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WithSecure Corp. (FSC1V.FI)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Laura Viita

Vice President Controlling, Investor Relations & Sustainability, WithSecure Corp.

Very good afternoon from Helsinki, Finland, and welcome to WithSecure. My name is Laura Viita. I am the Investor Relations Director of WithSecure and very happy to wish you all welcome to this Third Quarter 2024 Results Release. It has been a very eventful quarter with great news and some news not so great. So we are here to answer all the questions and open up what happened during the quarter.

We have today our CEO, Antti Koskela talking about the business, customers, market during the quarter. And then our CFO, Tom Jansson talking through the numbers of the third quarter. If you're watching us on the webcast, you can log in questions at any time. We will have a Q&A session at the end after the presentations.

So with this, I'm handing over to President and CEO of WithSecure, Antti Koskela.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

So thank you, Laura. And hey, welcome, everybody from my part, everybody here in the room and everybody over there in the line. So this was my first quarter as the appointed CEO of the company. And apart from focusing on the operational management during the quarter, we also did a strategy update for the Elements Company and we will talk about that one in our upcoming Investor Day in November 22 in Wood City.

But with that one, we could move on. So before going deeper here, so you know that on 11th October, we updated our guidance, guidance for the business in many parts. And so today, we would like to shed some light

on the underlying performance in Q3 that is behind that one and also giving you the trajectory of, based on the past [ph] what how (00:10:44) you can then look at our business.

So one thing we have been following carefully is this Elements Cloud product and services ARR, that number includes our Elements Cloud software, cloud security services, our managed services, Countercept, the whole whole topic.

So we grew 11% year-on-year and then we grew revenue for the Elements Cloud 9% year-on-year. And maybe contradictorily, I think you know that you have managed services decline here compared to the last year level due to the churn of larger customers, the net revenue retention is going up in the quarters 104% now. So the – what it means that the underlying performance of the Elements Cloud software is growing and the managed services is slightly below previous year level due to the churn of the larger customers. And we see very much larger customers opting for a large company playbook, building their own operating center – own security operation centers. And – but the ones which are preferring managed services, of course, are with us.

In the DACH region, which is our Germany, Switzerland, Austria, the region has been strong year-on-year and there were some slowdown during Q3. It was still growing and it's because of the German economy. So we have a strong value proposition with our European alternative. There's a strong mid-market kind of customer base in Germany, both for our managed services and Elements Cloud. Our revenue growth was 4% year-on-year. And this, of course, includes the on-premise part of the software as well in the Elements Company and some other revenue streams. And there is a decline in the on-premise and there is a growth in the cloud side.

And what we were happy about, we have done a lot of cost saving measures in the past and we have continued to optimize our performance, whether it's about the gross margin quality or whether it's about our cost position. So we landed in an adjusted EBITDA of €2 million for the third quarter.

And there were some notable general availabilities this we launched at SPHERE. So we have now Exposure Management at the general availability. We have activated Luminen, our generative AI assistant for all the Elements customers. And what we are really proud in this quarter is that we improved significantly in the Gartner Magic Quadrant for both in our ability to execute and in the completeness of vision. And the downside comment for us was that we are focusing in Europe we happily take that. And I think that's where we are. And we have of course started marketing activities based on this one and is looking quite positive on that.

But maybe one thing on the business that US analysts you really need to know, you all know what GDPR is and you need to know similarly what NIS2 is. So NIS2 is a new – it's an updated directive in the European Union that came in force 17th of October. This EU-wide legislation aimed at enhancing cybersecurity across the union. So for boards and management, there are criminal consequences for non-compliance and there are similar percentage of revenue penalties imposed in case of non-compliance. So we talk about – a lot about this minimum effective security for mid-market, so that if it has been an option, it's not an option for most of the companies.

So essential and critical organizations, which are over €10 million revenue or 50 employees need to comply. So most companies need to comply. And even smaller companies, if they are part of the critical supply chains. So what they need? They need information security management system that gives them protection, detection and response and they need a systematic, proactive approach to risk. And what we have been building at WithSecure with our Elements Cloud, it's right on the money here. So we have extended detection and response and exposure management together with the services forming the mid-market playbook. So we believe that's a good thing for us.

