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# WithSecure Corp. (FSC1V.FI)

Q3 2023 Earnings Call

## CORPORATE PARTICIPANTS

### Laura Viita

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### Juhani Hintikka

*President & Chief Executive Officer, WithSecure Corp.*

### Thomas Jansson

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### Atte Riikola

*Analyst, Inderes Oyj (Research Firm)*

### Waltteri Rossi

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## MANAGEMENT DISCUSSION SECTION

### Laura Viita

*Director-Investor Relations, WithSecure Corp.*

Very good afternoon and welcome to WithSecure. My name is Laura Viita. I am the Investor Relations Director and would like to wish you all welcome to this Quarter Three 2023 Results Release, whether you're in the room or following us on the webcast. Today, as usual, we will have Juhani Hintikka, our President and CEO talking about the company, the quarter in general; and Tom Jansson, CFO, talking about the numbers. We will have questions-and-answers session at the end. And if you are following us on the webcast, you can pose in questions all the time. We will take them at the end. So warmly welcome.

And I'm handing the floor to Juhani.

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### Juhani Hintikka

*President & Chief Executive Officer, WithSecure Corp.*

Good afternoon and welcome. So another quarter is behind us and the headline is progressing on profitability in a challenging market. And indeed, the market continues to be challenging as we have also remarked earlier. There is plenty of competition and of course, some of the macroeconomic circumstances are impacting this market as well.

Let me next walk you through some of the key takeaways from the third quarter. As you recall, we report our revenues in terms of different categories. First one here being the cloud portfolio where we show an ARR increase by 13% to the level of 82 – sorry, €81.2 million compared to last year. And also another important metric is the cloud NRR, which was 102%. And of course, while we see year-on-year growth being positive and even report double digit numbers on that one, of course, it is fair to remark that on a shorter term horizon, during this year, of course, the revenue has been flattish. There are some bright spots in certain geographic areas. We here

talk specifically about DACH, which is primarily Germany, but also Austria and Switzerland to a small degree and then France, we continue to perform well in those markets.

We've also seen growth again year-on-year basis in all main products. It was a disappointing quarter for Cloud Protection for Salesforce. The growth was below expectations. There were some specific reasons regarding the customers' cost consciousness in terms of consuming this service that we saw primarily in Europe and that least temporarily made an impact on the ARR regarding one part of it.

We continued to be transforming our on-premise products and as expected, the revenue declined. It declined by 12% to the level of €5.9 million in the quarter. And, of course, an important target for us is to convert as many of these customers we can towards our End Detection and Response (sic) [Endpoint Detection and Response] (00:03:20) product portfolio, which is our cloud-based offering and consulting, we actually did see a revenue decline, but we also did see some promising progress in consulting. So the financial sector purchases are finally stabilizing and the order backlog is improving. And we also saw some very good customer progress in Singapore and US, which are helping us now as we continue to move towards a higher revenue and targeting profitability in this area as well.

So continuing on the profitability, if there is a bright spot, it is just to report that we made progress in terms of the adjusted EBITDA. It was at the level of minus €2.3 million. And here we see the impact from cost saving actions that – and restructuring actions we took earlier in the year. So they are now becoming visible in our EBITDA. We have decreased our OpEx approximately €4 million from previous quarter. And then just a note that when we make comparisons to last year third quarter 2022, they – we need to take into account that there has been TSA work for F-Secure that makes it not fully comparable these [indiscernible] (00:04:50) quarters on a year-on-year basis.

We have also separately communicated a goodwill impairment regarding the consulting business that we had took down, €6.2 million in terms of the goodwill value we have in the books concerning consulting.

To further reinforce our financial position, we have signed a €20 million revolving credit facility with the OP Corporate Bank in September and then a few words about the market and products. As said, the market continues to be tough in terms of competition. And of course that puts also pressure on us to further develop our offering and to differentiate from other vendors in the market. This is a fairly contested space and some of these examples are the new Cloud Security Posture Management product, which is an extension to our Elements platform and the co-monitoring service that both of these have reached general availability in early October. Co-monitoring service is our services that complement our product offering and are specially designed to support our partners as we are a very partner and channel driven business.

And then a bigger roadmap item or bigger development area is the exposure management where – which is, as you may recall, we primarily operate in the Endpoint, EPP/EDR market and of course we see now very attractive prospects also in developing offering to in the exposure management space, which is a different part of the market, but quite a natural extension from what we have been doing and we plan to launch new products there during Sphere, which during – happening during the first half of 2024. And our outlook remains unchanged here. It was updated on 11th of July. I will not go through all of these in detail.

