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WithSecure Corp. (FSC1V.FI)

Q4 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Laura Viitala

Director-Investor Relations, WithSecure Corp.

Very good afternoon and welcome to WithSecure. My name is Laura Viitala. I am the Investor Relations Director and I'm very happy to wish you all welcome to this Quarter Four 2022 Results Release and Annual Report Release. So, today, as usual, we will have our President and CEO, Juhani Hintikka, talking about the past quarter about the business, about our news of this morning; and then Tom Jansson, CFO, talking about the financials and our outlook also issued this morning. We will have questions and answers at the end. And if you are following us on the webcast, please put in questions any time. We will take them at the end.

Now, with this, I'm handing over to Juhani Hintikka.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

Thank you, Laura. Good afternoon, everybody, and welcome on my behalf as well. So, as said, we will walk you through the Q4 highlights. I will start and then Tom, our CFO, will continue after me.

So, first of all, key takeaways from the fourth quarter 2022. As the headline said, strong growth in cloud-based corporate security products. So we had 32% ARR growth taking us to the €80.2 million level in Q4. And also looking at the total revenue of the company, the comparable revenue grew by 29% year-on-year to €18.7 million if you look at the Q4.

Elements products were performing well. You may recall that that is the software product portfolio that a lot of our software growth is based upon. And especially we saw very positive development in EDR. EDR is the Endpoint Detection and Response, a cloud-based solution where we have enhanced our capabilities in the endpoint area

and that is an important migration for many of our customers as we take them forward towards EDR, but also winning completely new EDR customers.

On the back of all this, we did experience a certain slowness in the market, so we've seen some delayed decision-making and that was evident also in our order intake in the fourth quarter. As we have earlier said, we do consider the cybersecurity market to be relatively defensive, not so much being impacted in the general downturn when people consider cybersecurity to be an existential capability that the companies need to have. But, of course, we are not immune to it either. So when there have been delays, especially in IT spending, that has reflected also on us.

The on-premise corporate security products, which we have talked about earlier on, that is the part of the portfolio which is gradually decreasing. And by design, we saw a decrease of 11% year-on-year to €6.6 million level. And this was according to expectations and plans. And I said earlier on, many of these customers, of course, we are in the process of converting to towards the cloud-based solution portfolio.

I'm happy to report that we saw an improvement in the cybersecurity consulting revenue. So on a comparable basis, we increased by 3% to €11.1 million. And we are clearly seeing that the hard work that we put in during last year in terms of attracting, retaining, training talent, that started to pay off in the fourth quarter.

And in terms of profitability and the adjusted EBITDA was minus €6 million. And we did see a decline from third quarter caused by further buildup of consulting capacity. And of course, as we've discussed earlier on, there is a delay before people that we take in can become billable and in that sense, productive. There is onboarding and training period and that was also visible in our numbers and especially, in profitability.

We did continue our investments in cloud protection for Salesforce business. That is the solution area where we protect content for Salesforce users globally and we do retain a certain uniqueness in this. And we have seen strong growth in this this area. Overall, I think there was also some seasonality of spend that we saw towards the end of the year. All of these were contributing to the profitability number.

So as said, there is demand for cybersecurity products that continues and also products and services to add. But as said before, certain delay in decision-making. We have been very focused in differentiating ourselves and talking about outcomes rather than just simply pushing products or solutions to our customers. We would like to talk about the impact that we're making to our customers and this has been favorably received in the market.

Couple of new things to mention. We have also been acting in the Microsoft ecosystem. So we have been now adding to our offering the Microsoft Teams protection, which completes the Microsoft 365 collaboration protection offering that we have. And also we have a new feature which we consider a fairly relevant the Server share protection as a new feature to Elements EPP.

We have also been quite active in terms of communication. We have talked about several high-profile cybersecurity breaches and we have been noticed as a forerunner in reporting on some of those major ones. For example, we are with our EDR offering, we were able to actually detect the Lazarus attack with our WithSecure Elements platform. Lazarus is a North Korean group that has been previously identified and several attacks have been attributed to them. We were the first to report on that now quite recently.