And so we are uniquely positioned to meet these needs of the small to mid-sized companies and it's quite deliberate that we are focusing on these customers together with our partners. So maybe with this one, we are continue now to Cloud Protection for Salesforce. This was a bright spot. I think we have been guiding you previously on this one is that we see good opportunities, good pipeline and we also told you last time that the underlying net revenue retention is suffering from a few large churn cases in the past. So what this tells me is that the land and expanse strategy here is working. So we are not only winning new logos, but we are also expanding on the existing logos and with – and it in a way got the business to 20% revenue growth and that drove close to the EBITDA breakeven point. So I'm happy with this performance here.

On Consulting the revenue, this was a disappointment for us, so our revenue was below previous year quarter and we witnessed some financial constraints in key accounts and there was more thoughtful spending of the – in the Cyber with our key accounts. We expect long-term demand to be solid and despite even this declining revenue, so you can take a comparison from our Q1. So, we were able to be EBITDA breakeven. So we have been doing a lot of performance improvements in the consulting business throughout the year, even beyond what we did last year.

And now when we look at the Q3 so and we look at what revenues we were landing and but we also looked quite carefully, what's the equity market risk here? So you know the risk premium in the OMX-HEX is – and here in Helsinki is quite high already. So we in a way increased our discounting factors and we changed the revenue factors and we impaired the goodwill with €15.5 million for the value in use. And we also wanted to signal to the market in the Q3 that we are in active discussions regarding the divestment and but no decisions have been taken so far. I'm sure there will be tons of questions of that, but I will answer with this line, as you can probably understand, due to the nature of these processes. And maybe with this one over to Tom. Welcome.

Tom Jansson

Chief Financial Officer, WithSecure Corp.

Thank you very much. And good afternoon from my part as well. So maybe a short recap still on the numbers and we do it by segment. So first we do the Elements Company. As Antti mentioned, Elements Cloud ARR grew 11%. Our software part of that was doing quite well while the managed services is then we continued to have some of the enterprise customer churning and this specifically was in the UK and US partially. Then, as also discussed, our DACH region is still growing quite nicely, but we could see some weakness in the growth in Q3. But despite that, I want to emphasize that is still growing and that what we expect also in the future.

The net revenue retention was at 104%. So we are doing quite well in terms of selling additional Elements module to existing customers. The on-premise revenue declined, that has been as expected. We do expect to transition our – most of our customers over time to the cloud side. And then we had some other revenue – minor revenue streams. The adjusted EBITDA was €2 million for the Elements Company. So our previous cost structure actions are being seeing now also in our profitability levels throughout the company.

Then as mentioned, Cloud Protection for Salesforce, we are very happy with the quarter and we had a large churn last year in September. That of course is now over. We have had a few other ones during a late last year and but not many but some, some a bit bigger. And it has taken a little bit of time to kind of recover from them. But the team has been doing an excellent job focusing on growing the business. And now we can also see the results and we exceeded the €10 million ARR mark that is kind of internal at least one milestone for us in terms of achievement.

And, of course, as the churn customers drop off of the comparison, we can see that the true NRR is actually quite good and we expect that also to be good in the future as we are progressing the land and expand strategy as also

Antti mentioned. And the adjusted EBITDA, of course, this unit was also affected last year but some of our actions and as the growth comes then, we are now also coming closer to a breakeven point for this segment.

Then on the Consulting side, as mentioned, Q3 was not as we had hoped for or expected. We did see some customer, as Antti said, cautiousness and budget constraints. We do see that the Cybersecurity Consulting will have a solid demand also in the future, and we are not, from that perspective worried, but of course temporary in Q3, this was a disappointment for us. On the other hand, we have done multiple initiatives in terms of improving our profitability during the year. And therefore, some of that can also be seen that we managed to get to a breakeven point even though our revenue was lower than maybe what we originally had been expecting. And then we did a goodwill impairment that Antti already touched on and the reasons for that.

Then the overall profitability, so our revenue grew 4% and EBITDA for the quarter was €1.9 million. And you can see the all the actions taken last year has been taken a good turn on our profitability. As you can see, year to date, last year we were minus €16.3 million and now we are €700,000 profitable. And so it's been a big work – a lot of work from the team, but some of the results can be seen or the results can be seen in our profitability development at the moment. But this has been coming throughout the P&L from all our lines, so to say.

