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WithSecure Corp. (FSC1V.FI)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Laura Viita

Director-Investor Relations, WithSecure Corp.

Hello and good afternoon from WithSecure. Here in Helsinki, Finland, we are just through what we hope was the last snowstorm before the summer. A couple of brave individuals made their way through the snowy streets to the room and we have lots of others on the webcast. So, welcome wherever you are, to this first quarter 2024 results release.

My name is Laura Viita. I am the Investor Relations Director of WithSecure. As you might know, we had a sudden change of CEO just a few weeks ago. Today, we have our interim CEO, Antti Koskela joining us for the first time. Antti is our Chief Product Officer. He has been with the company as part of the Global Leadership team since 2021. More about Antti, you can find on our website. And I believe that Antti's deep knowledge of our products will also be beneficial for our investor communications. For example, everything I know about cyber security is largely thanks to Antti and his team. So, looking forward to that.

Our CFO, Tom Jansson, whom you know, was attacked by a virus, not a computer virus because we are well protected here, but a real-life virus. And therefore, he is attending us today online and he will go through the first quarter financials and talk about the 2024 outlook. We will take questions and answers at the end. If you are following us over the webcast, please post the questions any time. I will pick them up at the end and ask them to these gents. So, now, a warm welcome to the interim CEO of WithSecure, Antti Koskela. Floor is yours.

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

So, thank you, Laura, for the introduction and welcome from my part to WithSecure. This is my first time in the quarter one briefing and I try to do honor for the company and to Tom as well there. So, what I would like to go through first is the first quarter highlights. I have two slides. I will go through them.

The important thing here is that we started with our strategy to become partner-led mid-market centric SaaS company in cyber security. And then we concluded as a part of our strategy that we have consulting business and Cloud Protection for Salesforce that are slightly different. So, our strategy is unchanged. We go full ahead with Elements, Elements-driven company, and we continue the strategic reviews. But what we did is that as we are operating the business in three segments, so, you will now have access to the segments, so which we published on Monday. Hopefully, that gives greater visibility for the business in terms of opportunity and profitability and it answers some of the questions that have been previously asked in these sessions.

Elements Company, we faced, of course the normal macroeconomic situation in Europe and some of the seasonality in Q1 and slowness in decision-making. But despite that, we are reasonably happy that we clocked in third consecutive growth quarter in ARR terms. Our ARR grew 10% year-on-year, 3% in the quarter, and our Cloud revenue grew 10%. Important to note here, when I am using the term cloud, I am using the new definition Elements Cloud product and services. That's the reference to the word cloud in this presentation.

Elements company revenue grew 6%, and when we look at deeper what's underneath the numbers, within the Elements Cloud, we have a capability called Detection and Response, EDR, that is driving the growth quite a bit. MDR, our Countercept offer, is at the previous level.

And when we look at the regions, so we saw the German-speaking Europe, the DACH region, Finland and France driving the growth. We had some challenges in UK and Japan. We had quite many renewals in these countries, and these are key countries. We call them regions in our operational model, where we develop our business and especially develop our channel business, partner business with regards to Elements Cloud. So, I'm quite positive about the outlook and that's the reason why we chose these two markets.

Then going to a familiar area of mine which is of course the products, and mid-market, which is our chosen segment in the strategy, these customers are chronically underserved and they don't have access to the resources that are needed against these automated digital cyber criminals. So, it doesn't matter whether you are small or large, you are faced with the same automated attacks.

So, what these small companies need to do then? Of course, they need to have a good endpoint strategy and when we say endpoint, it's not just the endpoint protection and detection, we actually are more – we already have cloud detection, identity detection coming in the systems. That's one part of it. But the key thing here is that that's not only thing that is needed. What's [ph] also a (00:06:44) new opportunity for WithSecure, and I believe, every midmarket customer needs to buy this, is because you need to understand what are your weak spots in your digital infrastructure, how potential attackers come in and how you proactively manage that risk. That is exposure management. Large companies are doing that because they have skills and resources. Small companies need to do it because they are faced with the same attacks.