With that, I would actually like to ask our CFO, Tom, to join us here on stage. Over to you, Tom.

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**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

Thank you. And good afternoon from my part as well. As Juhani already mentioned, the quarter was slow for us. And, as also mentioned, competition and other factors did impact us. But year-on-year growth was 13% and so on. We – also maybe a few positive note is that the MDR shift to mid-market customers is progressing quite well in certain areas, and especially in Germany, where we see a good progress on that and we are very happy about that.

As said the Cloud Protection for Salesforce ARR was a disappointment, particularly in this quarter. And – but this is a good solution we see and especially in the US we see a great customer base. And we think there is significant upside potential in that area. Revenue went up similarly to ARR, 14% year-on-year.

The on-premise continues to decline and we are targeting to transform our on-premise customers to cloud environments and that is progressing as well at the same time.

Cyber security consulting, as said, we have had a challenge in the beginning of the year. We have seen though, especially after the summer now and late in Q3, quite good recovery in some of our customers. And as a result of that, our order backlog going forward is improving and that of course is positive news for us then going forward at this point of time. But this has been a bit of a challenge for us and also partly the reason then that we ended up booking an impairment in this quarter, along with the fact that interest rates and so on have gone significantly up.

Here's the deferred revenue [indiscernible] (00:09:20) of course, our business intake as has been said was in Q3, not – somewhat below our expectations. At the same time, in certain markets, going into monthly subscription models is very much happening. Also specifically in the Nordics and also in – now also in some of the DACH area markets. And that, of course, have also some impact on how much our deferred revenue is going down along with the order intake.

Then if we look at our Q3 profitability, so revenue was €34.8 million for the quarter. Gross margin still continued on a healthy level. So we are close to 70% there. And as said there earlier, our operating expenses were €26.6 million for the quarter. The comparable to last year is not great, because we still last year then took out the TSA portion that – and the demerger work from our comparables. So that's why we guide more that the Q2/Q3 comparison is more relevant at this stage. And our adjusted EBITDA landed at minus €2.3 million at this stage and that is of course also a lot of work behind us to get our costs out and so on. And now we can also see some of the results of that.

The medium term financial targets were not updated. Those will be updated when we update our strategy. That is some work that is still going on. And we will then update this at the same time as we release the updated strategy, and that will happen during Q4. So that is still something ongoing.

And with that, I would ask Juhani to back up and we can go to the Q&A part.

## QUESTION AND ANSWER SECTION

**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

A

Thank you. We will start with the questions in the room. Matti, please.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

Good afternoon. It's Matti Riikonen, Carnegie. Couple of questions. First, just to check that in your mid-term guidance, you say that you would be landing your adjusted EBITDA at breakeven by the end of this year. I was just wondering, how can you do that if you end up at the low end of your adjusted EBITDA guidance for Q4, which is €4 million negative? So what needs to happen in the quarter cost base or something that you would actually make that mid-term guidance promise?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

So I think on that note, we haven't updated the medium targets. The current year guidance [indiscernible] (00:12:11) what is kind of the valid ones, and that is the bracket that we said earlier minus €4 million to plus €1 million. So as said we – the medium targets will be updated once we have completed our strategy process.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

Right. But would it be better just to say that the mid-term targets are no longer valid, because now somebody might read that you actually when you update or keep the mid-term target unchanged and I mean many investors might think that, that is a valid target still, although verbally here, you say that...

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

Yeah.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

...it's not valid...

[indiscernible] (00:12:53)

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

...technically...

[indiscernible] (00:12:54)

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

...those will be updated, but that's a good point.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

Okay. Yeah, did you face any particular disappointments in Q3 such that you would think that there will be an immediate cure going into Q4?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

So in Cloud Protection for Salesforce specifically in Europe, we had some customers who were very careful about their consumption of the service. And that temporarily, we believe, will affect the level of invoicing we have with that particular area. But on one hand we see that we'll bounce back and that customer hasn't gone away. And then on the other hand, I think it's – it is a kind of a separate thing. It doesn't reflect the broader situation in any way. That was maybe the single one I would pick from the quarter. Other than that, I think we'd be mostly kind of continuing to see tough competition as we have before, intense pressure on prices, those kind of things that everybody is experiencing in the marketplace.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

All right. Because just by looking at the numbers, the growth trend has decreased quite substantially in basically every quarter of this year. So do you think it's possible that there would be a sudden change into positive or that you would stabilize the kind of [indiscernible] (00:14:29) decline at the Q3 level in Q4 or...

