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# F-Secure Oyj (FSC1V.FI)

Q2 2021 Earnings Call

## CORPORATE PARTICIPANTS

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## OTHER PARTICIPANTS

### Jaakko Tyrväinen

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### Atte Riikola

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## MANAGEMENT DISCUSSION SECTION

### Juhani Hintikka

*President and Chief Executive Officer, F-Secure Oyj*

Good morning, good afternoon. I'm Juhani Hintikka from F-Secure and I will be covering our Second Quarter Results. I will be later joined by our CFO, Eriikka Söderström to cover some of the financials in more detail. After these two sessions, we will have then a possibility for Q&A.

So, let me dive right into it. So first of all, we had a strong growth quarter. We saw growth in all businesses. Revenue was up by 10% and both corporate security products and cyber security consulting were growing, as well as our consumer business. If we look at the corporate security products in more detail which, for us means, the business security software, and then the Managed Detection and Response business, we saw growth in orders that outpaced the revenue growth. And MDR, specifically, we saw many new customers committing to multi-year deals globally. And that, of course, is an important target for us as we seek to increase our recurring revenues.

In consulting, our revenues grew by 19%. At the same time, of course, the comparison point from last year was hit severely by COVID. But, nevertheless, we're very pleased about this growth. And in consumer, the consumer security business continued on its growth track. You may recall that we had a record year last year, hitting €100 million in revenue terms for the first time and the growth track has continued this year. We saw a growth of 6%. Our operational costs are returning to pre-pandemic levels. We will discuss that more in detail that what were the different items that contributed to this. But overall, our adjusted EBITDA margin was 14%. Positive momentum across all businesses with our enhanced offering and also a 15% increase in our deferred revenue on a year-on-year basis, give us good foundation for further business development going forward.

If we look at then the numbers a little bit more in detail. Here again, as previously, you will see in the extreme left side, you will see the revenue split and growth by businesses, year-on-year comparisons. And starting from the

top, we had the cyber security consulting with dark blue; the corporate security products; and then the light blue, consumer security. And from the top, the growth percentages respectively are 9%, 7% and 7%.

And then looking at the geographies, how is this revenue split? You may recall that we are predominantly, of course, very much a European/Nordics company from a revenue standpoint. But, of course, we do have business elsewhere as well, such as North America and Asia and that is shown then in the bottom of these pillars. But, as you can see, quite positive development, also geographically speaking. And then finally, on the extreme right, we see the adjusted EBITDA development in H1 and the comparison to H1 2020, where one year ago, our adjusted EBITDA was €17.4 million, and now, we are at the level of €17.8 million. So slight increase there.

Looking more specifically into corporate security products, we saw a 9% growth as said in second quarter. And here, you see also the respective comparison, how this has developed over the quarters, so compared to last year. So quite good continued growth there. In business security software, especially, we've seen the growth in EPP business and you may recall that this endpoint protection business is something that we are, of course, known for. It is the business area where we have been very prominent in our business side of things. And this has, of course, been further developed by enhancing our offering with the EDR offering. But overall, this market is developing quite positively. Even contrary to some market predictions earlier on regarding EPP, we have seen some recent predictions that there actually seems to be quite strong demand for EPP at the moment. Then, of course, one could speculate that this is related to the publicity that there is around cyber security and some other very high profile cases that we have seen.

In Managed Detection and Response and this is the solution as a reminder where we have a strong common technology base that we share with the business security software part, but we are complementing that with our own expertise and services we are providing on top. So, we are going very deep in terms of the technology, taking advantage of the scale we have from the software, and then complementing that with very deep expertise that we have within our consulting and other organizations that are complementing this. When I say consulting, I mean, consultants working for MDR.

There, we saw strengthened demand and also many new customers committing to multi-year deals, which, of course, is important because, in a way, it's saying that we have gained the trust of these customers. And now, they are ready to commit to longer term deals, and we have specifically won attractive business in retail, finance, and some critical infrastructure. Several deals were closed also in the US, and then, of course, Germany, France, and Finland that continued to be an important part of our European footprint.