So, we have had – we signed our early access program for this one. We have a good partner uptake on that one and we will officially launch this in our SPHERE event. Also happy to report that we have now 600 people coming to the SPHERE. We believe we will sell out till event as we move on. So, we have capacity for 650. So, it's a platform where we talk with our partners and customers and hopefully see some of you over there as well.

So, when we look at these two other businesses, these are the businesses which are under strategic review and they continue to be under the strategic review. So, first, let's remind what Cloud Protection for Salesforce is all about.

So, when you are working as a Salesforce customer, especially when you are using Community Cloud or Service Cloud, you are having your third parties in the system. So, you are exposing yourself. So, we have proven that value prop and we have a solution for that. So, we grew quite steadily to this level, but we have hit some growth pains here in the business and some customers has adjusted their license usage and our ARR is roughly at the previous level. So, it has been relatively flat, but we have stabilized the business now.

And when I double-click inside the business, the value prop is proven, I believe there's still a growth opportunity there going forward and that's what we are – that's why we are driving the business further. And Tom will comment little bit on the NRR trend, which is NRR 87%, it's one part of the story. Some of that – some part of that we will recover later this year. Tom will talk more about that one, which is an important metric for us.

In Cyber security consulting, I think some of you were here in the Q4, Q3 events with us and we have clearly said we have a strong backlog for Q1. So, we have – have a strong backlog. So, what then happened? So, what happened is that few customers, especially one very large customer, decided to delay the start of the projects. So, we are not obviously satisfied with the consulting performance during Q1, but we believe the value prop is sound and we have ability to improve that during the year. We continue with the strategic review as planned.

So, the strategy we have in the company is to move company to partner driven SaaS company that, in the cyber security field, focus on the mid-market. Unchanged – strategy unchanged. And I would like to thank Juhani for leading the company until this point, driving all the transformation. And so, me and Tom and rest of the team, we will drive now company further with the strategy we have, and it's really about strategy execution now as we move further. So, I want to remove any doubt about the focus in the strategy and remove any doubt about our strategy to conduct strategic reviews for these two businesses.

So, with this one, maybe I turn over you to Tom, so that why don't you go through the financials.

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

Thank you, Antti. And as we have moved to segment reporting, we are going to go through the numbers in the future also by segment.

So, first of all, the Elements Company, just checking that we have the right slide on the screen there also.

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

Now we do. So, we had a bit of a moment that when I changed from the third to fourth, it went to beginning, but now, we are on the right one.

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

Okay, good because I am seeing Elements Company slide. Anyway. So, as Antti mentioned, the macroeconomic environment is continues not to be the best and we can see some impacts on that, but our Cloud ARR grew 10% year over year. And also as mentioned, we – this is the third quarter that we are growing at least some. And in

terms of our – looking at it from our regional perspective, DACH, Finland and France are doing quite as expected, while UK and Japan, we have some work to do in order to get where we want to, to get [ph] done (00:12:27) and so on.

NRR 101%. So, of course, this is also an area where we need to continue to develop and improve because these are not the levels we are expecting to be in the future. On-premise declined as expected and then we also have a few minor revenue streams that we separated out in this segment in order not to have them impact the other numbers. These are very small revenue streams that we call Other. And then, of course, our cost savings measures that we took all year last year, now, we can also see some of that in Elements Company where we posted a positive EBITDA of €1 million in the first quarter.

Then we go to the Cloud Protection for Salesforce. This has been quite flattish in the last quarters. We do see a good pipeline and as said, we continue to have a very unique solution to this area and we continue to work on that and we do expect this to return to growth in the future.

The NRR, 87%, this is really impacted by one significant customer in Q3 had changed their buying behavior dramatically for us. So, therefore that had a big impact on NRR. This will correct itself in Q3 this year, but for the time being, that's of course a fairly significant impact due to the volume of that customer. Here also in the Cloud Protection for Salesforce are, we are improving our profitability and we have made some cost measures here also previously.