Then if you look at our new outlook that we launched some weeks ago, so our new outlook, we are saying that ARR will grow 6% to 14% this year. The revenue for Elements Cloud products and services will grow by 8% to 12%. The total group will grow 2% to 5% from previous years and then we continue to guide that we will have an EBITDA positive year for this year.

And then we want to say that to put this in the calendar, everybody who is interested. We will have an Investor Day on the 22nd of November in the morning at our new headquarters. And that will, of course, be also live webcasted to everybody interested.

With this, I think I would invite Laura back on the stage and then we start going with the Q&A.

QUESTION AND ANSWER SECTION

Laura Viita

Vice President Controlling, Investor Relations & Sustainability, WithSecure Corp.

A

All right. I think we can start in the room. So if you can take the microphone, I see all hands up so you can pick the lucky one to start.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

Hi, Walteri Rossi from Danske Bank. First of all, on the NIS2 Directive, could you talk what it could mean for you in practice in terms of demand?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

So we have a look at how many companies that are in the Europe and UK. There are 36.3 million companies in the Europe, and there are 400,000 plus companies, which are bigger than 50. So that – so it will not be enough for them to just do endpoint protection and have an antivirus, so to speak. They will need to have a proper proactive management for the risk. They need to have a proper approach for their extended detection and response. So that many other companies are after the same thing, but companies will need to budget and do something according to this one. So I think it's a positive for whole Europe and, of course, good for us as well.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

All right. Fair enough. Looking at the Consulting profitability, were there any changes in the cost allocation between segments compared to your historical practices?

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

No.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

Okay. Then on the large accounts that you have lost, I guess only in the managed services.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

Yes.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

Can you talk about the maybe the reasons why that is happening? Because I'm assuming that even with the current strategy, you wouldn't like to lose.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

Obviously not, I think you said so we like to keep our sort of enterprise grade customers with us. But what we have been talking in the – in many of these events and in our SPHERE event is that we see the mid-market playbook diverging from the enterprise. So large enterprises, when you go to a large bank, you have a large security operations team, you have software, you buy consultants and you have a big [ph] part (00:26:29). So it's more human centric. And when you go for mid-market, it's more automated and as-a-service. Some of these large companies after a phase of doing managed services are moving this type of playbook [ph] that they private software (00:26:43) on hire own teams so that it's also strategic move. Some of the have – some of the companies have moved like that. Of course, not all of our customers want to work like that and they go for as-a-service models.

And but at the same time, the mid-market is a great opportunity. Like we just talk about the NIS2, so we stay focused on that and we solve in an automated fashion the playbook for the ones that are below this minimum effective security and don't have the luxury of doing these kind of things.

Waltteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

Okay. Then still one question on the Consulting why do the write-down right now on the value in the balance sheet?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

So I think on talking to a sort of finance experts here is that always when management test that together with auditors, you're tested with discount factors and market risk that is in the market and when we look at the revenue things, so you act when is the – when is the time. And maybe anything Tom you want to add?

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

We are obliged to look at it on a [ph] periodical basis and at the events (00:27:54) that changes.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

It represents the value in use.

Waltteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

All right, thanks. That's it from me for now.

Jaakko Tyrväinen

Analyst, SEB

Q

Hi, Jaakko Tyrväinen from SEB. On the cloud, Elements Cloud ARR growth, which has been now impacted by the large customers as it was also in 2023, if I recall correctly, could you give a bit further indication what has been the gross impacts of those leaving customers just to kind of us to get understanding how you are performing in the new focus market?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

Yeah. So the – so we are trying to so that Elements Cloud software it's faster and we have lost a few large managed services customers during quarter three and that's impacting to churn. And we are providing today an aggregate number. We are thinking about what to do for the Investor Day, but we haven't yet decided how we want to disclose greater granularity.

Jaakko Tyrväinen

Analyst, SEB

Q

Okay. But let's put it this way. What's the revenue of managed services around €10 million or €20 million or €30 million when we started in 2023?

