

14-Jul-2023

# WithSecure Corp. (FSC1V.FI)

Q2 2023 Earnings Call

## CORPORATE PARTICIPANTS

### Laura Viita

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

### Thomas Jansson

*Chief Financial Officer, WithSecure Corp.*

### Juhani Hintikka

*President & Chief Executive Officer, WithSecure Corp.*

---

## OTHER PARTICIPANTS

### Atte Riikola

*Analyst, Inderes Oyj (Research Firm)*

---

## MANAGEMENT DISCUSSION SECTION

### Laura Viita

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

Very good afternoon and welcome to WithSecure. My name is Laura Viita. I am the Investor Relations and wishing you welcome to this Quarter Two 2023 Results Release. Today, we have Juhani Hintikka, our CEO, talking about the business; and Tom Jansson, our CFO, talking about the number as well as the outlook update that we gave this week.

We will have questions and answers at the end. If you are watching us on the webcast, you can put in questions all the time and we will take them up at the end as well. Thanks for joining us today. I'm handing the floor to Juhani Hintikka, President and CEO of WithSecure.

---

### Juhani Hintikka

*President & Chief Executive Officer, WithSecure Corp.*

Thank you, Laura. Good afternoon, everybody. The headline for today is that Market Uncertainty Reflected in the New Outlook; New Products Launched to Strengthen Co-Security Approach. Let me walk you through some of the content and key takeaways here in second quarter.

So first of all, our cloud portfolio, which has been one of the areas that we specifically report on, our cloud portfolio, as the name says, consists of our cloud-related part of the business and we have been, of course, reporting and tracking metrics related to that as they reflect very much the strategic focus of the company.

Our cloud ARR increased by 21% to the level of €81.9 million and our cloud NRR was 107%. And as you may recall, of course, NRR, both ARR and NRR, are key metrics for us. NRR basically talks about how much we are able to expand our business with our existing customers.

Our cloud revenue specifically grew by 20% on a year-on-year basis to the level of €20.3 million and we did have some headwinds in certain geographical areas. UK, US, and Japan more specifically didn't meet our plans for this year whereas in the German-speaking area and France performed well.

As expected, our on-premise products revenue declined by 6% to the level of €8.4 million. As you may recall from earlier sessions, we are very much in the process of migrating our customers from the on-premise offering to our cloud-based offering and we expect this decline to continue.

Our consulting revenue declined by 10% to the level of €8.9 million and we continued to face adverse conditions in the banking sector where clearly our large banking sector clients have been spending less on cyber security than expected. And especially in UK where this has been a prominent part of our business, this was very visible for us. And as a consequence of many of these things, we issued a profit warning on the 11th of July regarding our revenue and profitability outlook.

In terms of the profitability, our adjusted EBITDA was at the level of minus €7.9 million and as you may recall, we reported on cost-saving actions that we took earlier on in the year. And now, regarding Q2, some of those savings were partly offset by two specific one-off items, one of them being our one-off salary payments in Q2 and then marketing expenses related to SPHERE23. SPHERE is our key annual marketing event which we organize once a year. We had it here in Helsinki in May. It was a very successful event, over 500 participants, 50 media representatives, and so forth. But it comes – of course, comes with the cost. We expect to see a bigger impact of the restructuring activities in Q3.

In order to broaden our approach and to ensure competitiveness down the road, we did launch new products and services at SPHERE. So we complemented our current software platform, the Elements platform, with Cloud Security Posture Management Product, which further supports our customers' migration to the cloud environment.

And we did launch also so-called co-security services, which complement our offering to further strengthen and support our partners' approach in the market. And I'm happy to report that both of these products that we launched have actually been very well-taken, very well-received, and we have tens of pilot customers for those at the moment.

With that, I'm going to next hand over to our CFO, Tom. Tom is going to talk more about the outlook for 2023 and I will be back for questions in the end.

---

## Thomas Jansson

*Chief Financial Officer, WithSecure Corp.*

Thank you, Juhani. And if we first look at the unfortunate profit warning that we had to issue some days ago, so maybe just a background that also, we are, with the exception of consulting, of course, and our subscription business and as our businesses has been lately quite or very back end-loaded so once we closed June and started to see the outcome, unfortunately, that then led to this determination that our ambitious goals that we had set for the year probably will not be met. And then we had to, of course, then adjust our outlook for this year.