Then finally, another news, we have gone through a reorganization in the company throughout Q4. So we have a new customer-centric organization that was implemented from 1st of January onwards. What this means in practice that we have moved from our previous business unit-based organization into a common customer-facing

organization, common products organization, and common services organization. We think that the big opportunity for us will be cross-selling our portfolio. So previously we've had dedicated salespeople for different parts of the portfolio. Now when we are fronting customers where basically everybody is talking about at least initially about the whole portfolio, and then we have the ability to bring in experts as we deepen the collaboration. But at the moment, with still quite an important opportunity for us to increase our sales simply by reselling, cross-selling, upselling to our existing customer base.

We have also this morning announced restructuring. So there are change negotiations that will now start next week. So this reduction potentially will impact globally 120 positions, and we estimate to get annual savings to our run rate of about €14 million. That, of course, is related to people costs but there are also other operational cost savings that we expect to get. That process will now be ongoing for a maximum of six weeks from now on. In Finland, this is estimated to impact [ph] utmost (08:58) 34 positions.

And now I will hand over to Tom, who will talk us through more in detail the performance in Q4.

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

Thank you, Juhani, and good afternoon from my part as well. So if we spend a few additional minutes on the numbers, as mentioned earlier, our cloud revenue increased 29% when you measured on year-on-year and as we have said that we saw some slowness in customer decision-making especially in Q4. And one of the practical impacts was that our deal flow was very concentrated around December. And therefore you can also, of course, then see some positive, more positive effect on our ARR. And as said also, one of our key drivers for growth and it's also strategically very important for us is that our EDR continues to push our growth quite well.

On the on-premise part, we saw a decrease 11% year-over-year. And this is of course related to the partially to the migration to cloud-based products that that we offer. And but there's still a sizable segment of customers that prefer on-premise solutions and we continue to support them on that going forward as well.

Then our annual recurring revenue, I said we saw a strong order flow in – at the end of the quarter, and therefore we also saw on a quarterly over quarter increase of 12%, which was of course the best one for 2022 for us. And also maybe a good milestone was that this also then means that our total ARR for the company first time exceeded over €100 million. So that, of course, is also a good milestone for us going forward. And as said also on the on-premise, the ARR continues to decline.

Then as Juhani said, we are very happy to report that our consulting posted a slight growth but still a growth quarter-over-quarter comparably. And we I think mentioned on the call in Q3 already that we could operationally see already quite good improvements at the end of Q3, but now we actually see that also in the numbers. And that of course is really good news. And our consulting practice has done a good work in recovering from some of the challenges that we had earlier in 2022.

Our deferred revenue, of course, continues to be strong, and there's no big movement here, even though we are seeing quite significant growth also in our monthly subscriptions. And over time, there might be a – this might be going down. But for the time being, we continue on a pretty solid same track as before. And it's also some of that is reflected from the strong order intake that we had at the end of 2022.

Then our profitability, so our gross margin has been a bit lower than last year. And while we have seen some slight impacts on the gross margin from our products, the main impact for our – for Q4 and all the full year of 2022 was the buildup of our consulting capabilities and the double cost of, of doing that and so on. So that was the

main thing that impacted our gross margin in 2022. And as said, our EBITDA for Q4 was somewhat lower than in Q3. And as Juhani mentioned earlier, there's always some seasonality in spend between Q3 and Q4. But also our especially if you compare to last year there's – last year was still somewhat impacted by COVID. And also our activity level always is higher in Q4 and that's kind of the nature of this business as well, as well as of course, just to remind everybody that during 2022, we did major significant impacts, for instance, in building a new brand and so on. So that that, of course, had some impact also on our operational expenses.

Then if we move over to our guidance for 2023, so a new thing here maybe is first of all, is that we are considering that during 2023 that if we would move only to an ARR guidance in 2024, and now we are introducing that as a first step alongside with the revenue guidance. And but that is something that we will evaluate during the year as we go. But if you go to our outlook guidance, so for ARR for our cloud products, which is the part of the business that is our growth engine, we are giving guidance that that will grow between 28% and 34% from the end of 2022 level.

