation. You still don't have midterm financial targets since the new strategy update. Can you comment where do you see the continuing cloud business a bit longer term than this year?

Q

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

Yeah. So, I think if I go back into what we said in our strategy and what our aspirations are, I think we've been building a foundation to build a leading European cybersecurity company. That remains our goal. And at the same time, of course, at the moment, we're very much focused on deploying our current XDR-based portfolio into the market, being competitive, complementing that with services, winning new partners. But also importantly, we foresee growth coming from our new products, which we will be launching. So, in May, we will be launching our new exposure management product, which will take us into a new domain in cybersecurity. And we have, of course, expectations that will further support our journey towards this leading cybersecurity player. So, it is a long-term objective, but I think a lot of really good work has been done now throughout 2023, and we have a very solid plan now moving forward.

A

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

All right. Thanks. But then any like rough estimate, ballpark figures where do you see the business could grow in a few years?

Q

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

We'll return to the longer-term goals later in this year. That is a commitment from us.

A

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Okay, thanks. Then on the Cloud Protection for Salesforce. As said before, the growth seemed to be kind of flat last year, June quarter level. What are the challenges there, and how do you see that business developing this year?

Q

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

So, I think some of the things that we've encountered in that market are partly related to the fact that it's still nascent, it's still a new market segment. And I think it is about us working together with our customers, educating them about what they need to consider in terms of protecting them in this environment. I think there's a reflection of that in the flattishness. And the other part, as I said earlier on, is related to the large companies' IT spending. We are typically part of that same bucket. And when IT spending is being cut, that tends to impact us as well. And some of those decisions have been taken very much top-down during last year. But I really emphasize that our reference base, our customer base is stellar. We have very minimal churn there. So, the loyalty is high and still

A

continue to have good expectations for that business to be able to demonstrate growth this year and moving forward.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

All right, thanks. Then also on the Nordic sales, they declined last year and also in Q4. What's the kind of challenge there? And also, this is shown in your new strategy, which lists Scandinavia as a challenger market, which to me at least is a bit surprising.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Well, of course, I mean, we come at it from a position of strength. Finland is a large market for us. This is where we are from, and we continue to maintain a very strong market position here and in the Nordics. But at the same time, it's good to recognize that, also in the Nordics, we face competition and also some of the economic circumstances were impacting our customers' spending. But we're quite bullish on our opportunities in the Nordics, and we think that being a largest single provider of B2B security in the Nordics will help us further here.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

All right. Thanks. Then a last one. You had this €1 million IAC in Q4 on strategic projects. Can you specify more what was included in that?

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

As I said, we have quite a few businesses under strategic review. So, it's related to those processes.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

Great. Thanks.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

Matti Riikonen, Carnegie. Some additional questions. You talked about consulting business having a good order backlog for Q1. We are now in the middle of Q1. So, should we expect that that kind of good demand will be extended to Q2 as well?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

I would specify that if I said for 2024. Of course, that means also partially Q1. We will see. I mean, we haven't had that much yet behind 2024, but we do expect that to – at least at the moment, the demand seems reasonable for us.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

All right. Then secondly, the on-premise business has been declining roughly at a 10% clip. Do you think that it's a fair assumption that the same grade would continue in 2024 just for modeling purposes?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Yes, I think we can assume that it will continue to decline. I would not put a specific percentage there, but I don't expect any dramatic variations to what we have seen so far.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

Right. And then you had a new module in Elements, the Cloud Security Posture Management. Has that contributed to growth according to expectations and in line with other modules, or is it still kind of EDR-driven growth, which you are getting from the whole portfolio of Elements?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Yeah, I think volume-wise we can still kind of say that, of course, EDR is driving a lot of the growth in terms of the revenue and revenue per seat. Cloud Security Posture Management will be part of the new exposure management product. So, it will be a capability that will be part of that product. And I think we have gained quite a lot of experience on what works and what doesn't work since we launched that product now. So, I would say that that probably has been more valuable than the sheer volume from the product so far.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

All right. Thank you. And then finally, this is a request. Is it possible to have a comparison numbers for ARR excluding the Cloud Protection for Salesforce for the quarters in 2023? Just to be able to follow what is happening in the kind of right segment. That would be helpful.

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

We will look at our future reporting now, of course, after this and come back in Q1. So, we will take that into consideration.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

All right. Thank you. That's all from me.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

All right. So, let's move to the questions from the webcast. So, first is Felix, our analyst, asking. We probably partly answered, but let's ask again. So, did Cloud Protection for Salesforce grow faster than the group in 2023?

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

We will come back to that when we give more comparisons, so...