And maybe a few background still on this. So, of course, we had ambitious goals. So one element is that we see a room for improvement in our own execution against those goals. We are clearly seeing that during this year, the market dynamics have changed a little bit. So a lot of the large market participants are investing more and more also in the segments that we are in. And of course, this means that competition has toughened up also for us. And that had have some impact on certain of our product areas.

And then as Juhani also mentioned, that our consulting demand, specifically in the segments that we are in, has been – continue to be somewhat weak. So as the June numbers came in at the end, then this kind of conclusions had to be drawn once we knew the results.

Then if you look at the actual numbers, our cloud ARR was still growing year-on-year, 21%, but it was a modest ARR growth at the end than what we expected. And revenue, very similar growth also. And as mentioned, there are markets where our expectations for this year have been higher than what we actually have been executing. So UK, US, and Japan has been kind of the three markets that mainly has kind of fallen below what we were expecting. And then, of course, we also, on the contrary, had have regions like DACH and France that has been doing as we have planned.

The on-premise, as discussed, the revenue is declining. This is no news and this is according to what we have been expecting as well in the transition to our cloud services.

And then this consulting, of course, has been a bumpy road for us. We have a great team together, rebuilt last year. And of course, the unfortunate thing is that when the business is on this level, we have unused capacity available that we, of course, are working on to get back into work, revenue- generating work also in the second half of this year.

And as said, mainly the financial sector where we have a lot of big customers are, is the place where we have seen less demand than what we have expected and then also our new logo acquisition has not been fast enough to replace that business. So a combination of those, unfortunately, then have led, at the moment, first half of the year has been lower than what we expected. And this, of course, takes a toll also on the overall company profit or growth numbers as well.

Here's just the deferred revenue and development, maybe not more. I think this is quite familiar for those who are looking at our numbers so maybe no more comments on that. This is going according to the transition that we have expected. Of course, the growth rate have also somewhat an impact on these numbers.

Our profitability, so our total revenue then ended up at €34.8 million and was not as expected, as we have said. Gross margin still stayed quite okay-ish on a 69% level even though our consulting is reducing our gross margin because of unused capacity. And then our EBITDA, as discussed, was minus €7.9 million and of course, somewhat lower maybe than what we expected. There were some one-off items but then of course, the top line also lower than we were expecting. So that's the combination of that.

Our medium term financial target stays the same. This is we are going through a strategy process in this quarter and we will end that at the end of this quarter. And if needed, then we will have another look on what those would be and potentially then update them if there is a need for that. For the time being, we are still working very hard to achieve a breakeven point for Q4 and we'll see at end of the year then what the outcome is. But these have not been changing.

And this was a very short summary of our numbers and I would ask Juhani back here with me and we could take questions.

## QUESTION AND ANSWER SECTION

**Laura Viita**

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

All right. Thanks. We'll start in the room.

A

**Atte Riikola**

*Analyst, Inderes Oyj (Research Firm)*

Hello. It's Atte Riikola from Inderes. Maybe first, about the competitive landscape, you mentioned it has been getting tighter. Could you open up a little bit more about the situation and do you see like increased competition in every product area or only in some markets or what's the situation?

Q

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

Yeah. So first of all, of course, everybody is impacted by the economic circumstances, the macro economy and therefore, if the pie is getting a little bit smaller then, of course, the competition intensifies and that kind of goes in principle across the board. But more specifically, we have had certain product areas where clearly, I think, some of the customers have preferred vendors where they can find the synergy with existing completely other product areas that they have with these vendors and that, of course, have made it commercially more attractive then to choose other vendors.

A

I think that's clearly visible in certain areas. MDR has been one example out of that, our Managed Detection and Response offering, which is a services offering on top of our own software, basically we'd characterize by being the Rolls-Royce of the MDR. So if you find the right customer who's willing to pay for that proposition, then usually we're very competitive. But there are also other drivers that in certain cases then mean that customers make other choices.