Revenue from cloud products will grow at the same rate, so between 28% and 34%. And then on total revenue for the group, we are guiding that that should grow between 12% and 20% from the year of 2022. On EBITDA, that will of course improve because we are guiding that with all the plans we have, we should be having a positive EBITDA in the fourth quarter of this year.

On the medium-term financial targets, we have no change and we are still targeting to double our revenue organically by end of 2025. And as said, the target of breakeven is what we plan for this year as we originally also have said.

Then maybe as a last point before we move to Q&A, also we gave out our annual report for 2022. We have invested with the leadership of Laura also quite a bit in our sustainability report. So, I hope all of the analysts and others who have not given us a good grace before have a look on that and see if we have improved on that account now, what we have worked on for during 2022.

So with that, I believe we are ready. And I would ask Juhani to come back and we could answer any questions you may have.

QUESTION AND ANSWER SECTION

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

All right. Good. So we have our analysts, Veikko and Felix on the line. And I suggest that we first start with the questions from the room and then take the people on the line. So anybody who wants to start.

Jaakko Tyrväinen

Analyst, Skandinaviska Enskilda Banken AB (Finland)

Q

Good afternoon. Jaakko Tyrväinen from SEB. I could start with the gross margin. So, do I understand correctly, if you're able to improve the billing rates in consulting in 2023, will that be the key driver for gross margin improvement?

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

That will definitely be one of the key drivers for improvement. Absolutely. Of course, we are also trying to improve our product gross margins as we and go volume increases. So that will be another element that we are looking for improving.

Jaakko Tyrväinen

Analyst, Skandinaviska Enskilda Banken AB (Finland)

Q

Okay. Then still on consulting, how good visibility you have towards the started year, how long the order book is in consulting? Have you already, for example, sold most of the Q2 revenue?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Well, we don't typically disclose our order book numbers, but at the same time, I think now we are in a better position regarding consulting overall because we have built the capacity. And I think that was a big challenge we had during last year with the big attrition number. We're starting the year in that sense much better. Anything you want to add on on the...

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

No, we have the capacity. And of course, that is a much better place, which we didn't have before and couldn't sell. Maybe all the demand was there.

Jaakko Tyrväinen

Analyst, Skandinaviska Enskilda Banken AB (Finland)

Q

Maybe. Maybe a follow-up on that one. Are the risks in in consulting revenue more on the demand side or the attrition side currently?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Well, I think our people continue to be in demand. So in terms of I don't think we can fully discount attrition this year either. We hope that the actions we have taken will take it down. And I think there's a little bit of a cooling in the market. But of course, we need to remember that this are highly sought after cybersecurity experts that also kind of are approached by outside players as such.

Jaakko Tyrväinen

Analyst, Skandinaviska Enskilda Banken AB (Finland)

Q

Then my final one on the EBITDA guidance, which are the cost lines that you are expecting to deliver the greatest scale given your you are targeting EBITDA breakeven by Q4?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Well, as we have announced this morning, this is something that will impact the entire company with some exclusions on the billable revenue consultants and some groups also in our other functions. But basically, this will be seen in all of our functional cost in the P&L going forward.

Jaakko Tyrväinen

Analyst, Skandinaviska Enskilda Banken AB (Finland)

Q

Okay. Thank you.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

Thank you.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

Atte Riikola from Inderes. Still about the gross margins. If you look at software side, you have been growing pretty nicely there. So how has the software gross margins improved or are they still flat or is there some reasons behind that they are not like improving our overall gross margins, because our ambition level are pretty high on that side?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So our gross margin is, of course, also impacted by the product mix. And in certain products, also, there's a services component. And then I think we're talking about how much we can improve the automation level and how much we can improve on certain cost items such as sensor cost and Countercept, which is an MDR solution. I think work that we do will impact gross margin there.