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Do you see the above 70% gross margin level as sustainable going forward?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So, I think we have quite a good opportunity, especially when we talk about the Elements company, which is primarily a software-driven company. Basically, the only services-related items there are related to managed services, i.e., Managed Detection and Response and Incident Response Readiness, where it's, of course, a part of the offering, but in a minor role. And the majority of what we do is software.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

And what kind of growth do you envision for consulting in 2024?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Well, it's built into our overall guidance, so we are expecting growth there.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

You ranked at the bottom of the pack in Gartner's latest Magic Quadrant for Endpoint Protection Platforms. What keeps you confident about WithSecure's product competitiveness and ability to differentiate?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So, there is other feedback than Gartner's Magic Quadrant where we are ranked quite favorably. So, I would just point that out. It is a very, very busy market with a lot of vendors. But I think what we are seeing and hearing from our customers: our scores are fairly consistently high in terms of how they find our solution, and we continue to innovate on top of it. I think that, for example, one of the latest things we have done is that we have implemented with the help of LLM and AI kind of a security score, which is part of the Elements offering and some of the new things that are coming out are getting really, really good reviews.

At the same time, I think it's fair to note that it is a market that's been in existence for a while, and of course, we need to also come up with things around it. And one example of that has been our Managed Detection and Response, which is basically providing more advanced services and solutions on top of the same software code base and those kind of things. And of course, then we are moving forward with exposure management at the launch in SPHERE.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Okay. Then we're moving to our analyst, Kimmo, who is also online and asking: is EBITDA positive in every quarter of 2024?

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

We have guided that it will be positive in 2024.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Right. And then our analyst, Jaakko, who's also online today: your cloud ARR growth [ph] tiered (00:32:22) up significant in Q4. What were the key factors contributing there? Did you internally do something differently, or was it driven by improved market situation?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Well, of course, Q4 tends to be different from the other quarters. There are some dynamic that is always there in terms of customers using their budgets and our salespeople trying to meet their quotas and things like that. I think, apart from that, there was nothing really extraordinary.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

And a follow-up on that one. How large share of the Q4 ARR growth was coming from the new products released during 2023?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

We don't provide that breakdown at the moment.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Then another one from Jaakko. How has the consulting attrition rate developed in the past few quarters?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So, I think we've been that stabilizing. We're seeing that to stabilize, and I think it's partly been, of course, helped by the demand that has been a bit more stable and some major new accounts that we have won that has allowed us to plan better. And I think the overall fact that we are running consulting now, clearly, as an independent unit with its own profile and value proposition is also attractive to people who want to work in purely consulting environment.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Great. Then I'm moving to David, our analyst, and his first question: could you please give us more details on the NRR figure? How has churn changed in the past 12 months?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So, we don't give out specific churn numbers. But as I indicated earlier on, I think churn is a factor. And we, like everybody else, need to pay attention to it. We will be investing more in terms of the customer success area in 2024, and we are taking steps to strengthen our focus on organization in that regard. Regarding the NRR figure as such, I would say that, there, of course, a key contributing factor is that how much the same customers are buying from us. And we saw customers staying but buying less from us. And that typically has been an indicator of the economic circumstances that we face.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

This was maybe partly answered by Juhani, but can you talk about the measures you're taking to increase the NRR back to more than 100%? What NRR level would you be comfortable with?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Yeah. So, it is partly a question of the offering. So, for example, if we have customers who are currently using EPP Cloud, we seek to migrate them to EDR. So, adding more value, adding more modules that would increase the NRR, they would be buying a bigger offering from us. And that is one part. And of course, the other part which is more related to how we work with our customers is partly related to this focus to partner channel and how close we are with our partners.

We're taking specific measures also to increase the focus on the partners, how we work with them and how we can win more sizable partners. And I think there is a recognition that we run a very, very large partner base. Some of those are relatively small in terms of their size. And then we have a smaller number of partners that are really big, and we're currently also looking at what is the optimum way of managing these two clearly somewhat different segments.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Then given your Elements and group revenue growth guidance, it seems like you're expecting consulting to grow in mid to high single digit in 2024 despite the difficulties faced by the division in the past two years. What is changing within the business to enable that growth?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So, I think there's been really good work done in the consulting units over the past 12 months in terms of building up the operational capability, i.e., how well we are able to forecast and deliver the customer demand there is, and I think we've made good steps on that regard. And on the sales front, I think the most significant change compared to last year is the fact that, from the beginning of this year, we have a dedicated consulting sales organization in place. So, that is not related to the Elements company sales anymore. And we expect that to yield quite good results both in terms of getting more business from our existing customers, being very close to them, and even more importantly, winning completely new logos, which has been one of the challenges in the past.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Then could you talk about attrition in the company aside from the cost-savings plan?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So, I think we are running – currently, the voluntary attrition is pretty much on – at expected level. So, nothing major there to report. Of course, it's been a turbulent year, but most of the attrition have – has, of course, been involuntary as part of the restructuring.