[ph] Then the (00:14:27) Cyber security consulting, as said, we started the year with a very strong backlog. We still have a strong backlog. We had one major customer that then decided that they delay their projects and really started at the end of the quarter. We do expect though that, that will pick up later in the year and the overall year still will – also for them will be as planned. But that of course, along with a few other smaller adjustments with large customers, that had a pretty big impact on us for – in Q1. And this of course then had an impact also on our efficiency and our gross margin and EBITDA that was slightly negative because of that in Q1.

Overall, as said, 3% growth for the full company and also break-even on an adjusted EBITDA level. Then you can also see in our operating expenses that the cost measures that we did last year is coming through. Our comparable OpEx from last year, Q1 to this year is now €7.2 million lower and that of course is the result of all the hard work and unfortunate things we had to do last year.

Then just a very quick update as part of the segment reallocation, we also have done a goodwill reallocation and you can see the impact of that. You can see here just as an information for those who also look at the [indiscernible] goodwill pertinent (00:16:13) on our books.

And our outlook is unchanged and our annual recurring revenue of Elements Cloud products and services, we are expecting that to grow 10% to 20%. And then the revenue by 10% to 16% and the overall company revenue 6% to 12%. And we expect to have a full-year positive EBITDA this year. So, that was a really quick run through the numbers and I think we are ready with Antti to take questions.

QUESTION AND ANSWER SECTION

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

Good afternoon. It's Matti Riikonen, Carnegie. Couple of questions. I'll take them one by one. First of all, you had some disappointments in Consulting and Cloud Protection for Salesforce. Did Q1 otherwise deviate from your internal expectations?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

So, if I start with that one, so we are really happy with the growth in the Elements Company segment, and with the ARR growth in these macroeconomic situations. And also we are happy with the positive result generated in a way carried the whole company and that we are pleased about. This delayed starts of the project in Consulting, we can't be pleased about and I do expect those to be one of a kind in this. And with the lead – consulting leadership, we drive more consistent performance on the Consulting going forward.

Cloud Protection, on the other hand, there, as I mentioned, it has been a year of stabilizing the business, and – but we won a number of new logos also during Q1. And the opportunity is there because the value prop is strong. And – but we need to turn the company, that segment back to growth trajectory. That needless to say and – but Q1, it has been flattish, I think from that point of view and that's not the performance you expect in the SaaS company.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

Right. So, regarding Consulting, if you – if we see that, okay, there was a delay in Q1, do you think that you will get that all revenue that you expected from this big customer going forward, so that you are not losing the customer, it's just being extended to the next quarters.

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

So we are definitely not losing the customer. And maybe, Tom, you could comment how the revenue generation point of view, how does it...

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

Yeah. Thanks, Antti. So, we are expecting that to get that revenue we expected for this year also from that customer, so we expect some catch up later in the year.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

All right. Then you started to talk about the fairly low NRR in the Cloud Protection for Salesforce business. So, was it just this one customer that kind of postponed their activities? Do you expect that revenue from that specific customer to materialize in the coming quarters in full, or have you lost a customer?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

We have not lost the customer. And as Tom mentioned towards the latter part of the year, we expect that customer to recover. There has been – as a part of the scrutiny in IT spending, there has been a churn related to looking at the licensing levels in the company. That is obviously one part of the NRR. And there have been some churn cases. This one item is such a major contributor. That's why we mentioned it here. But the key thing in the business, we drive it to normal NRR levels and then we bring new customers onboard and I think that's the growth formula for us.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

All right. Then just regarding Elements portfolio and modules in it, you didn't that much talk about EPP inside Elements. So, has the EPP sales been flat or has it been even declining?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

I would say – I would like to talk about Elements Cloud as a whole. So, I view the business so that we have extended Detection and Response and then we have exposure parts within the Elements Cloud family. And historically, we have been looking at EPP, Endpoint Protection as a separate thing. That's where we have come from. But what the mid-market is looking at, they are looking Endpoint Protection, Detection and Response as an integrated solution. And not only with the endpoints, but having identity, protection detection and response, cloud protection and response like it's expected in a modern SaaS estate. That's how our offering is becoming, so that instead of having [ph] stove-pipe (00:21:38) products, we have more security capabilities that we can sell as individual modules.