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

So, of course, first of all, Q4 is typically high in our industry. The customers tend to spend their budget towards the end of the year and that tends to be visible. So there is the famous Q4 effect from that perspective. But in terms of the rest, our churn remains fairly moderate. So I think it's mostly being a question of customer spending. They have been regulating their spending on cyber security and our win rates continued to be at a very high level.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

All right. But the seasonality happens every year. There was also Q4 last year. So what would make this Q4 so particularly good that it would kind of break the seasonality trend, which is that Q4 is strong?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Yeah. So we have a good pipeline for Q4. And of course that is the basis for doing any analysis on the numbers.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

Okay. Then couple of technical questions. Did your MDR business grow in Q3?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

We don't report that separately from the cloud solutions, but I can say that it developed positively and we have especially now seen that it's working. We've been earlier discussing here that we want to orient our MDR growth more towards the mid-market. And this is working now, especially in Germany, for example.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

Okay. And then was your consulting business loss making in Q3.

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

We haven't given out the profitability of different product lines, so – so...

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

Okay. And then what explains the revenue decline in rest of the world if we talk about geographic split?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

How do you mean? Can you clarify that?

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

Well, when you reported geographically, the rest of the world was negative 2%...

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

Yeah.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

...if I read it right.

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

Yeah, we have had some churn in the rest of the world and so on. So this is also some effect of the fact that our customers are closely looking at their spend and in certain cases they also look at spending a little bit less, even though they're not leaving us.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

All right. Okay. That's all from me for now. So others have a chance as well.

**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

A

Thanks, Matti. I think maybe Felix was a nanosecond before. So I'll hand over to you.

**Felix Henriksson**

*Analyst, Nordea Bank Abp*

Q

Thank you. Felix Henriksson, Nordea. Few questions from me as well. Firstly, on the cost base, do you expect that there will be further incremental OpEx savings for Q4 on top of the sort of €4 million that you did in Q3? I guess what I'm trying to ask is, should we sort of expect narrowing down EBITDA losses from the OpEx side of the equation?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

We are continuously working on this topic and this is a high priority for us. So we are expecting to go further down [indiscernible] (00:17:53) also it's of course depending on our top line development.

**Felix Henriksson**

*Analyst, Nordea Bank Abp*

Q

Okay. So basically like all the benefits from the restructuring measures that you did earlier this year are not yet in the numbers?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

Partially yes, but there might be some effects still coming.

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Maybe I can just complement that, that we also do have a certain amount of discretionary spending in the company. So we have been quite careful with that regarding Q4 and taken some action proactively. So we will see the impact in Q4.

**Felix Henriksson**

*Analyst, Nordea Bank Abp*

Q

Thanks. Then on consulting, you stated that there was an improvement in the backlog. To what extent will this support the Q4 development?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

As we said that we have a pretty good backlog going into the Q4, so we expect that to improve the situation.

**Felix Henriksson**

*Analyst, Nordea Bank Abp*

Q

Does that mean that the sort of negative growth trend organically that we've seen three quarters in a row in consulting should perhaps break in the fourth quarter?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

So we have – we are seeing – let's put it – classify it – qualify it like this, we are seeing positive progress in consulting.



**Felix Henriksson**

*Analyst, Nordea Bank Abp*

Q

Then on the new Elements product, the Cloud Security Posture Management that you mentioned, should we expect this to be a revenue contributor in the fourth quarter already now that it's sort of live with the customers?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Not in a major way. So that will mostly have the impact in 2024. I hasten to add though that customer reception has been really positive and we are of course actively ramping this up as well as the co-security services.

**Felix Henriksson**

*Analyst, Nordea Bank Abp*

Q

Great. And then on the cloud ARR guidance that you have, your ARR development has been more or less sort of flattish sequentially throughout the year and it sort of sounds like that it's kind of a big ask sequentially to end up in your sort of cloud ARR growth guidance. So what sort of needs to happen for you to get there? Because you mentioned that Q4 is always seasonally big, but is there some other factors that I'm sort of missing when I'm looking at that sort of side?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

So one of the factors is that we have actually and this is specific maybe to Cloud Protection for Salesforce, but we have been building up quite a nice list of Fortune 500 companies, especially in the US. So there's a big base of customers where we have entered initially with the low entry value and many of these represent actually quite a good opportunity for expansion. So it typically takes a little bit of time for a large customer to test out the solution but then when they decide to expand and go for it, you typically also have the opportunity of immediately then selling thousands of seats or licenses.

**Felix Henriksson**

*Analyst, Nordea Bank Abp*

Q

And this is something that you see already taking place in the fourth quarter?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

We are targeting that.

**Felix Henriksson**

*Analyst, Nordea Bank Abp*

Q

Okay. Thanks. That's all from me right now.