Laura Viita

Director-Investor Relations, WithSecure Corp.

All right. That seems to be the chat questions. Let's take a couple of questions from the room.

A

Q

Hi. Just a technical question related to taxes. You had a negative tax in Q4, although you were loss-making, so that was probably a kind of balancing-out activity that you took in Q4. But how about 2024? Could you help us in kind of landing at the right effective tax rate for the full year, and are there any tax losses that you could utilize going forward if you are kind of achieving the profitability a bit sooner than expected?

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

We have quite a bit of tax losses that we can use in the future, so...

A

Q

And about the tax rate effectively.

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

I don't, maybe for 2024, see much change in that at this point.

A

Q

Okay. Thank you.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Hi. Walteri Rossi from Danske Bank. If you were to divest the consulting division, how efficiently do you think you can scale down the group OpEx in that case? What I'm getting at is how separate is that business already right now?

Q

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

It is – we have in the latest organization that we planned, that is quite taken care of, and it's – as we have said before, it's in many levels very independent unit already.

A

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Thanks. But is it fair to assume that there is still on, let's say, admin or R&D lines, there would be some costs left to the group in that?

Q

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

Yeah, the – there's – of course, any business needs some support, and that is planned in this year's numbers as well. And then, of course, we'll see in the future what happens.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Maybe to complement that still, of course, due to the nature of the business, most of the support is finance and HR, and, thus, as indicated, we knew that we were contemplating divestment of that already when we conducted the last restructuring reorganization round. So, it's quite well taken care of by that.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

Okay. Thanks. Maybe one more follow-up question on the longer-term targets. You said you will come back to that this year. Any timeline on that?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Well, let's plan on that it is before the summer.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

Right. Thanks.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

There's one more question from the webcast. So, that's [ph] Erik (00:41:25), our investor. Can you give us an update on the strategic situation of the consulting business? Would you expect an outcome for that during 2024?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

As said, we're conducting a strategic review, and it's hard to be an exact timeline to that. But of course, we are working diligently on it.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

All right. Any more questions? If not, I think we are ready to thank the audience and wrap up.

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

Thank you very much.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

Thank you.

Disclaimer

The information herein is based on sources we believe to be reliable but is not guaranteed by us and does not purport to be a complete or error-free statement or summary of the available data. As such, we do not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information. You must evaluate, and bear all risks associated with, the use of any information provided hereunder, including any reliance on the accuracy, completeness, safety or usefulness of such information. This information is not intended to be used as the primary basis of investment decisions. It should not be construed as advice designed to meet the particular investment needs of any investor. This report is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any state where such an offer or solicitation would be illegal. Any information expressed herein on this date is subject to change without notice. Any opinions or assertions contained in this information do not represent the opinions or beliefs of FactSet CallStreet, LLC. FactSet CallStreet, LLC, or one or more of its employees, including the writer of this report, may have a position in any of the securities discussed herein.

THE INFORMATION PROVIDED TO YOU HEREUNDER IS PROVIDED "AS IS," AND TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, FactSet CallStreet, LLC AND ITS LICENSORS, BUSINESS ASSOCIATES AND SUPPLIERS DISCLAIM ALL WARRANTIES WITH RESPECT TO THE SAME, EXPRESS, IMPLIED AND STATUTORY, INCLUDING WITHOUT LIMITATION ANY IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT. TO THE MAXIMUM EXTENT PERMITTED BY APPLICABLE LAW, NEITHER FACTSET CALLSTREET, LLC NOR ITS OFFICERS, MEMBERS, DIRECTORS, PARTNERS, AFFILIATES, BUSINESS ASSOCIATES, LICENSORS OR SUPPLIERS WILL BE LIABLE FOR ANY INDIRECT, INCIDENTAL, SPECIAL, CONSEQUENTIAL OR PUNITIVE DAMAGES, INCLUDING WITHOUT LIMITATION DAMAGES FOR LOST PROFITS OR REVENUES, GOODWILL, WORK STOPPAGE, SECURITY BREACHES, VIRUSES, COMPUTER FAILURE OR MALFUNCTION, USE, DATA OR OTHER INTANGIBLE LOSSES OR COMMERCIAL DAMAGES, EVEN IF ANY OF SUCH PARTIES IS ADVISED OF THE POSSIBILITY OF SUCH LOSSES, ARISING UNDER OR IN CONNECTION WITH THE INFORMATION PROVIDED HEREIN OR ANY OTHER SUBJECT MATTER HEREOF.

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2024 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.