But the competition is tough for everybody. It is also partly geographic. So we've seen, for example, that the UK market has been especially tough during this first half and, of course, for us, it has meant very much about kind of consulting and financial sector as such. But it's other things as well and we've heard similar commentary from other players in the industry.

**Atte Riikola**

*Analyst, Inderes Oyj (Research Firm)*

All right, yeah. If you think about from the churn perspective, have you seen like increased churn in Q2 or is it like the tighter competition affecting your new sales outlook more?

Q

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

Yes and no. I think there has been some churn because of the reasons I just mentioned so there have been some churn customers. But at the same time, of course, we have also not been standing still. We have very much been focusing on also winning now MDR business in the mid-market space because previously, many of these large MDR customers have been more in the enterprise space than mid-market then we have actually been quite successful now in second half in the mid-market by winning new MDR customers. Of course, then it becomes more of a volume game that you need, of course, more of those because on average they are smaller.

A

**Atte Riikola**

*Analyst, Inderes Oyj (Research Firm)*

Q

You mentioned that you have find some areas for the operational improvement. So what are those areas particular?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Yeah. So I think a couple of things. One of them that we have removed, one management layer in sales. So now, we have a leadership team member, the customer operations officer where all the country sales organizations report directly to that person. So that was not the case before and we expect that to help. And then, of course, there has been also, as announced, the head of customer operations, Juha Kivikoski, is leaving the company and the process for appointing a successor is well-advanced.

**Atte Riikola**

*Analyst, Inderes Oyj (Research Firm)*

Q

Then about the new product launches, what kind of growth expectations you have for those?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

So we expect them to increase our competitiveness in the Elements product business and to support our channel business because they have been specifically designed to solve problems in the mid-market that our partners are facing. And having complementing services on top of your product is a differentiating factor against pure product vendors. And in some cases, of course, our conclusion has also been that for the end customer, it's sometime been really difficult in a way to get full benefit out of the products and solutions they have been purchasing, and adding supporting services for them actually, we think, is going to be very important and differentiating.

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

Maybe I can complement it or add to that, that we are still in the pilot phase on many of these products but the interest been we are really enthusiastic about the interest. But if you think about kind of growth and that's mainly more next year than this year.

**Atte Riikola**

*Analyst, Inderes Oyj (Research Firm)*

Q

Yeah. Then about the profitability, still if you look at your guidance, there are still like option for the positive EBITDA in Q4. So what needs to happen if that materializes?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

So I think as mentioned earlier there, we have still a lot of unused capacity in consulting. So we need to get those to work and with our current capacity, we can do millions of revenue more there and then we need some growth. And of course, we are looking at some tweaks in the ARR spending as well but that's, I think, the main things that we are looking to do in second half.

**Atte Riikola**

*Analyst, Inderes Oyj (Research Firm)*

Q

Yeah. Last question about the consulting [ph] terms, (16:31) so what kind of outlook do you have for the second half of the year for that business? Is there still like going to be some troubles in the UK or does the situation seem better now?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

I think we continue to be in a situation where we have not full indications of the demand coming back to where it was with the current customers. But we are very active in now going after completely new customers and of course, there might be a time lapse before that then start showing in the revenue.

Overall, of course, the tendency is that in the second half, the needs tends to be more business than in the first half. And of course, many customers are using their budgets in Q4, but it's typically a high quarter in our business and that includes as well consulting.

**Atte Riikola**

*Analyst, Inderes Oyj (Research Firm)*

Q

All right. Thank you.

**Laura Viita**

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

A

Thanks. We have most of our analysts online, so lots of questions online as well. So, first of all, Walteri, our analyst asks, in the sector, we have companies that are doing well and ones that are doing poorly so the market has softened but clearly some are managing better than others. So how is the market and demand overall for you? What is the environment? Can you give some color?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Yeah. As I said earlier on, I think this continues to be a growth business and we are growing as a company. Of course, our aspirations were for higher growth and that's why we had to kind of downgrade them. The economic uncertainty is there for everybody but of course, then there are variations depending on the portfolio item and depending on the geographic region as such.