This picture shows you the F-Secure Elements which is an offering we launched at the end of May. We've got a very strong feedback about that. Then, what is specific to this offering? It is about – yes, it is about the product offering that it contains, but it's also about enabling our partners, so that they can build services on top of this offering. It is about offering the market, our partners, the end customers, flexible pricing models. So, we offer the customers actually the choice of how to consume our solutions, and this is a trend that we're seeing in the market, we call it, the servitization of security that customers increasingly want to buy things as services. And then, combining this with the other elements, such as also the partner program that we use for enabling our channel partners. This has been a successful launch and we expect that to generate more demand going forward, a unified cloud-native platform. With the launch of this and also before that, we've also seen a strong migration from on-premise to cloud-based solutions, such as our Elements.

This is an example of a recent case I mentioned that we have won some multi-year deals with our MDR offering and this is an interesting market because it's one of those sectors in the market that is one of the faster-growing segments, but it also is one of the younger segments. And the reason there is such market as MDR is emanating

from the fact that many of our customers are looking for us to complement their own internal IT or security team; and they're turning towards us, not just for the technology, but also for the people. And how we differentiate from competition here is the fact that we, in addition to having deep expertise, we also have the software that is the underlying capability that we are taking advantage of here.

Here, the customer was a large Nordic retailer, very large, actually, 40,000 employees where we have gradually built the relationship, gained their trust, and now, we were able to sign a deal which covers 2,500 of their servers and we are taking those under the auspices of our MDR offering and service and, we call it, the F-Secure Countercept. And we're, of course, very proud of this reference which we're taking now forward and, hopefully, with lot of other things to follow. Then, turning to consulting where I said, we had an attractive revenue growth of 19% in Q2. Despite the uncertainties and COVID impacting us, we clearly saw better performance and we saw positive momentum in many of the regions, especially in UK and Nordics.

Some regions still remain negatively impacted by the pandemic. That is a reality. Can't fully take that away. And, of course, the fact that this is, of course, very much about, in some cases, meeting customers face-to-face, even though we have managed to move largely our deliveries also into remote mode and also, we have taken forward our globalization where we're able to offer demand/supply balancing, meaning that we can supply delivery from another country than where the customer is residing.

And this is a yet another example. Here, the customer was an international media and telecoms company where we have built the relationship gradually. And as often is the case with corporate cyber security that you need to gain the trust, you need to demonstrate your capabilities, you need to work with the customers. And we are, of course, very much about that partnership with our customers that is in the core of what we do. And, in this case, we were able to build this from awareness to relationship and demonstrating the impact, and then finally, having the commitment from the customer side to choose us to deliver the service. And, of course, we foresee that we are able to build on top of this and turn this into a longer term engagement which, in general, is an aspiration we have for our consulting business.

And then consumer security, as said, continued the steady progress, the steady growth. And there, you may recall that we have – our revenues are coming from two primary sources. We have the operator channel, the telecom operators around the world. We have about 200 of those. It is very sticky once you're there, because we're often part of their own application, for example, and we provide the security aspect of that. So long sales cycles, sometimes difficult discussions. But, in the end, very, very sticky, good customer base.

And then we have then another part of the business coming from direct sales, direct online sales, which is primarily in the Nordics in terms of the revenues here. Positive momentum there. And, specifically, like to mention that some of the additions to our portfolio that complement our current offering and, of course, offered us new opportunities and new discussions are underway with completely new operator groups because of that.

And that concludes my presentation. I will now invite Eriikka to join me here on stage, and then after that, we will take questions after Eriikka's part.

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## Eriikka Söderström

*Chief Financial Officer, F-Secure Oyj*

Thanks, Juhani. So, let's move on to look at the numbers more in detail, how they look like when we consolidate them. So starting now with income statement. And so, the Q2 revenue was €58.2 million and 10% growth as Juhani was highlighting, and we saw growth in all our business areas. Consumer security grew by 6% at €26.3 million, corporate security products grew by 9% at €20.2 million, and consulting grew by 19%. And here, let's face

that last year at this time, the second quarter of 2020, we were in the middle of the start of the pandemic. We didn't know what's going to happen, and we saw the demand, especially in consulting, taking a hit. So low comparison point, but [ph] they are stronger, 19% and (13:03) visible now.