So, to answer your question, EPP is selling as standalone. We have a lot of business, but we want to upsell on that base a lot more EDR and other modules into that mix and that's driving the growth.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

All right. The purpose of my question was that if we're looking at EPP and EDR as combined, as you said, it might be difficult to kind of separate them. What would be the combined business or sales from EPP and EDR? Would it still be kind of growing as you mention that EDR is growing?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

It is growing. Combined is growing.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

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

A

Okay, let's go in the order [indiscernible] (00:22:38).

Atte Riikola

Analyst, Inderes Oyj (Research Firm)



Hi. It's Atte Riikola from Inderes. Maybe first about – the overall question for the chief product officer. So, when you're looking at the WithSecure's, let's say, Elements portfolio, how do you see it, how does it look like and what's – like how competitive it's against competitors?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.



So, as we have talked here many times previously, we are mainly faced with the US-based competition and a lot of the industry analysts look at the large enterprise segments and their offerings there and we are focused on the mid-market. So, by definition, our products are highly automated, and so we are not providing tools for humans to read, like often is requirement in enterprise. We are providing tools that solve the problem and human is not handling it.

So, we have a lot of independent ratings like it for software reviews this year gave us the – kind of a number – kind of leading rating. There are other sources I look, then some of the, for instance, Gartners of the world. Of course, those are important, but there are others. So, I think we are competitive with the chosen strategy segment and it's important to note that those technologies and products actually look slightly different from the large enterprises. That's also reason for the focus.

So, what we need to improve and what we will be launching? So, things around Cloud, things around Identity. So, those we will complement because mid-market companies are in the SaaS space. And then when you are in the SaaS space, you are faced with all the cyber criminals of the world. That's why we launched Exposure. So, I think we are getting the portfolio together and I'm actually quite excited what we are going to launch in SPHERE and maybe then we can have a deeper discussion on as well, because I think we will be in a very good place with the offering.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)



Yeah. Next question actually was about the Exposure Management product. What kind of expectation you have for that, let's say, are you expecting that it will support your revenues in, let's say, the second half of the year in a meaningful way?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.



So, all the modules in the Elements Cloud, they are part of the segment that we have with Elements – with the Cloud ARR growth and that's reflected in the 10% to 20% ARR guidance.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)



All right. Then about Consulting. If we look at your quarterly numbers, the Q4 was actually very strong. Was it like 19% EBITDA margin, and now, it was again negative. So, I know that from a seasonality point of view, the Q4 is always the strongest, but was it like extraordinary strong? And I'm just trying to figure out what kind of the – after all the restructuring, what is like the normalized profitability level for that business, let's say, when you get back on track there?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

I would say that we clearly, what drove the margin down is the utilization question so that this business is a function of the people we have as well, so we are matching demand to the supply. That's what you do there. So, €10 million would be on the higher end of what we can do with existing people. But, maybe, Tom, you could give what's your thought on that one? Is that...

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

Okay, I...

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

...this quarter was definitely lower.

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

Yeah, okay, I would say that this quarter was very low and not what we expected. So, Q4 was, to – in my view, a normal Q4. As you said, it's stronger usually.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

All right. And last question from me is about your outlook. It's still like indicating accelerating growth in the coming quarters. So, what kind of visibility you have for that to happen?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

So, I often look at the trends, how this has been developing. So, if I look at the growth, ARR growth, 3% now in quarter one, 6% in Q4, we had growth in Q3. So, we actually turned this Elements Cloud engine in the last three quarters to growth mode. I think I'm confident on the – that we stay on the trajectory, so then we are well within the 10% to 20% ARR guidance on that one. In terms of, of course, ARR turns in Cloud business into revenue with the model as you know, and then on our revenue guidance, of course, what we do with the Consulting plays a role because there you win the project and you deliver then often during the year. So, it works differently as a business. Tom, anything you want to add?