We have a very competitive product in Elements. We also have certain areas which are quite unique in our company, so for example, cloud content protection for Salesforce. That is something where we don't face too much competition. We have very capable offensive security consultants, which is quite a differentiating capability. Those are the, in a way, top hackers. You could characterize them and many of our customers are, of course, approaching us because of that.

So we continue to believe that we have good chances in competing in this market. We are continuously evolving our portfolio. As explained at SPHERE, we launched completely new products to support the strategy but at the same time, this is a transformation, a process of building the company. We are one year into it then and of course, it takes time also to kind of do all of this. But we're happy with the direction we are taking and we have done some operational improvements also very recently to further help us on that journey.

**Laura Viita**

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

All right. Do you see growth in cloud turning back to the 30% to 40% levels seen last year and in previous guidance? And if so, when?

A

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

Well, of course, the big item in our kind of cloud portfolio has been MDR. So it has been a big part of that overall growth. And now, of course, our intention is to offset some of the larger MDR cases not growing as fast by having a lot more mid-sized MDR cases and we expect that to help this process. For the rest, we don't see a dramatic change in their growth.

A

**Laura Viita**

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

Then we have questions from Felix, our analyst. In which areas are you seeing tightening competition and how can you differentiate against bigger vendors expanding to the mid-market segment of endpoint protection?

A

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

So as previously mentioned, I think the tighter competition has been on more on the local enterprise MDR cases. That's where we have seen the biggest impact in competition. But in terms of the mid-market, we believe that we are competitive. And also, I think with the addition of the new co-security services, we will be also more differentiated as a partner to watch the market.

A

**Laura Viita**

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

Given the weakening market fundamentals you're facing, how should we read into your long-term targets, which imply that you will double your revenue by 2025 and achieve 20% EBITDA margin?

A

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

Like I said, we have a strategy process as we have every year ongoing and after that, we will evaluate our targets and then see if there's a need to change them.

A

**Laura Viita**

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

Can you describe the monthly demand trends you witnessed during Q2 in consulting? What was the low point of the quarter and are you seeing any signs of a pickup in demand?

A

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

I think very typical these days are that the third month of the quarter is the strongest. I think Q2 wasn't any different to that so – and we have seen some improved – slight improvement in demand for the future. So we'll see how things play out.

A



**Laura Viita**

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

Are you seeing price pressure in consulting given that demand has slowed down and some of your peers might have excess capacity?

A

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

Yeah. I can comment on that. When I think – we have actually, as I said earlier on, we have quite a differentiated consulting proposition. We have capabilities that are hard to find and that's why many of the large companies and especially the financial sector, are buying from us.

A

Now, I think that has come together with fairly attractive day rates and we haven't seen those dramatically changing. I think it's more of a question just of the overall spend that they have had towards us.

**Laura Viita**

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

Should we expect you to spend as much as €1.1 million on SPHERE in the coming years?

A

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

SPHERE is a key event for us and I would say that – I mean, it helps us position the new brand. We're only one year into WithSecure as a brand, so we need to continue that work. And at the same time, I think SPHERE has a distinct target of showing us as somebody who stands out, has interesting content, doesn't only talk about the products and solutions but also about what is going on generally in cyber security and geopolitics. And I think that feedback has been very encouraging so we intend to continue that and probably we are looking at doubling the amount of participants next year.

A

**Laura Viita**

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

All right. Then we have questions from David, our analyst. I hope we answered the first one already but then the question continues. What kind of measures are you taking to gain an edge on competition, be it the pricing, new product development or something else?

A

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

I think overall, our approach towards the market is outcome security, as we call it, and that means that we're trying to engage in a dialogue with our customers where we really understand that when we – where we can make an impact on our customer's business, not just talk about cyber security as a technical concept, then I think that has been well-received. It's a differentiated proposition and that also includes that having both products and services in our portfolio, we can craft solutions that flexibly then try to address those issues that are emanating from this outcome security approach, and that we will continue.

A

**Laura Viita**

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

Then we partly answered, but maybe let's take this once again. You also mentioned that identification of areas of organizational improvements. Could you give more details on that front?

A

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Yeah. Like I already said earlier on, I think one example of this was the removal of one management layer in sales to give more direct access for the head of customer operations or head of sales into the countries where the actual business is being done.