And then the other thing that I think has been impacting gross margin is simply the volume. So we've had not high enough top line in all the time. And that has, of course, shown us as a smaller gross margin overall. But for the rest, I think it's classic software business where it's mostly impacted by the hosting cost that we pay to AWS where we run our cloud solution and our ability then to negotiate good contracts is, I think, the determining factor in those cases for our gross margin.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

All right. Then about the on-premise revenue, is it like a good assumption if you assume that the decrease on that revenue will be somewhat on the same level that we saw in 2022 this year?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Now, I don't remember off the top of my heart – top of my head how much we have in our plan. But of course, when you look at the history now, it's been pretty similar, the decrease we have seen and there's genuinely some churn. But then also there are importantly customers who are migrating to higher revenue items such as EDR and we're able to sell that added value. And that's, of course, an important part of the plan overall. The fact that it's – for us, it's a decreasing product of course, means that we're also spending less on it in terms of our R&D capabilities. And we are, of course, continuously matching that with the volume and in order to drive maximum profitability out of that area.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

Yeah. And last question from me about those changed negotiations and cost savings, how do you expect the timeline of those €14 million annual savings to come through? How much of that – those are realizing on Q2 already after the negotiations are [indiscernible] (22:21)?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Like we announced that we are expecting the negotiations to be completed by end of March. So we are expecting that the savings will be showing starting to show up in Q2, quite early.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

All right. Thank you.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

Thank you. Let's then move to the questions that we have received online. So like I said, there are other analysts who are not in the room are online. So first of all, cloud ARR grew by 32% while cloud revenue grew 5 percentage points lower at 27%. This implies very back end loaded Q4. Describe the customer behavior in Q4. What drove this and has this continued in Q1?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Well, as in many industries, we, of course, see customers spending accelerate towards the end of the fourth quarter. And I think we've seen some of that happening. And as you know, we even if you close a deal from an ARR perspective, we're able then to report that even if it's closed during the last day of the of the quarter. And that, of course, clearly is showing in the numbers. I think there's a bit of that. And also, I think there's a genuine effort from our sales organization that they were really going after business and deals at the end of Q4.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

All right. Then describe the visibility you have for 2023 cloud growth. What kind of price increases you're pushing in 2023? And how do you expect new sales to perform in 2023?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Well, we haven't announced yet any pricing changes. The last ones we announced were last summer of 2022. I think this is something where we are continuously monitoring and adjusting. So most likely we will do a review of that also this year. And of course, it's always a balance of right pricing versus the right customer demand. But at the moment, I think our visibility is that the demand for our cloud-based products continues and we are on a growth trajectory there and quite confident that we're able to continue that that transformation with the current information.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

Then another question regarding the outlook. Could you please describe the main components for 28% to 34% cloud growth for 2023? Is this more driven by new customer additions or upselling to existing clients? Which products are expected to act as the spearheads for growth?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Maybe I'll start and maybe Tom you can complement. So, yes. So of course our sales is a function of renewals, so existing customers continuing. And that of course forms an important part of our overall revenues, especially regarding the continued ARR business not consulting so much. And then I think there is, of course, a big push for new sales, especially for the extension parts of our expansion parts of our portfolio that we're doing. And we are also increasingly, of course, now gaining direct customers with our offerings. So we are approaching customers directly for cloud protection and for Countercept. And I think that will typically yield then then bigger and new contracts.

And then finally, I think the biggest opportunity we have this year actually relates to our ability to upsell and cross-sell. We have a portfolio that ranges from services to products. And previously still last year we were organized in such a way that these were managed by business units. They have their own sales organization. Now we have reorganized from January onwards. We only have one customer-facing organization that is responsible for selling the entire portfolio. And in practice, of course, this means that there are many customers who have only bought services from us consulting, for example, or products from us. We will try to do cross-sell. We will – our people will then start dialogue around the other parts of our portfolio. And purely from a numbers standpoint and where we are starting from, there's quite a big opportunity there.