And adjusted EBITDA, 14% of revenue, €8.1 million. I'm sure that you want to understand better that you guys are growing, but the profitability is lower than it was last year. Here, if I already give like a very short answer. So, we are getting back to the operational cost levels before the pandemic. So, we were extremely good at pulling the brake and making savings last year, while we wanted to be cautious. And now, we see that when we normalize, this is where we are. And the EBIT, €2.4 million. And between the adjusted EBITDA and EBIT, you see the items affecting comparability that we had €2.3 million as a one-off cost related to a strategic review, which is then taking down the non-adjusted reported numbers. So the EBIT, 4% of revenue in the second quarter.

Our cash flow was strong at €12.9 million before financial items and taxes. EPS, we gained €0.01 in the second quarter. And if we just look at the main highlights from the first half. So growth of the total company, 8%. All businesses growing; consumer 7% in the first half, corporate 7%, consulting 9%. Adjusted EBITDA above comparison period in the first half of last year, so €17.8 million, 15%. And here, the EBIT, 7%, €8.5 million. So, we have net cash position. And cumulatively so far, we have €0.04 in EPS versus the €0.03 that we had a year ago. And we were slightly down in personnel when we compare against a year ago.

So, let's look at some of the KPIs more in detail. They are the same ones that we have been looking at in the past. So the deferred revenue KPI is an interesting one. And let me remind you about the revenue recognition, how we do it at F-Secure when we talk about the software business. So, we can get an order. As the customer buys a license, for example, for a year, let's start from that one first. And there, so if we sell that license and customer starts using it [ph] already in June (15:52), and we will then book revenue for one month out of the whole year, so out of 12 of the total value. And that's how we then recognize the revenue across that contract period. And what is then outside of that actual month is called this deferred revenue. And that's what we see as a current deferred revenue, below 12 months. Then, we have deals which are like three years, two years, even five years. I think the longest that I have known is six years. And there, of course, the length means that also, we divide it with that duration of the contract. And we see that the non-current deferred revenue refers to that part of the deferred revenue that goes outside of the 12 months period. So this is about the theory.

But now, looking at the numbers. So 15% growth in the deferred revenue shows us that we have had a good order intake quarter once again, and then we see that deferred revenue grows 36% on the long tail, like the non-current, but also positive that this current, below 12 months, is now growing by 8%. So that's the revenue that we have in the back pocket that we will then recognize when the time goes forward. And maybe, one thing to mention about this one that, where does the deferred revenue in our company come from? So, if we look at the second quarter, about half of that came from MDR contracts. They are often multi-year contracts and about half are from the business security software.

So, let's then dive into the operative expenses. As I already mentioned, so the biggest single, like conceptual thing here is that, Q2 2020, we saved costs successfully. And if you remember, so, we also had a revolving credit facility that we drew cash in our bank accounts and nobody knew what's going to happen, if you remember that time. So now, in the normalized situation, we see that, especially, the sales and marketing cost has increased. And there, the marketing activity has been already higher than a year ago. Also, the variable salary elements, such as sales commissions or long-term incentive plans, those have been growing, compared to the situation a year ago.

We also – we talk about salary inflation. So, we do see that the market is getting now hot again, like also from the industry perspective, but also looking at the employees. So in certain countries, we face salary inflation, but then also taking into account that we delayed the salary increases last year. Those are ones that we agreed in the second quarter, we actually started paying in November only. That was in Finland, but that's a big chunk. So there were these COVID-19-related elements embedded in these costs. And, of course, the cost of revenue, like the hosting costs, like when you get more business or you have also volumes for that part increasing. So that was like, for the total, this picture is talking about the operating expenses, the OpEx part.