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

I don't think we have – we disclosed that and cannot disclose that at this point of time. But I would say that maybe a little bit building on Antti's comment is that as said the ones that they [ph] cannot (00:29:32) different at strategy on how to deal with this problem they are large customers so usually a large customer means a lot of ARR and then we have been successful also in repositioning us to the mid-market. But, of course, it takes a bit of time to replace a really large customer.

Jaakko Tyrväinen

Analyst, SEB

Q

And then a final one on this topic, how large is the revenue of current large customers, which you could consider being still at risk of churning?

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

I don't think we can – at this point can disclose that.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

But I think we discussed this in the in the [ph] SEB (00:30:14) event as well, is that there was a strong indication from analysts that we should break down further these things. And we are considering the right approach for our Investor Day so that unfortunately, not disclosing that today. So we are not changing our disclosure policy.

Jaakko Tyrväinen

Analyst, SEB

Q

Understand, that would be very helpful. Then on the NIS2 Directive, do you have any kind of idea at this point how fast this directive could start to impact on your growth? And in which kind of products would you see the growth first? Would it have also impact on the consulting side or just on the product side?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

I think consulting is also one one area where the NIS2 readiness in a way, it's one of the things that consultants consult. But in terms of the products is that we have been used to in our home use that we have some antivirus software doing something that's not going to be enough. So endpoint protection is not going to be enough in this

one. So you need a proper incident management and you need to have a detection and response capability and you need to have a good way to proactively manage the digital risks. And so we believe the right formula is this XDR plus XM. So we think it drives demand for the full portfolio. And, of course, that would be yielding much higher kind of subscription value per subscriber than just endpoint protection alone.

Jaakko Tyrväinen

Analyst, SEB

Q

Good. And then ending up with couple of cash flow related questions. Your working capital effect has been negative for the first nine months. Are you seeing the working capital effects for the full year turning positive like it did last year as well?

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

Yeah, I maybe not restrained from forecasting that, but we are as said we've been – we are going towards a more favorable EBITDA all the time and we have had some quite large CapEx expenditures in this beginning of the year, specifically related to our new headquarters and then...

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

[ph] Our lead to cash project (00:32:30).

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

And our [ph] lead cash project (00:32:31) that we are renewing. So those would be – those we see as they're going to go we will not invest as much going forward in this.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

And we are not capitalizing R&D to that large extent. Some companies do that, we do less.

Jaakko Tyrväinen

Analyst, SEB

Q

Okay. So the kind of current CapEx run rate of around to €2 million per quarter that is a bit high going forward.

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

That is high at the moment. Yes I agree.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

It's actually very high.

Jaakko Tyrväinen

Analyst, SEB

Q

Yes.

Tom Jansson

Chief Financial Officer, WithSecure Corp.

Especially – specifically in Q3 and Q2.

A

Jaakko Tyrväinen

Analyst, SEB

Okay. And then just to follow up on the working capital side, should we see similar seasonal effects than we saw last year in Q4?

Q

Tom Jansson

Chief Financial Officer, WithSecure Corp.

That is quite difficult to predict. So...

A

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

Forward looking statement.

A

Tom Jansson

Chief Financial Officer, WithSecure Corp.

And it's looking forward. So I don't want to guess on that at this point.

A

Jaakko Tyrväinen

Analyst, SEB

Understand. Thank you.

Q

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Hi, it's Matti Riikonen, Carnegie. Couple of questions. I'll start with the customer departures. I understood so that when you started to talk about these clients leaving in Q2, it has continued with new customers in Q3. And if we assume that kind of negative impact on your growth will then last for the next 12 months, that's going to be so. And obviously, you are not obviously ruling out that there would be further departures going forward.

Q

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

I'm not ruling further departures, but what we are doing is that so we did a strategy update in the company. So we are strengthening quite a lot our customer success proactive – proactive customer success activities both towards the partners and the customers that's a key focus area. And we have been driving gradually up their net revenue retention for the Elements Cloud. And then of course there are few specific accounts we have specific programs for obviously that how we would do it. But it's really difficult to disclose in a way prediction on that one. But, I would not put [ph] it doom and gloom (00:34:42).

A

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Right. And were they all customers that were using Countercept?