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

Yeah. I have – that was a pretty complete answer. So – but I think just to kind of maybe summarize it, so we are expecting growth across the portfolio of our products. And as Juhani mentioned, that consists of both expansion. So we have had pretty good [ph] NRR (27:32) in our portfolio and there are some mix of new customers. But then also I said cross-sell is a big opportunity for us and we expect more value from existing customers.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

Great. Thank you. Then another question. Have you seen increased churn as the IT budgets get scrutinized?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Our churn has been fluctuating throughout 2022. I would say I wouldn't be able to say that there was a particular impact from the IT spending. In our case, I think we've had quite a bit of churn that's been related to portfolio change. So we've had customers in that we've serving with all product and some of those have churned, some of those have moved into a new platform. This has been especially true for our MDR, i.e. Countercept, which is the product name. And there the previous product had had a lot of customers who didn't follow us. In some cases, I think it was quite natural. There were smaller customers with the narrow need in terms of the scope and we were able to actually kind of move into – as a sweet spot into larger customer groups. And that meant that many of these smaller ones actually churned.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

Makes sense. Then in your June 2022 Capital Markets Day, you disclosed that 16% of your customers are buying more than one solution from you. How has this figure developed since then?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Well, we are not reporting that figure externally, but it is something that we are tracking and we are actually building metrics to become even better at tracking our cross-selling performance.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

All right. Then are you fully staffed in consulting, or do you still need additional recruitments to compensate for the recent attrition?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

At the moment, we're well staffed in terms of the attrition that we faced. But of course, we are expecting some attrition to take place still in 2023. And so we will continue to recruit and hire. But I would say that hopefully at a slightly lower scale, we have now very good capacity to deliver.

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

Maybe I can build a little bit on that. We also good to remember we have our own academy, so we are being new resources to the market and we keep running that because in anticipation of potential attritions.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

All right. Then a couple of questions regarding the changed negotiations. So you have announced sizable OpEx cuts. Can you describe the split of savings of €14 million between sales and marketing, R&D and admin?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

We won't be able to comment on that partly because the negotiations are only starting now. So no, no decisions have yet been taken. So our plans are preliminary, but we will see what the outcome is then after the process.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

And then by when do we expect to see the full benefits of your new cost savings program in your bottom line?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

I think we already answered that partially. So as said, we have said negotiations are expected to end by end of March. So in beginning – early Q2, those will be started to be implemented. So Q2 you will see that.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

All right. Then gross margin is not improving at the rate expected earlier. What is behind this? In the CMD, you presented ambitions of 85% to 90% gross margin for cloud products. Is the cloud gross margin anywhere close to this?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Yeah, like we mentioned earlier, 2022, our gross margin performance was hampered by the mainly because of the buildup of the consulting capacity. And our ambition level haven't changed. And as we said already in the CMD, there is work to be done in most of the product areas and some are closer, some are maybe requires a little bit more work and volume.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

All right. Then I hope Veikko, we have already answered your question regarding the ARR growth, where it comes from. Then we have Matti , our analyst online. Should we expect on-premise net sales decline to accelerate growth going into 2023, 2024? Or do you continue at the current decline rate?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Yeah. Yeah. I think it's, of course, hard to predict exactly how it will go and the timing of whatever. At the moment, at least we don't see any signs of a major decline. I think it will decline, and that's what we also plan, because they will be converting to cloud more and more. So I guess that's all we can comment at this moment on that.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

Then a question of salaries. What was your average salary inflation in Q4 22?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Well, we haven't done any specific inflation of salary increases, but of course we have recruited a lot of people and so on. So there is, of course, a little bit of effect from that point of view, but it's, of course, something that we are evaluating constantly.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

And then if your top-line growth lands at the high end of your 2023 guidance, can you be profitable even before Q4 2023?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

I think we stick to the commentary, what we said in the outlook. So I think we'll see how the year develops.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