Then, looking at the trend now for the adjusted EBITDA. So the bars here reflect now the euro value of the adjusted EBITDA, how we discuss internally. This is now the apples-to-apples that we look at the operational profitability of the company and this is what we follow. And adjusted EBITDA margin then accordingly against the revenue visible there. So in Q2, as we already discussed, so 14%; while a year ago, it was 19%. But, if we go one year before, so it was 9%. But, there is this improvement that we have been getting. But now, the COVID, orders were very highly profitable, while the cost was down and this revenue model kept on bringing the revenue, especially on the software side.

Maybe not worth going into the details. I think that most of the listeners here know the table pretty well. But, we wanted to open up, like in detail that, on a quarterly split, what are the elements that are there between the adjusted EBITDA and the EBIT in the other operating income that was related to these contingent considerations, fancy IFRS language in practice, meaning the acquisition-related earn-out that we had reserved and we didn't have to pay it fully, so we got that back. And then in the items affecting comparability, if you look at the second quarter, so €2.3 million was the number that we booked as a one-off there. And the depreciation and amortizations gradually declining, that's due to the acquisition-related PPA amortizations then declining when the time goes forward. And that explains then how we end up with EBIT here for the second quarter, €2.4 million, 4%.

From the operative cash flow side, as I already mentioned, so it was good. We are in a net cash position, despite the fact that we have made a term loan repayment according to the schedule that we have. But also, we have paid the dividend payments in the second quarter. So €12.7 million net cash position and cash and cash equivalents, €44.4 million. Our net working capital was the one now contributing to the strong cash flow in the second quarter.

And then finally, looking at the outlook, which is unchanged. So the corporate security product (sic) [products] (22:32) revenue, we expect to grow at high-single-digit rate. And the consulting business, we expect to grow, but we have the uncertainty still mentioned here in the guidance. And consumer security, 6% growth we had last year. And now, we say that we expect to grow approximately at the same rate as last year. And for the adjusted EBITDA, we expect to remain approximately at the previous year's level.

So, I guess, Juhani, now, it will be time to take the questions, if there are any. And, Henri, you probably have received already.

## QUESTION AND ANSWER SECTION

**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

A

[indiscernible] (23:13) Q&A. We'll start from the room. So, we have couple of analysts following the company here present.

**Jaakko Tyrväinen**

*Analyst, Skandinaviska Enskilda Banken AB (Finland)*

Q

Yes. Good afternoon. Jaakko Tyrväinen from SEB. Could you elaborate a bit more on the new initiative, F-Secure Elements? What has been the first take from customer, and perhaps, first signs of new revenue coming in? And secondly, what are your own expectations on that new initiative going forward?

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

Okay. Thanks. Yeah, the Elements launched at the end of May is a result of actually a longer initiative that has several components in it. And I think the underlying thinking was really to kind of look at it, what is required from our partners' perspective, what is required from the channel perspective in terms of the product? So first, we looked at what kind of user interface is required. Then, we looked at how everything can be automated in terms of the order processing? Then, we looked at what kind of training programs are needed for our partners? Then, we looked at what kind of business models are required? And, of course, ultimately, behind this, we have a leading edge cloud-native, cloud-based technology as the back-end that we are relying on.

So it's a combination of all of these things and really a kind of a culmination of that work was the launch at the end of May. And I think some of the commentary that I've heard and this is anecdotal, but some of the commentary was that this is really one of the best things that they've seen so far from many of our partners. And for the previously mentioned reasons that we've really taken a hard look from a customer's perspective, what is required, not only focusing on the product and technology, but overall, what is required to make our partners successful? And we have, of course, worked closely together with them as well to accomplish this. And some of the results are coming in, in terms of demand for the product, but, of course, it's still early days and we're hoping that we will be able to talk more about that going forward and share good news.

**Jaakko Tyrväinen**

*Analyst, Skandinaviska Enskilda Banken AB (Finland)*

Q

Thanks. Then, on the corporate products side, you cited that also EPP is growing nicely currently. Could you elaborate a bit more, what is kind of, if we split core EPP, and then MDR, and perhaps, EDR as a separate revenue streams, how they are kind of comparing to each other in terms of growth?