Q

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

Yeah, this we mainly talk about the Countercept – Countercept things. There are within this managed services, we have also recurring incident response and which is sometimes affected with the same things as consulting. And we have also Attack Surface Management and our Countercept services, those things. So it's a predominantly Countercept. And have long-lasting cloud Countercept customers dating from the days of the MWR InfoSecurity when it was acquired.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

All right. And what it so that at the CMD you might be providing some more color into how much is actually the revenue base that is now at risk from the large customers?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

And – so we are considering our approach for that and we take all the feedback. And – so it's a balance between what we want to disclose to the market and to our competition. So I think it's – so we need to balance it.

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

We take this feedback very seriously.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

Yeah.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

Sure. Then just on the Cloud Protection for Salesforce, which you decided to keep. Could you describe a bit what was your thinking process behind that? I thought that you were at least thinking about other alternatives, but why did you decide to keep it?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

So we are developing it as an independent business. And then we can – and then we develop it – we have patience to develop it and we can consider strategic options when the time is right. So we haven't – we haven't communicated that we will never do that.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

Right. So basically, it's possible that you might be disposing of it at the later stage when it perhaps has a bit better performance metrics.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

It is an option.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

All right.

Q

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

I think having few quarters of 40% growth wouldn't hurt.

A

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Okay. Then regarding the relationship between top line and your costs, now that the top line seems a bit more pressed compared to maybe the beginning of the year, and the outlook regarding that has been declining. But do you plan to speed up your cost savings in order to kind of get to the same pace of improvement in profitability as you targeted earlier? So is there still room to make cost savings in order to make that happen? Or you – or are you kind of satisfied with the current setup and just ready to accept that it might take a bit longer in order to get to, let's say, positive EBIT?

Q

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

Maybe I'll answer in a way that how I'm thinking about looking at the whole. I think you sort of need to be exploring new business opportunities and then you need to be exploiting the existing. So in my mind, optimizing the current is an endless game. So if I find ways to optimize it, I will definitely do it. And -but at the same time, if you find ways to modernize business models, go after new growth opportunities in a selective way, we should do that as well, so it's not a status quo. But I think as a person, I believe on continuous improvement on the existing and then experimentation or exploration for the new. So if you give [ph] it color (00:38:20), I don't see it's static.

A

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Right. Then finally, the assumptions related to your goodwill at the moment. So what needs to happen for you to kind of write more down of your goodwill? So what kind of triggers in terms of growth and profitability do you have there? So is it very close or do you have some moving space?

Q

Tom Jansson

Chief Financial Officer, WithSecure Corp.

Well, I think like Antti, I think a little bit alluded to in the beginning, we looked at our new revenue outlook. We did a slight modification of what we previously looked and then we had to update the risk levels. So that kind of drove us to this situation. We will continue in the future to look at that. And if we have to, of course, we then relook at it. But this is something we do almost on a quarterly basis at the moment.

A

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

All right. Fair enough. Thank you.

Q

Felix Henriksson

Analyst, Nordea Bank Abp

Q

Hi, Felix Henriksson from Nordea. A few questions from my side as well. Starting off from the DACH region weakness that seemed to be a new thing that turned for the worst during the quarter. Can you elaborate at what point of the quarter you started seeing this? Was it already early on in July or later on in August, September?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

I think it's more closer towards the end of a lot of our deals tend to come at the end of the quarter. And so we – there we started to see it. But I still want to say that it's a super good region for us. I think it's still that we have a consistent growth there so that if you sort of double – if I were to give you sort of – so Germany is a strong region for us. But the Q3 – there's still sizable Q3 growth, but it's lower than the previous quarters. So that's why we wanted to include it here. And our value prop is strong in the market and it speaks – this [ph] European alternative (00:40:20) speaks exceptionally well in Germany. But in the German economy, there is a slowdown in decision making with the current situation.

Felix Henriksson

Analyst, Nordea Bank Abp

Q

Thanks. And then regarding the Elements Cloud ARR, full year guidance, to get to the lower end, you do need quarter-on-quarter growth in Q4. So what's your level of confidence relating this, especially since Q4 might be the first full quarter weakness in the DACH region now?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

Yeah. So I think we guided our sort of downside upside with the guidance, I think 6% to 14%. And if I look at our historical performance, you can see what we have done Q4 2023, we have done Q4 2022 that gives you some color on the seasonality. But I think, of course, we – so with the sales teams, I think we've – so I gave them a challenges is that you need to beat the plan and you need to prove me. I'm wrong with the guidance. So I think it's – there is a fighting spirit in the company, which I really like.