All right. Then [ph] David from France (33:49) is online. So could you please detail how much restructuring cost we should expect in 2023 given the internal reorganization and the plan to reduce head count by 120 people that was announced this morning?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Yeah, well, that is we have to follow the process. So we are starting the negotiations and when they are ending, then we can evaluate how much or we'll know how much the restructuring part of that will be. And we will of course most likely will post, I think at the Q1 end.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

Then there's a question regarding the plans for head count, where the reductions will be, but I think we answered that already. The question continues should we expect the company to hire and increase its head count in other areas?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So I think especially during the first half when we are executing these negotiations and seeing the outcome, we will be cautious in terms of hiring. But at the same time, of course, we are a growth company, a growth business, and we aim to be at competitive levels in terms of our spending in R&D, in sales and marketing. And we have been looking at also at what those levels should be. And I think we're well on our way there. The plan is to continue hiring when it makes sense and when we have those needs. We have also voluntary attrition that we every now and then need to need to patch. But I would say that we'll probably be more cautious now during first half.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

All right. Then we go back to the gross margin. Could you please give us a bit of insight into your plans for gross margin expansion? What have you done and what are you doing to improve the gross margin in the business? And when should we expect significant improvements to be made there?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So as Tom was explaining earlier, a big driver for the gross margin was the consulting-related activities, i.e. the attrition, hiring new people and the time between when the new people are productive. And that was contributing negatively last year. We expect to start the year in a better position. So we are better staffed and we've already seen quite good performance from consulting in Q4. So in that sense, that of course should help in this compared to last year, but that of course requires but we have the right demand also for the consulting in the marketplace and that we deliver and we don't have so much non-billable time that is a big part of it.

Then the other parts that are somehow related to our overall gross margin are maybe then related to continuous work on the sensor cost in Countercept, the MDR area, where it's a combination of service and technology that we provide to customers. And there, of course, we have been also making good progress and we intend to continue to focus on that.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

If I may make a comment, the Sustainability Report includes a fantastic paragraph of reducing or optimizing the cloud usage and [indiscernible] (37:16) so that even I can understand. So I recommend that for anybody because of course it's energy savings, but it's also cost savings on the hosting.

But after this, I go back to [ph] David's (37:27) question. So the last one, could you comment on the environment? And I think this is business environment, notably the dynamics in the number of proof of value that you are running and the associated conversion rates.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

We don't have exact data to share in terms of the proof of values, but of course, I mean, as a company, our footprint in terms of our customers is relatively big. So we have about 150,000 end customers as companies, of course, majority of those are really small ones, but even the bigger ones, we have a sizable number of those. So in any given moment of time, we're actually kind of engaging with customers globally. And of course, the nature of SaaS business, of course, often times is that we are running a continuous service, a continuous business with our customers, and then there's less proof of value. But, of course, when you have genuinely new customers that don't know us, then sometimes we also do that.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

Very good. Then there's a question of what kind of positions are those 120 positions? I guess we have already said that we cannot comment yet because the negotiations are only about to start. Have you seen price hikes on hosting costs and are you able to push the inflation to your sales price?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

We will, of course, try our best in terms of the pricing and what the sensitivity there is. So we are continuously testing that. And also I would like to say that we have been doing good work also in terms of negotiating with our hosting partners, the hosting cost.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

Then there's a question about the personnel reductions. How much will they affect your capacity and capability in consulting and R&D? Will you be still able to grow on those areas or are the reductions going to be mainly from administration, for example, having less of an impact in your core business?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

We don't expect to get material impact, and we are not changing our plans because of the restructuring exercise. As I may have mentioned earlier on, we have out-scoped billable consulting from the negotiations. So they are not part of the negotiations. And then as far as our product development and another things are concerned, we continue as planned. We're in that sense in a little bit better position this year compared to last year since we've reorganized since 1st of January and we have better visibility also to the R&D capacity we have available because now previously we had disparate R&D teams and in different business units. Now we have taken everything together and we have now quite good visibility as to where we did have a bit of overlap also during last year and that will help us also in this process.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

All right. Then there's a question about the one-time costs related to the savings, and I think we already gave the answer. Then a question about the head count reduction, what kind of roles will be addressed. And that's been answered or we cannot comment yet much on that.