**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

A

Thank you. And then over to Atte.

**Atte Riikola**

*Analyst, Inderes Oyj (Research Firm)*

Q

Yeah, hi. Atte Riikola from Inderes. Still couple questions left. Maybe first about the Cloud Protection for Salesforce. I think you have been talking previously or earlier about that you're also trying to expand it to – the product to other platforms. So how is that going on?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

So we haven't taken any – announced any steps towards that direction. I think it has been partly related to kind of a needing to show that we can actually be truly successful in the Salesforce ecosystem and there's quite a lot of opportunity, as I mentioned. Now we are in the situation where we have a very nice list of logos there. And I think the order of things is to first show that we can grow there and then really is additional funding for new products and new areas.

**Atte Riikola**

*Analyst, Inderes Oyj (Research Firm)*

Q

And now it seems that the short term growth rate is slowing down for you. So if you think about your profitability turnaround, are you prepared to [indiscernible] (00:22:08) if it seems like that the growth is slowing down more than you expect?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Well, being profitable in Q4 remains a high priority for us. And we are, of course, continuously assessing all options that will help us there.

**Atte Riikola**

*Analyst, Inderes Oyj (Research Firm)*

Q

And about the competition, can you name any worst – your worst competitors that are giving headaches for you [indiscernible] (00:22:35)

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Well, it depends a little bit on the market space. Maybe I won't name any of those, but I will just say that in general, in our business, most of the competition is from the US.

**Atte Riikola**

*Analyst, Inderes Oyj (Research Firm)*

Q

All right. Thank you.

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Thank you.

**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

A

Thank you. And then I'm handing over to Waltteri.

**Walteri Rossi**

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

Q

Hi. Walteri Rossi from Danske Bank. Still few questions. About the OpEx and sales and marketing and R&D costs, they were clearly lower now compared to history. So would you say that this is a sustainable level right now and does it kind of effect your growth ambitions going forward?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

We believe that we have quite good capacity in terms of sales and marketing. So yes, the answer is that we believe that that will support also our growth ambitions.

**Walteri Rossi**

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

Q

All right. Then about the 2 – sorry, €6 million write-down on consulting goodwill, any particular reason why this was done now in advance? Are you maybe putting the consulting business [indiscernible] (00:23:52)

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

Well, we need to look at our impairments every quarter. And of course, with the new guide – revenue outlook for consulting and then of course, a big portion is also the interest income – interest levels that have increased significantly. So that combination then led to this impairment.

**Walteri Rossi**

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

Q

All right. Thanks. No further questions.

**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

A

Thank you.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

Hi, it's Matti Riikonen. Couple of more questions. When you made the personnel cuts in your cost saving plan, where did they take place? In which operations, R&D, sales...

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

They took across all of the functions and with different impacts, of course, but they were across all functions.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

Right. Could you quantify the impact of kind of further cost savings when we compare Q4 cost base and Q3 cost base that you now achieved? So any kind of quantification of that?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

I think, as Juhani already mentioned, and then we are mainly working with discretionary spending now. So that is, of course, something that we diligently look at what opportunities we have at that point – this point.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

All right. Then regarding the goodwill write-down, could you explain that when you do the impairment testing, what is the long term growth rate of the business that you use in the testing process?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

We have plans five years out and based on that, we make the assessment of those.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

Yeah, but can you kind of open up what kind of growth levels are you estimating there?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

That is probably not something we can disclose.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

Okay. Because some companies do give out those parameters, and particularly in this case, it would be helpful to understand what kind of expectations you place still on the business, because still – you still have roughly €50 million left of the goodwill. So this was just...

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

Understood.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

...small part of it.

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

Yeah, understood.

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Q

Okay. I have nothing further. Thanks.

**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

Thank you.

A

**Felix Henriksson**

*Analyst, Nordea Bank Abp*

Felix Henriksson, Nordea. One more from me. Regarding cash flow, you – in your report you mentioned that there was some unusually high payments to some of your key vendors. Can you sort of clarify this a little bit?

Q

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

That was more maybe timing than anything. So they landed in Q3. So I don't think anything more unusual than that was that the timing between the quarters were a bit negative for Q3.

A

**Felix Henriksson**

*Analyst, Nordea Bank Abp*

And that was regarding your sort of cloud vendors or...

Q

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

Yeah, that was a lot of the cloud vendors, which is, of course, our biggest [indiscernible] (00:26:55)

A

**Felix Henriksson**

*Analyst, Nordea Bank Abp*

Okay. Right. Thanks.