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

But seasonality wise, Q4 is always strong as you know.

Felix Henriksson

Analyst, Nordea Bank Abp

Q

So it's more based on historical seasonality rather than actual pipeline that you know about a bit close? Is that the right interpretation?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

Of course, we base it on that. So the seasonality that we have pipeline always for Q4, which is stronger and I think we do it quite regularly. So we have full visibility on the pipeline and the deals in motion and we are personally involved in closing some of the deals. So I think – but that's the level of – I would like to guide much narrower predictability because in a way, thinking about when you're running a kind of a [ph] SaaS (00:42:09)

company, so that I think why we have been talking about it that making it boring [ph] and predictable (00:42:15) is good for this audience. So I think we are not there, but we are doing progress.

Felix Henriksson

Analyst, Nordea Bank Abp

Q

Fair enough. Yeah, another shortsighted question. Sorry, maybe we'll focus on the long-term topics in the Investor Day. But in terms of EBITDA sequential development for Q4, can you remind us about the puts and takes when it comes to seasonality, because on the other hand, in Q3, you tend to have a bit lower OpEx than in Q4. But then on the other hand Consulting sales tend to be quite strong often in Q4. So how should EBITDA develop quarter-on-quarter when we head to the last quarter of the year?

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

You're absolutely right I think Q3 normally it's a vacation period so activity levels and there's some positives on the cost side from that perspective. So – but we expect Q4 to be strong as always.

Felix Henriksson

Analyst, Nordea Bank Abp

Q

So is that a commitment to positive EBITDA in the final quarter of the year?

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

We said that the full year is positive.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

Yes. You're right.

Felix Henriksson

Analyst, Nordea Bank Abp

Q

Fair enough. Okay. And a final housekeeping question for me. Net financials, they were roughly €600 million negative in the quarter. Was there any reason for the change from the prior quarters on this line item?

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

Sorry which one?

Felix Henriksson

Analyst, Nordea Bank Abp

Q

Net financial cost.

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

Net financial cost...

Felix Henriksson

Analyst, Nordea Bank Abp

So €600,000, sorry, negative. Yeah.

Q

Tom Jansson

Chief Financial Officer, WithSecure Corp.

I need to come back on that to you.

A

Felix Henriksson

Analyst, Nordea Bank Abp

Okay. Fair enough. Thank you.

Q

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Hi, it's Atte Riikola from Inderes. First, about the Cloud Protection for Salesforce product, have you ever mentioned what it's like the total addressable market for the product? So is there still room for double or triple or quadruple the revenues? So have you ever said anything about that?

Q

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

We haven't said, but I think it's also a good input for the Investor Day. But just giving you color is that Salesforce, like many cloud platforms, they have a shared responsibility model. So that if you are a – of a user of Salesforce from Inderes and you are doing harm to another Salesforce user, it's not my responsibility as Salesforce and I hold you accountable for it.

A

And so that's the model in all the – shared responsibility means is me shift responsibility to you for many things. So what Cloud Protection for Salesforce is solving, especially with the Salesforce service and community cloud, when you have B2B customers, when you have multiple different companies collaborating so that Salesforce is in itself is very large. And when they use service cloud, community cloud the demand for Cloud Protection for Salesforce is quite clear. And if they want to buy protection against the shared responsibility model terms and condition, that is the market. It's a very narrow, very specific, but I think that's what it built on.

Tom Jansson

Chief Financial Officer, WithSecure Corp.

And so...

A

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

So please.

A

Tom Jansson

Chief Financial Officer, WithSecure Corp.

No. I think just to I mean, we are focusing on Salesforce. Salesforce as a platform is the biggest in the world and our penetration is very minimal at this point.