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

Yeah. So, we don't provide the breakdown between the businesses in terms of revenue numbers. But, of course, we have been in the EPP business for quite a long time. So that is one of our most established areas in the kind of corporate security side. And, of course, we built the position first on EPP. Then, that has been later on complemented by EDR. And these originally were two separate product categories. So, you had the EPP, and then you had the EDR. But, I would say that, in today's market, we are increasingly seeing a bundle of these two

things. So, customers are really expecting to also see the EDR as part of the overall offering, and we have been able to benefit from that because we've had very competitive solution for them.

But, at the same time, I would say that, overall, the EPP market is showing signs of increased activity most recently, if we look at the past few months and that seems to be helping us. But also, of course, many other players as well. And the difference between MDR and this EPP, EDR is that, in MDR, we are taking our EDR platform, so it's the same technology, and then we are providing the customers with additional expertise services on top of that.

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**Jaakko Tyrväinen**

*Analyst, Skandinaviska Enskilda Banken AB (Finland)*

Q

Thanks. Then, last one. On the geographical split, we can see that the growth is mainly coming from the Nordics and Europe, how should we read this looking forward? Are you perhaps putting more efforts on your core areas and what are the reasons behind the US and rest of the world not growing so fast currently?

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**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

Yeah. So, I think, as you know, we have a broad portfolio in terms of our offering. So, we have everything from software for consumers to high-value consulting for very large enterprises. And, of course, geographically speaking, in certain geographies, it's very focused on certain areas, like consulting, for example. There, we clearly have maybe the broadest footprint, geographically speaking. We are in the US, we are in Singapore, we are in South Africa, and so forth. And part of this is due to history. Because we have grown by acquisitions, so, we've already had those customers in those companies that we have acquired.

But also, there are other reasons. Being present in the US market, of course, gives us an insight into the largest cyber security market in the world. And, of course, it's important for us to understand that what are the latest threats, latest trends in the market that we are getting an additional benefit from there. But, I would say that, from a strategy perspective and geography perspective, we are, of course, very European-centric and it's important for us to establish a strong position in those European markets where we operate. Some of our businesses are also local, local in terms of language requirements, for example. And that, of course, means that, in those countries, we need to have local presence and local footprint. And then, some of our customers are global in nature.

If we look at Cloud Protection for Salesforce, it is essentially an online activity, the whole selling and delivering. We have Fortune 500 customers that we are serving that are customers of Salesforce, and they are tapping into our offering through the Salesforce AppExchange. Everything happened almost electronically, you could say. So, to sum it up, I would say, we are a European-based company with global aspirations.

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**Jaakko Tyrväinen**

*Analyst, Skandinaviska Enskilda Banken AB (Finland)*

Q

Okay. Thank you very much.

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**Veikkopekka Silvasti**

*Analyst, Danske Bank A/S (Finland)*

Q

Good afternoon. It's Veikko Silvasti from Danske Bank. A few questions from my side also. Firstly, regarding the Elements. You said that this was basically for your customers, but who do you consider your customers in this sense, is it the partners or the end users?



**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

Yeah. It's both, of course. I mean, we need to understand the end customer which, in this case, is largely the mid-market. So, we are serving mid-market companies through that offering, but we have a broad network of partners, so about 6,000 partners all together. Having said that, we have the desire also to kind of increase the average end customer deal size and, therefore, we are moving a little bit up in terms of also that the partner size, so that we get the right type of partners, but we largely have that in place now.

**Veikkopekka Silvasti**

*Analyst, Danske Bank A/S (Finland)*

Q

Okay. Thank you. And then secondly, is the pace of order intake growth in the corporate revenue maybe slowing, as previously you've said that it has clearly outpaced revenue growth, so can you describe this?

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

I'm sorry, I didn't quite understand the question.

**Veikkopekka Silvasti**

*Analyst, Danske Bank A/S (Finland)*

Q

So the pace in order intake growth for corporate security products, is the pace slowing down there compared to previous quarters?

**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

A

I could maybe comment on that one...

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

Sure. Yeah.