Then next question, are you looking at M&A actively or is it on the backburner until you reached profitability organically?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So of course, M&A, as we've said before, it's part of the toolkit. And especially whenever we are assessing our portfolio, it's usually a question of make by your partner when you look at certain capabilities that we have. So it is in the toolkit. But of course, looking at the number of changes we have had in the company during last year and also now at least during the first half of this year, of course, we've been very busy. So we haven't contemplated any major transaction in that sense. But as said, I think going forward it is part of the toolkit.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

Then can you give us some thoughts on cash flow? What should we expect in terms of CapEx versus sales and working capital? Do you expect working capital to be an inflow or outflow for cash in 2023? Then I'll ask the third part next.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Okay. So of course, this company, so our cash flow follows quite closely to our EBITDA. So you can you can probably model it from that perspective. In terms of net working capital, I think we have said this before, but we don't expect any major significant changes short term. But over time, as said, we are clearly monthly subscription is increasing, which have an impact on our cash flow. But again, it's very hard to predict on what timing pace it will happen. But at the moment, I think it's – for 2023 is I think the impact will be not a major impact from that perspective.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

Do you want to comment on the net working capital separately?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

No, I think that will trail. I don't see any major shifts in any direction.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

Okay. The third part was that what should we expect for repayment of leases?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Well, that we need to see how that develops and if that's related to negotiations. So...

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

I think this is more related to overall cash flow.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

That that will stay. We don't see any difference from that from the history on that.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

A

All right. Next question. How immune are you to the macro-economical environment? For example, cost and salary inflation, interest rates, et cetera?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Of course, we can't claim to be immune to that and it is a factor how things develop. But I would say that still we believe that cybersecurity is not the first area where companies will cut their spending. I think there are many well-publicized examples of companies that have actually not been adequately prepared or defended and then there has been a ransomware attack and then all kinds of consequences from that, that can be measured financially. And I think that obviously kind of has an impact on people's thinking typically. So we continue to think that this is an area where there will be spending regardless – not regardless, but despite some of the macroeconomic trends.

As far as the inflation and other things are concerned, these are, of course, things that also concern our employees. For example, what is the cost of living, and that then tends to translate into pressure then towards salaries and things like that. We don't consider ourselves to be a benchmark in a sense that we would always be offering the highest salaries in the marketplace. I think there are plenty of nowadays, maybe a little bit less, but plenty of well-funded startups that were offering very, very high salaries because, of course, there was an inherent risk in joining those companies. And we've seen that in our area as well. So we try to balance, I think, this in terms of our salaries.

Laura Viitala

Director-Investor Relations, WithSecure Corp.

All right, then next question is, is the cost saving plan in any way related to services provided to F-Secure?

A

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

No, I think this is related to kind of us building a sustainable company also from a profitability standpoint.

A

Laura Viitala

Director-Investor Relations, WithSecure Corp.

Then given your footprint among small customers, are you actively partnering or in discussions with insurers on cyber insurance?

A

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

We have done collaboration with insurance companies, and that continues to be an area, I think that can potentially evolve. But so far, it hasn't become a major driver in the market. I mean, you could imagine that in the future, there would be a claim that if you want to on business continuity insurance, you need to have a cybersecurity certificate. We haven't really seen that materialize so much. I think what we aim to do with our customers, especially the very small ones, is that we will really continue to focus on automation so that our customers can interact with us. I mean, the smaller customers, small partners without human interaction and that way we're being able to serve them, but at the same time be cost-efficient and be able to scale.

A

Laura Viitala

Director-Investor Relations, WithSecure Corp.

Thank you. That was the last question on my very active chat. Do we have anything more from the room? No. And it seems that the chat has gone silent as well.

A

Laura Viitala

Director-Investor Relations, WithSecure Corp.

So, thanks everybody who was on the line today. I think we are ready to start wrapping up.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

Thank you very much for attending.

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

Thank you. Thank you.

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