A

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

Yeah. So there's an ample opportunity to grow in all the service cloud and community cloud users especially.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

Yeah. And did I understand correctly that before you have said that you're looking for like strategic partner for the business to finance some parts of the growth investments, but are you now like going solo or are you still looking for the partner like you said earlier?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

So we haven't changed the earlier thinking so that what we are saying now that we are developing as an independent business so that – and we have patience and we come back to this when the time is right. And we have quite a lot of work to do in our hands so with the process, for instance, with Consulting, I think to be fair.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

A

And then about the Exposure Management, now the product was launched in May and you have been doing sales for some months, so what's like the initial feedback and how is the sales going? And maybe if you can say something about what's the upsell potential for the Elements portfolio [ph] product (00:46:19)?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

So we have started – we have accumulated the first partners after the – in a way the limited availability. So we have but limited availability since [ph] SPHERE (00:46:30) and we have got first partners in that go-to-market with the value proposition. So we have once quite a number of customers already through them. And now that we are in the GA, which was September. So we are further scaling of course our efforts right now. So every company that needs to look at proactively the digital risks and do something about them, they need an exposure management.

And maybe what people don't often remember that if you look at for instance Gartner Strategic Technology Trends for 2024 exposure management is number two after AI, so number two after AI. And we are solving the mid-market problem. So it is a part of our mid-market playbook that built on XDR and Exposure Management. So that – and it's in a way this joining up on integration. So I think quite positive on that one.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

All right. And the last question about your growth rate that has been slowing down. So is it mostly because of the market situation in Europe and Germany or have you seen any changes in the competitive landscape or some competitor taking market share from your anything like that?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

So we have quite many type of businesses in the company. And when we look at Elements Cloud software that is clearly growing. And within the Elements Cloud segments, we have had some customer churn with the managed

services, so that's of course one impacting. Other impacting part is the planned decline of the on-premise software. So I think those in a way – from Elements Company point of view how they look. There are more rapidly growing items and then some – are areas which are declining.

And then of course on a company level, Consulting impacts overall company number. So that – so we are looking it through the lens of the ARR driving businesses like Elements Cloud and the Cloud Protection for Salesforce. Those are in a way for us the core platforms through which in a way the future growth of the company is built. So I think that's a little bit how we are looking at the business. So – but I know we are making it very difficult today for you to follow this one.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

Yeah. Especially in the Elements Cloud segment, is there any changes in the competitive landscape or have you seen anything?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

Not major ones, but I think you said that our assertion is that the mid-market playbook and the large company playbook is differentiating. I think there's even more evidence on that one. And there have been some M&A happening in the quarter as well, I think in the market with competitive landscape, but nothing unusual.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

All right. Thank you.

Laura Viita

Vice President Controlling, Investor Relations & Sustainability, WithSecure Corp.

A

All right. I'll pick up some questions now from the chat. So, first of all, there's Kimmo Stenvall, our analyst. And this is something we perhaps answered already, but this is important thing for today. So I'll ask it again. How many of that large managed services deals you still have ongoing? And if you lose also those, what kind of pressure this has on your top line?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

I think we discussed this [ph] Viita (00:49:54). So giving further granularity on this one is probably a topic we consider for the Investor Day. But I think we are in a way guiding our numbers through the Elements Cloud ARR and it, of course, includes this managed services, so not opening up today.

Laura Viita

Vice President Controlling, Investor Relations & Sustainability, WithSecure Corp.

A

All right, then I'll move to [ph] Erik Karlsson (00:50:15). You have cut a lot of cost, but to start earnings – earning meaningful profits, you will probably need some growth. How should we think about growth in the Elements business over the next couple of years? What are the main drivers? Is it new modules to existing clients or expansion of the channel? How can you explain how the Elements business can start making satisfactory profits?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

So couple of things and we will talk about this more in the Investor Day. It is that – one thing is that we are focusing our efforts in every region with the partners we work with this that we work with high growth partners, with the full portfolio. I think that's one area. And we are improving the ways we do the customer success. So meaning is that the net revenue retention and the cross-sell upsell, so we are looking at that a one focus area because a lot of the things we can get from the existing clients, but we also need to bring new partners, new type of customers that are growing faster. So I think those are the two main things.

Third thing we are thinking and we also we have, by the way, have now our offering available in the AWS marketplace. And so we are looking at more digital – we are experimenting with more digital channels that we get more scale effects and doubling down on the digital service experience also, especially for the smaller customers. So there are many avenues we are doing how to optimize the existing business and to make grow faster. And, of course, these new things like Exposure and Cloud Protection then add to the mix. But there's a lot of room for growth also with the existing XDR business. Anything Tom do you want to add?