**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

A

...because this is somewhat related into that duration part that, as we have also mentioned in those quarters, where we said that we've had very, very strong order intake from the business security software that the contracts have been also long by nature, so meaning that the size of those contracts has been creating a lot of deferred revenue, as you saw the peak in the earlier quarters. But, it is not the right conclusion to say that it would be slowing down. So that metric doesn't describe you that one.

**Veikkopekka Silvasti**

*Analyst, Danske Bank A/S (Finland)*

Q

Okay. Great. And then maybe continuing a bit in this subject, can you give any color on how large is the monthly recurring revenue or SaaS revenue at the moment?

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

You want to take that?

**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

A

Well, we haven't disclosed that one [indiscernible] (32:06) can look into what we share in the future.

**Veikkopekka Silvasti**

*Analyst, Danske Bank A/S (Finland)*

Q

Okay. Fair enough, fair enough. Then, maybe regarding the OpEx levels, so is this the quarterly level we are, maybe looking at for the rest of the year or are there still some sales and marketing expenses that will probably increase for H2?

**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

A

If I start. You may add, Juhani. So...

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

Sure. Yeah.

**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

A

...clearly, as we know, the world has not returned back to normal. So traveling is still minimal. And that also missed from the marketing activities perspective that what will the future marketing activities look like? How much kind of like face-to-face time that will then provide, et cetera? So it has an element into the travel, of course, as an example. So there will be items that we will see increased cost levels. But also, we do have the ambition, as a company, to grow and that requires then also adding resources that even, if you have seen now flattish head count levels. So the cost levels need to be increased also to support the growth.

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

Yeah. We will be talking more about our future plans in the Capital Markets Day in August 31 and we can maybe dig take more into detail.

**Veikkopekka Silvasti**

*Analyst, Danske Bank A/S (Finland)*

Q

Okay. Sounds good. Then, maybe one question regarding the – maybe a bit faster growth than expected in the consumer side. So has there been any fundamental change, like have you identified anything in the market that has basically boost your sales growth towards 6% to 8% levels?

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

Well, I think it's a combination of many things. At the moment, of course, the market is quite active. So, I think there's a lot of focus on security, also on a personal level. So regarding consumers, whether it's security or privacy from their perspectives, I think that has increased in importance. That is one thing. Then, of course, some of these partnerships that we have built with our partners, of course, are yielding results now, so that we see that

we are starting to scale some of those solutions. And then finally, also there, we have had very good work on the offering in terms of expanding with router security, SENSE, with IdP, and then also offering all of the consumer offering under the same umbrella of, what we call, TOTAL. So instead of actually having to buy separate applications as a consumer, you can buy TOTAL which then covers several of the previous independent apps.

**Veikkopekka Silvasti**

*Analyst, Danske Bank A/S (Finland)*

Q

Great. Thank you. Then, final question for me. So is the operator channel who is selling your consumer products, are they selling the total product or are they selling partial systems or partial products?

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

That varies. So there's no conclusive answer to that. I think that varies from customer to customer. And also, there is a difference. Some customers brand our solution and that the consumer only sees their brand. And in some cases, we are co-branding with the operators.

**Veikkopekka Silvasti**

*Analyst, Danske Bank A/S (Finland)*

Q

Okay. Thank you very much.

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

Thanks.

**Atte Riikola**

*Analyst, Inderes Oy*

Q

Hi. It's Atte Riikola from Inderes. Couple of questions from me as well. So first, your balance sheet starts to look pretty strong right now. So, are you looking for M&A targets to boost your growth or do you have any other capital allocation ideas?

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

Yeah. I would say that regarding M&A, it's in the toolkit. So, I think we routinely, of course, look at our portfolio [ph] and make these – make by your partner (35:49) type of decisions and that, of course, can include M&A.

**Atte Riikola**

*Analyst, Inderes Oy*

Q

All right. And the second question about those €2.3 million costs related to the strategic review, so can you open those up, please?