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

No, I fully concur on that. We stay with our outlook.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

All right. Thank you.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

Hi, Walteri Rossi from Danske Bank. Few questions as well. Well, first of all, you said that you lost a customer in both Consulting and in Cloud Protection. It wasn't the same customer.

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

It wasn't the same customer. And to be precise, we did not lose the customer in Consulting. We had a strong backlog with the customer. The customer decided to start project later in the quarter and they started late March, but it had a such a big significance on our revenue generation with that particular customer. That was what we said. In Cloud Protection, with one customer, there has been an adjustment on the spending, but that will recover later in the year. So, we haven't lost a customer either. And different customer.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

Yeah. Sorry, I misspoke, but thanks for the clarification. Then, question on the fact that you're looking for minority investment for the Cloud Protection business. Why wouldn't you kind of fund the future yourselves? I mean, looking at the balance sheet, you have money and how much are you looking for that business?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

So, too early to go to answers on those ones. But what we have talked earlier as well, the strategic logic to look for option in Cloud Protection for Salesforce is to accelerate the growth, and I think that's what we are contemplating here. In Consulting, the drivers might be different. But in both of the cases, the important thing is to note that these work with different segments, more with the larger enterprise, which is not that much linked to the core Elements Company mission, which is partner-centric mid-market so that there is less fit, that's why these are quite different businesses, so that's our thinking. So, theoretically, we could do that, but still it doesn't bring the strategic logic for that.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

Okay. So, are you looking also like strategic partner in a way in the Cloud Protection business?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

Yeah. So, too early to say on that one and I'll maybe say on the strategic projects is that I repeat what we have communicated previously, that in Cloud Protection for Salesforce, we probably – it's more latter part of the year question when we come with the answer, and then Consulting. But we will update in due time on those. I know there is a lot of pent up need to get to answers, but I think hopefully you can take the somewhat vague answers we are giving today, so that's what we are willing to disclose today.

Walteri Rossi

Analyst, Danske Bank A/S (Finland)

Q

Okay, thanks. Still one more regarding the potential divestments. Well, let's say if and when you're going to divest the Consulting business, how efficiently can you kind of scale down and adjust the cost base that you'll be left with, basically? You'll be left with lower gross profit, but the same fixed costs, right.

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

So, let's start [ph] with when (00:31:14) we have, in a way organized this in the company. All these units have own sales, own R&D, own operations, then we have also some dedicated people also helping this unit. So, that's what we have done in the last organization internally. But, I think more important is that the Consulting value proposition to be a research-led consulting is a strong one, and it's manifested by some of the largest companies of the world. So, we have patients to develop the business so that it gets the true value.

Walter Rossi

Analyst, Danske Bank A/S (Finland)

Q

Okay. Okay. But just to clarify, like, if parts of the company were to be divested, would the margins that we see now in the Cloud business Elements Company, would they kind of hold [indiscernible] (00:32:10)?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

Margins would hold.

Walter Rossi

Analyst, Danske Bank A/S (Finland)

Q

Okay, thanks. Then just as – for a new CEO, kind of overall question, if we look at the market, cyber security market, I think there's a pretty big trend where we see big companies like Microsoft and CrowdStrike gaining more and more market share. They're growing over 30% still, even during the weak market, but smaller ones are having trouble kind of against the bigger marketing budgets, if I read it correctly. How do you comment that how can you compete against this in the long-term?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

Yeah. I would much rather – it's always tempting to look at competition. We have a lot of US-based competition and we are confident at the strategic directions we are taking. So, we have a strong partner network and we usually serve the underserved segment, which is the mid-market. We are also becoming a true European alternative, and we have a focus market segment. And then we build all our offerings and products and services so that the partner who is local can meet the needs of the mid-market customer. And they are often different.