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

No, I think it's – that is our strategic main drivers in the future.

Laura Viita

Vice President Controlling, Investor Relations & Sustainability, WithSecure Corp.

A

All right. So [ph] Erik (00:52:13) continues on Consulting. It is shown that it wasn't at least an easy disposal to make. Do you still think it's realistic to sell Consulting in a 12-month window? Or should we realistically think that it will sit – you will still own it in 12 months time? Also, cybersecurity demand is booming, but you have not been able to earn money in this business. What in your assessment is wrong in the business model?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

So I think on the first part, so we are in active discussions with regards to the divestment of Consulting and we haven't made decisions yet and that's what we are in a way disclosing on that one. And – but Tom, I think you have been looking at the Consulting together with Scott quite closely. I think any thoughts on what are we doing wrong, what we could do better?

Tom Jansson

Chief Financial Officer, WithSecure Corp.

A

Well, I think I do think that there is solid demand also in the future. And – but I maybe we have seen a bit of a slowdown over the last 12 months in some of this we also noted that we are not alone with that. So – but we clearly also see that there is a solid demand in the future. So – but of course, we could have done better. Some of our large customers have been – having budget constraints and so on. And – but we have also won quite a few new customers that gives us quite good potential also for the future.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

And like with every – there was a question about this, how do you optimize? So we have look at many avenues inside Consulting, how we improve the business so that we have not only improved profitability, we have

improved the sales approach and things like that and these kind of small improvements they happen gradually and then they will have a bigger impact as we go. But I think as you see from the profitability, the trend with the Consulting, at least that we have improved, but the top line did not yet. But I think it's – but we are working on it.

Laura Viita

Vice President Controlling, Investor Relations & Sustainability, WithSecure Corp.

A

All right. Then [ph] Erik (00:54:24) continues. Sorry to ask a personal question, but given that the stock market's confidence is quite low, would you consider buying stock privately to show confidence in the business mid-term?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

I absolutely, absolutely, absolutely buy shares in the company and I take into account all the all the stock market regulations in doing so.

Laura Viita

Vice President Controlling, Investor Relations & Sustainability, WithSecure Corp.

A

All right. Are there more questions in the room? I think our chat is done for the time being.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

Hi. Walteri Rossi from Danske. Still one question regarding the Consulting divestment. If you are able to divest it, do you think it's that you can scale down the operating expenses with the same extent after the divestment because it's a lot of allocated costs, right?

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

Not anymore. We have – we've announced with the new strategy change that we have moved a lot of the people and they will be in the business, both businesses, CPSF and Consulting 1st of November. So we're moving the – we have moved the head count from the central functions.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

Okay. What about – there must be some shared functions still between these?

Laura Viita

Vice President Controlling, Investor Relations & Sustainability, WithSecure Corp.

A

Can I answer this one.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

A

Yeah, go ahead.

Laura Viita

Vice President Controlling, Investor Relations & Sustainability, WithSecure Corp.

A

As the lucky Head of Controlling of this company, I can assure you that we are extremely careful of not dumping allocations on the businesses. So, of course, we have to allocate, but we know quite closely what we are allocating and why. So that's pretty much under control.

Tom Jansson

Chief Financial Officer, WithSecure Corp.

And we have also considered these things when we have done previous actions.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

Absolutely.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

All right. Thanks.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

Thanks a lot Laura.

Laura Viita

Vice President Controlling, Investor Relations & Sustainability, WithSecure Corp.

All right.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

I think we are done.

Laura Viita

Vice President Controlling, Investor Relations & Sustainability, WithSecure Corp.

I think we're done. So thank you very much for everybody who attended. Thanks for the good questions. Our chat has gone silent and the people in the room are nodding. So I think we are ready to wrap up.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

So hey thank you so much and we meet next time after Q4.

Tom Jansson

Chief Financial Officer, WithSecure Corp.

Thank you.

Antti Koskela

President & Chief Executive Officer, WithSecure Corp.

All right. Thank you, everybody on the line and thank you in the room.

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