**Laura Viita**

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

A

Good. Then, questions from Matti, our analyst. I think we answered the first one about the consulting demand during Q2. Second part of the question, how much did the new consulting customers contribute to sales?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

We don't have specifics but, of course, we would have needed more of that in order to offset the existing customers to lower spend. So – but we did and we do get new customer logos also in consulting, but just not with the speed that we would have needed.

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Yeah. Just to complement and this goes across the board, the portfolio we have added new customers in every category Q2.

**Laura Viita**

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

A

You said competition from large players has increased and your own performance was weaker in the UK, US, and Japan. Is it these markets where you see large players entering the small and mid-cap cloud software market? If that's the case, aren't DACH and France the next obvious focus areas for competition?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

So what tends to happen, of course, is that if the spending overall in the enterprise space slows down, then everybody looks at the next segment and that's mid-market. So I think it's fair to say that probably everybody is considering it and we've also heard from some of the competitors in the marketplace saying that they're going to orient towards that. But then, of course, it's a question of how to do it and we, of course, have a very strong position in terms of our channel partners and our long history of doing business with them, and also our ability to be very close to them, to support them and with our partner programs for gold, silver, platinum partners. I think we will be competitive there and now, with the recent additions to the portfolio, we can also be differentiated because some of these players that you allude to are pure product players.

**Laura Viita**

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

A

Okay. Then a question about Countercept MDR. Did the Countercept MDR net sales decline in Q2?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

Well, we don't give that detail so we can't answer that.

**Laura Viita**

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

A

All right. Then we move to Jaakko, our analyst. You mentioned large rivals who have taken more active role in the SME sector. I understand that you don't want to speak with names, but could you give a bit more color on the rivals, which you have taken steps towards SME – which have taken steps towards SME clients? In which geographical areas you have evidenced their activity?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

We don't actually have – and I may have given a wrong impression if I said that we've been facing a lot of that in the mid-market segment. We haven't yet. I think many of them have stated intentions of being there. I think the biggest challenges we have had has been in the kind of a local enterprise space where we have had large MDR customers, and that's where we've faced most of the competition and specifically in the MDR space.

Now, if you look at the overall endpoint market, endpoint EPP market, EDR markets, it's quite a crowded market, of course, and there are a couple of very large players there and then a long list of smaller players there. And of course, if the growth slows down in the marketplace, we might see further consolidation in the market by other players. And of course, everybody is kind of eyeing that mid-market segment.

But as said, we haven't encountered in our business there and we have a very good traction and situation, for example, in DACH and France.

**Laura Viita**

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

A

All right. Then a question from the webcast audience. In operational expenses, it was mentioned one-off salaries. Can this be explained in detail?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

Sure. So our solution for this year for the salary increases were that that portion of the salary increases was paid as a one-off, which was also a model that some of the Finnish union agreements were so we applied that globally. So that's why you see a bigger one-off payment in Q2 at that but that was part of a general salary increase.

**Laura Viita**

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

A

All right. Then we have questions from Jaakko, our analyst. Maybe we answered, but let's repeat once more. Has the intensified competition also been visible in churn or is it mainly just making the new sales more challenging?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

There have been a couple of churn cases where we have lost because of competition.

**Laura Viita**

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

A

All right. The sales in Nordic countries were down 6% year-on-year. Could you give more color on this? What was the FX impact and how much is explained by consulting?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

I think the FX impact, of course, there was some but not the main driver. I think we have already talked about the reasons for that and also are the same for Nordics as well.

**Laura Viita**

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

A

The new product launches, what are your own expectations? Will these have relevant impact on ARR towards the year-end?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

I think as mentioned previously, we expect the biggest impact to happen in 2024, but we are, of course, now ramping up and we're very happy with the traction we're getting and piloting and taking those forward. So we have tens of pilots going on.