So, if you take these large enterprises as a comparison, mid-market companies might necessarily have a security person. They would be lucky to have an IT person, or two. And these people usually are overwhelmed. And so that the partner and the offering needs to help that context, not security professional, for instance, of a large bank. So, in a way, these technologies are diverging in my view, and solutions, and [ph] that gives me (00:34:13) confidence that with this automated approach to cyber security, we have a good spot there, but it requires diligent execution.

Walter Rossi

Analyst, Danske Bank A/S (Finland)

Q

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

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

Hi. Two more questions. Matti Riikonen, Carnegie. First of all, technical one. If we look at the On-premise business, are there any – or does the geographic split of On-premise sales differentiate from the rest of the Elements Cloud business, i.e., is it more geared towards the, let's say, Scandinavian countries? Or, are there kind of differences in the geographic split?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

Yeah. We haven't opened up that one, but I could say for instance, the region, Japan is a – a large portion of the On-premise comes from there. And that's exactly what we are doing there is that we are moving together with the partners, customers to Elements Cloud direction, but there is maybe more concentration in Japan than rest of the regions.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

All right. And so far, what is your experience that do all On-premise customers convert to Cloud eventually? Or is there risk that you would lose some of the On-premise customers who don't want to move to Cloud?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

Yeah. So, I think we are looking at two types of solutions for the topic so that we aim to migrate vast majority of the On-premise customer and then we look various kind of extended support arrangements then with the customers who are not willing to move, so that we are not in the business of leaving customers alone, so that – but we wanted customers go with us to the Cloud direction because that's right for them. But some customers might not take that option, but that's an exception.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

Right.

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

So, we have a program going on to migrate continuously these customers.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

Okay. Then regarding the Cloud Protection for Salesforce, you have been talking about partnership potential, and not necessarily a full divestment. And if we think that that business requires further investments, that in the longer term you are not willing to make, that's the very reason you basically have it under strategic control, so that the remaining company would need to show that profitability is there and we can clearly see that now in Elements Company which is profitable. So, somebody needs to invest in the business in order to make it flourish. So, what would be the motivation for the eventual partner to let you keep some share of the company if they are doing all the investment? That's something maybe you could open up.

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

Yeah. I think that's – that is – those very thoughts we are exploring with the strategic review and I feel it's a bit too premature to comment on that, but I'm confident that we find a strategic logic in this regard as we move on. Otherwise we would have not started this one. We're not answering directly your questions, but I think we'll answer later.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

Okay. So, basically the old-fashioned divestment of the business is not excluded in your thinking when you are going through the process.

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

It would be ideal if we have a strategic logic that we could get an accelerator. That would be ideal for us.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

All right. We are waiting eagerly to hear how it goes out.

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

Yeah.

Matti Riikonen

Analyst, Carnegie Investment Bank AB (Finland)

Q

Thank you.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

All right. Thank you. We'll move to...

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

By the way, thank you for the questions so far.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

...to the questions from the line. So, Antti, I'm combining a couple of questions because this comes from several webcast followers.

Can you comment on the time line of the strategic reviews separately? When can we expect the conclusions to be made? And should we expect the change of CEO to have an impact on these processes?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

So, first of all, the sudden change of CEO does not have any change on these processes. And that's important that you all record that. Second one, with regards to the strategic projects, we have earlier indicated some of the

timelines is that these are ongoing now and we expect Cloud Protection conclusion rather towards the latter part of the year than the earlier part of the year. And that would be the answer today for that.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Thank you. I hope we have now concluded with that question. Then I'm moving on. There's Felix, our analyst, on the line today. You did not mention a strong order backlog in Consulting as you did in the Q4 report. What happened to this backlog and has the outlook for Consulting in 2024 changed for the worse?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

So, Tom, is that something you could comment? I think you have...