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

Yeah. So, as you know, I'm fairly new in this role and it's important that we were able to conduct a very thorough review of the company, of its strategy, analyzing several scenarios, analyzing current state, and seeing where we could take the company in the next phases. And we have used some third-party support for this; and hence, the cost.

**Atte Riikola**

*Analyst, Inderes Oyj*

Q

And the last one. Do you think that you can keep your adjusted EBITDA in the double-digit percentage now when you're getting back to the normal growth mode?

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

Well, currently, we are not making changes to our guidance.

**Atte Riikola**

*Analyst, Inderes Oyj*

Q

All right. Thank you.

**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

A

All right. Next, we'll have some questions from the webcast portal. So couple of ones related to the operative expenses. This one goes to Eriikka. So, have you seen an impact from these long-term contracts on sales commissions?

**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

A

Yes, we've had some – we've gotten a good order inflow and we are happy to pay higher sales commissions, as I mentioned, in the second quarter, compared to a year ago.

**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

A

What about then, have there been any change in terms of phasing of cost items throughout the year, for instance, timing of sales bonuses?

**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

A

No changes like – that we could like lead. So it is also dependent on the performance that how the quarters go, and how we pay then bonuses, sales commissions. So no change as such. Maybe from the marketing cost perspective, there are some items that might be earlier or later, compared to what it was in the previous year, especially under the COVID times. So the timing is a bit different.

**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

A

Okay. Then, related to salary inflation that is mentioned in the report, what kind of magnitude are we talking about?

**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

A

It varies country-by-country. So, we can see countries where there's a very high demand for cyber security professionals, and we have also faced the situation where we have had to increase salaries, materially is maybe

the right word. But, I want to remind that there's also this issue that I was explaining earlier that the comparison point in the summer last year, we did not actually include those normal salary increases, only from November forward. And this was one of the elements of the saving portfolio that we identified to mitigate the risks related to COVID-19.

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**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

And maybe, just to complement that also compared to one year ago, of course, we didn't, in a similar fashion, accrue bonus payments...

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**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

A

Yeah.

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**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

...for people and that, of course, had another impact. So some of this cost increase is simply related to growth. And, of course, there are other elements that are related to, for example, cost of delivery in our cloud cost or as such.

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**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

A

Yes. And back to Juhani and the strategic review. I think you've pretty well already covered the purpose of the review, but then a follow-up. So, is the current cash flow enough to keep all the product areas competitive enough or is it possible that F-Secure decides to exit some of the business areas?

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**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

Well, as you know, like any technology company, we are conducting a steady review of all of our products and businesses [indiscernible] (39:58) and we are frequently analyzing the viability and the competitiveness. And it's not a static thing we are doing that all the time. But currently, we have nothing to announce or disclose.

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**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

A

Okay. Thank you. Still on the same topic. Since it was a costly review, did you get anything concrete out of it?

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**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

I think the jury is out and we will be communicating our strategy in August 31. But, I hasten to add that, what we found during the review was, there's been excellent work done in this company, a strong foundation that we are benefiting already now in terms of the growth and, of course, we're building on that good foundation.

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**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

A

Okay. Then Eriikka, have you increased your sales commission percentage in 2021?

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

No.

A

**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

No. No, I was like wondering [indiscernible] (40:58).

A

**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

Yeah. And still continuing on the financials, so which year will your acquisition-related amortization related to MWR InfoSecurity decline to zero?

A

**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

If I remember correctly, so the technology part was in seven years. Would you agree with me, Henri?

A

**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

Yes, I do.

A

**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

You could have answered that, [ph] not to test me (41:26).

A

**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

And on the topic of deferred revenue which has grown at a rate of 10% to 15% over the past three quarters, and the non-current part of it even more, is it fair to assume a similar 10% to 15% organic growth rate for corporate security products for H2 and 2022?

A

**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

That would be a forward-looking, like guess or estimate giving them that we are not disclosing at this stage.

A

**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

Okay.

A

**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

So the guidance that we have for the B2B products remains the same as it has been; that, for 2021, we estimate the revenue in that area to grow high-single-digit.

A

**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

Yeah. Then, one, specifically to Eriikka. So, could you provide a bit more color on why you decided to leave the company?