**Laura Viita**

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

A

Good. Then we're moving to [ph] Erik's (31:18) questions. The consulting business seems quite tricky. Last year, you had an issue of the demand for staff being too hot now quickly turned on to too weak demand. Can you discuss how you look at the quality of your consulting business and what can be done to potentially improve it?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Yes. It's fair to say that it's been quite a rollercoaster. So first, we were lacking capacity, then we had too much capacity when the demand went down. And I have to say that I've looked personally in detail into our forecasting and the communication with the customers. And I have to say that some of it was very difficult to foresee that that would happen and I don't think there's much that we can do there, of course, staying close to customers, as close to customers as possible to understand that if there's that kind of thing to be expected.

Overall, our value proposition in consulting is very strong. I was visiting one major customer in UK a few weeks ago, one of the CISOs and he mentioned that – I asked him that why do you buy consulting from us. And he said that, look, I mean, I could buy consulting from any of the big four companies that we usually use. We have frame contracts with them. I buy consulting from you because I expect I will get leading edge technology understanding and research-based offensive security consultants. This is a capability that very few companies can actually kind of provide and that continues to be our value proposition.

**Laura Viita**

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

A

Great. Can you give us your thoughts on where you are in your upselling journey? You now have five modules in Elements. How many products does the average client take and what is a realistic target in two years?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Yeah. We haven't given out the statistics around that, but this is, of course, has been a key topic for us and we are tracking that, how many of this target audience between 200 to 5,000 seats, especially are using more than

two solutions. And we have seen an improvement there and we're gradually tracking that. We're also training our sales organization to cover the whole portfolio, at least on a high level and that is moving forward. And we expect that to help. Obviously, that is more of an activity to get more out of the existing base but it's an important part of our plan.

---

**Laura Viita**

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

A

Then there's a question from our audience. How are you seeing in your sales cases Microsoft's strengthening role in various segments of cyber security business?

---

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Well, it's clear to say that they are, of course, they have invested a lot into this space and they have connected cyber security capabilities with their E5 license, which is kind of basically all-you-can-eat, including also cyber security. And of course, in certain cases, commercially tough to compete but I think that the answer is that we need to position ourselves slightly differently than what they are doing.

So I think complementing technology also with service is quite an important differentiator. Some of the information you are getting out of those systems provided by them as well, of course, require a lot of expertise in order to be able to do something with those detections. After detection comes also response and in many cases, of course, the customers may not have that capability. We can provide that capability in form of, for example, threat hunters.

---

**Laura Viita**

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

A

Then a question from Felix for Tom. We just discussed this today. Are you planning to arrange a Capital Markets Day following your ongoing strategy process?

---

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

That's a good question. We probably will make that decision in August and depending a little bit on timing and strategy process, but especially if we see a big demand, we will, of course, serve the market as best as we can.

---

**Laura Viita**

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

A

Then a question from our webcast audience. Why doesn't WithSecure tap into hardware-based security solutions like firewalls and so on? There are many opportunities in this vertical.

---

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Well, I would say that regarding firewalls and network security, that is an area we don't cover at all and there are already very large existing players. It's a very difficult market to enter and besides, we are a software company rather than a hardware company and the dynamics are completely different in that space.

---

**Laura Viita**

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

A

Then a question from Simon, our analyst. How come your guidance interval for cloud ARR and sales are the same? Are you expecting a rapid rebound in the momentum in second half?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

Yeah. I mean, they tend to go pretty hand in hand and the forecast we see is that they're going to be close to each other.

**Laura Viita**

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

A

Good. Then the gross margin has developed very favorably last couple of quarters. Do you think the trends that supported that growth will continue?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

Well, if I start so, of course, as we have said before, we are working very, very hard with our hosting costs and the data usage in the network and so on. So those have paid off some in results. We also are working on, of course, the kind of threat hunting piece in our Countercept solution and as that scales up, that will improve as well and so on. So I think where we are now is a result of a lot of work that we put in over the last 12 months.

**Laura Viita**

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

A

Thank you. That was the end of the questions online, unless somebody puts in a rapid new question. Anything from the room? If not, I think we are ready to wrap up.

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

All right. Thank you very much.

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

Thank you.

Disclaimer

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

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

The contents and appearance of this report are Copyrighted FactSet CallStreet, LLC 2023 CallStreet and FactSet CallStreet, LLC are trademarks and service marks of FactSet CallStreet, LLC. All other trademarks mentioned are trademarks of their respective companies. All rights reserved.