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

Yeah. We have not specifically mentioned that now, but we have – as we have in this discussion also mentioned a few times that we continue to have a strong backlog going into this year.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Okay. Then a continuation on that. Following a weak Q1 in Consulting, do you need to take further time and actions to improve the profitability before a potential divestment?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

So, I think what we are saying all the time is that Consulting is a business where you need to balance supply and demand. That is the nature of the service-driven businesses and that's in our business management what we seek to do. We believe the trend line is more towards growing this from this – definitely from this quarter. And I think that's what we are working towards.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Good. Thank you. Then some of the large cyber security companies such as Palo Alto Networks and CrowdStrike mentioned increased price pressure from competitors in their most recent earnings calls. Is this something you have witnessed? And if so, is Microsoft the primary culprit for it?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

So, would not like to comment on the competitors as such. But always when we work with the mid-market segment, which is our primary, we operate at the market price levels which belong to that category and we believe we are competitive in pricing in the mid-market segment.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Great. Then, maybe Tom, a question for you. You increased the base year 2023 Elements Cloud revenue comparison figure on Monday in your 2024 guidance. However, you kept the guidance for 10% to 16% growth intact. Can you please explain the reasoning for this?

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

Yeah. This had to do with the new segment division of the company and there is no change [ph] to the outcome (00:42:04) because that had already been internally taken into account.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Then we move on to Jaakko, our analyst. Have you got feedback on the strategic reviews impacting negatively the customer's decision-making?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

So, Tom, could you comment on that?

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

Sure. So, no, we have not seen any effect of that from a customer perspective as we have, and we've been very sensitive to that and that has not been noticed anywhere.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Then the next question from Jaakko, what kind of actions or resources are needed to get Cloud Protection for Salesforce back to growth track.

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

So, the – it starts from the [ph] thing it said (00:43:02), it is a proven value prop, especially for Salesforce Community Cloud and the Service Cloud users where you have this situation that multiple users bring data to your service that runs on Salesforce. So, in a way, you have a responsibility as a Salesforce buyer for a third-party content that goes through that one. So, that we have proven.

So, it is about continued proper sales engagement. It's about reversing the NRR trend that we had there, doing small things well. I think that's what we are doing. We are quite optimistic with the – how the year-end would look like on that, but then, it's just a lot of legwork, I think. I can't say anything else.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Well said. Okay. Thanks, Jaakko. Then, David, our analyst is also online today. First question. Regarding the search for a CEO, will it necessarily be an external candidate, or is the board also considering existing employees or converting the interim role into a permanent one?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

So, CEO selection, in any company, is a board issue. And our Chairman and together with the board, they will drive a structured process with the duty of care to select the CEO.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Then maybe, this is, Tom, for you. Could you give more details on the Elements NRR of 101%? Notably, are you seeing different churn dynamics, or is the main issue still a lack of upsell?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

Can I, Tom, comment on that?

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

Absolutely.

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

Yeah. So, if I look at the NRR, 101%, there is a – remember, there is Elements software. There is the MDR as a part of the segment. So, we have seen maybe higher churn in the Countercept customers in the large enterprise grade. But we have been winning a lot more mid-market sized Countercept customers. That's why we said Countercept is year-on-year on the same level, if you remember, in the slide. That of course impacts NRR and then when you think that, that happens in a way that indicates that something is holding the line for 101%.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Thank you. So, now, no more questions right now in the chat. What about the room? Do you have additional questions? Okay, one more from [ph] France (00:46:00), from David. In Cloud Protection for Salesforce, could you detail the underlying trend excluding the large customer which changed its behavior in Q3 last year?

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

A

So, the way we answer that today, is that we expect that to improve later part of the year. Once we are in the later part of the year, we will communicate the change, but now we report the numbers as they are.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

All right. So, any other questions? I think our chat is going quiet and the room is going quiet, so we can start wrapping up.

Antti Koskela

Chief Product Officer & Interim Chief Executive Officer, WithSecure Corp.

So, thank you so much, everybody on the line, for joining us. And thank you, people here in the room, so that it has been quite eventful two weeks for me to onboard interim CEO role and start with the Q1 thing, and it was – thank you for all the good questions and hey, see you in July and many of you in SPHERE. So, thank you.

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