A

**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

And that's a tough one, because it's always a lot of things impacting. But – so, I was telling somebody that, hey, I've been reporting quarterly second quarter, in the middle of July [ph] since – I'm not (42:39) embarrassed to say, since 1994 for a listed company. So it's been quite a long time and it brings certain routines. And I think I still have an opportunity to do something different. I have not decided my next step. So, I'm just taking some time off and seeing that what the time will bring.

A

**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

All right. Then, coming back to Juhani. We were talking about the consulting and seeing that there's also regional variation in the performance. So what are the countries that are still lagging behind?

A

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

Yeah. We haven't disclosed specifically countries nor would it be any entirely fair because, I think this also varies quarter to quarter. But, we have, in certain regions faced, for example, heavy price pressure – price competition. And in certain cases, we have decided not to participate in some of those. There have been different reasons for the variation. And I think while we've seen very good progress in consulting and good work done by Ed Parsons and his team, I think the work still continues. And our target, of course, is that all of our regions will be performing very, very well.

A

**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

All right. Then, continuing with Juhani, do you have any thoughts on the possible merger rumor between Avast and NortonLifeLock?

A

**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

Well, generally, we don't comment on market rumors, but I can very generically say that we don't necessarily view all consolidation bad because, of course, there is less competition. And sometimes also, the competition gets tangled up in integration activities and that's a really good opportunity then for us to accelerate.

A

**Henri Kiili**

*Investor Relations & Corporate Finance Director, F-Secure Oyj*

Sounds good. Do we have any more questions from the room?

A

**Veikkopekka Silvasti**

*Analyst, Danske Bank A/S (Finland)*

Thank you. So, Veikko Silvasti from Danske Bank. One more question regarding the sales commissions again. So, could we even – or could you even, in theory, decline your sales and marketing expenses and just roll on with

Q

your current contracts, or is it so that the partners who have sold, let's say, a license for three years, and then when the three years has run out, and then they will renew the license, will they get a commission again for renewal or how does it work?

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**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

I think that's probably a bit too detailed to open up here comprehensively. But, I would just maybe mention that it's extremely important that we get the good renewal percentage because, of course, those are the customers that we won, and it's always kind of a easier task, at least in theory, to keep those customers than win completely new ones. So, we have lot of emphasis on that one as such. As to what is the right level in terms of more sales and marketing, sales commissions, and other costs, when you are a company with growth aspiration, of course, it means that you need to invest in that part as well.

And one of the areas that we are clearly very focused on keeping on investing is the marketing specifically, because we think we need to [ph] create – generate (46:12) demand, we need to get our message out there, we need to be able to communicate our vision, and we need to make ourselves interesting in this very crowded market, and we need to stand out. And having points of view and a credible story is one way to do that. Then, we intend to roll that out even more than what we have done currently.

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**Veikkopekka Silvasti**

*Analyst, Danske Bank A/S (Finland)*

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Interesting. Thank you very much.

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**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

A

Thank you.

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**Veikkopekka Silvasti**

*Analyst, Danske Bank A/S (Finland)*

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And all the best for you, Eriikka.

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**Eriikka Söderström**

*Chief Financial Officer, F-Secure Oyj*

A

Thanks.

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**Juhani Hintikka**

*President and Chief Executive Officer, F-Secure Oyj*

If there are no other questions, then I'd like to maybe just mention that this is, as said, Eriikka's last interim. And we've been very fortunate to have her as our CFO. She's come with a wealth of experience and she [ph] hasn't contented (46:57) by standing still. She has also taken our finance organization to a completely new level in terms of the capabilities and systems we have. So, it is my pleasure to thank her for that work. And, of course, we would have been extremely happy to keep her. But, at the same time, I think there's a lot of sympathy for her personal decision. And I look forward to being able to introduce a new CFO to you at the Capital Markets Day on August 31, where at the same time, I welcome all of you to participate. Thank you.



## Eriikka Söderström

*Chief Financial Officer, F-Secure Oyj*

Thank you.

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