Q

**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

All right. I think we don't have questions from the room. So I'm moving on to the chat and we have Jaakko Tyrväinen, our analyst, asking a few questions. Cloud ARR negative development in Q3, which products had the most negative impact quarter-on-quarter and also which products saw a quarter-on-quarter growth?

A

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

So, I can start maybe. We don't break it down to product groups. But of course, as I said earlier on, we had a maybe the biggest disappointment in Cloud Protection for Salesforce area. Anything you want to add?

A

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

No, I think the growth, of course, also in the other areas were lower than what we expected, but that was the one of the key items.

A

**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

A

Okay. Then there's again the question about what gives you the confidence to the guidance for Q4. But I hope we have already answered that. Are you seeing more aggressive pricing from the large rivals and do you need more scale in order to be competitive in your sweet spot markets?

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**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

We believe that we are competitive, but yes, we do see also price pressure, which is quite natural in the circumstances when there is less purchasing by the customers. Of course, there's bigger competition for the remaining part and then tends to translate into price pressure as well. We're also – of course, the fact that we are launching these co-security services, we're also trying to, in a way, handle that partly with our portfolio and differentiate from the pure play software vendors where we can actually help our customers get more out of the products themselves and that's the role and that will hopefully also help us in terms of the price pressure when we are not comparing apples to apples anymore.

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**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

A

Good. Then a couple of questions from [ph] Erik Karlsson (00:29:01). How would you characterize the pipeline for cloud wins?

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**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Yeah, of course, this is something that we monitor all the time. And at the moment we see a healthy pipeline on our cloud business.

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**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

A

All right. And the second part was again about the ARR growth in Q4. So I hope, [ph] Erik (00:29:26), we have answered that. And as growth have slowed in the industry, competition is intensifying, it is also a very fragmented industry. After growth slowing and competition intensifying in a fragmented industry, we quite often see M&A or consolidation. With that in mind and given you're a fairly small player, do you see any possibility to be part of possible industry consolidation?

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**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Well, of course, I can talk on a general level. So it is true that that tends to be the trend in the industry, it leads into consolidation. And of course, in our case, M&A as such has always been in our toolkit. But at the moment, of course, we are very focused on our operational priorities here in the company. We continue to work towards profitability. We have launched new products. We are ramping up our capabilities in those areas. And that is our primary focus.

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**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

A

All right. Then a couple of questions from David Vignon, our analyst. First, could you delve deeper into the details about why the ARR dropped quarter-on-quarter? How has EDR performed in the quarter on an ARR basis?

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

A

So I think we answered a lot of those questions already. But specifically, the EDR continues to also grow, even though probably in Q3 we would have hoped for more. But as said most of the other products is growing as well.

**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

A

All right. Second question. Earlier this year you decided to merge the sales and marketing teams. The main goal at the time seemed to be creating revenue synergies between MDR and consulting. With MDR moving to the mid-market, does the new organization still make sense?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

Yes, it's a good observation. I think our experience so far has been that there have been some synergies, but they clearly are on the bigger customer side. And even though we have said that the MDR is moving to the mid-market, of course, we continue to do business also with the existing larger customers. And there are still opportunities in that area in the pipeline. So it's not kind of black and white.

**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

A

All right, thanks. Could you talk about head count, attrition? What's the current level and what areas are impacted?

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

I don't think we give – disclose the exact attrition numbers, but this is something that we have discussed here over the past two years. Attrition has been an issue for several reasons, but currently I would say that as a combination of several factors, I think we are further in terms of our company, our culture in the way we present ourselves to our employees that is helping us. But also, I think there's the sheer fact that the economic circumstances outside the company have also changed and that is impacting and so we don't currently see that being a major worry for us.

**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

A

All right. Thank you. And then a question from [indiscernible] (00:32:52). Well, maybe once more cloud ARR guidance. Could you go through how you plan to reach this and with which products? It could mean a huge jump for Q4 from the current €81 million to €95 million.

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

A

One of the biggest drivers, of course, this when we specifically talk about cloud ARR is for – is to jump from on-premise ARR to cloud ARR and that means going from Business Suite to our EDR customer base. And there's a major push ongoing currently for incentivizing our customers to make that change and that is one of the key priorities for Q4 and that will most likely have the biggest impact.

**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

All right, thanks. So another question from the room.

A

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Hi. Matti Riikonen, Carnegie. One more question related to pricing and gross margin. If we compare Q2 and Q3, the gross margin was pretty much the same. My question is that, was the sales mix also comparable? And have you given any additional price discounts in the competitive environment or have you kept your pricing steady?

Q

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

I think first question – part of the question, yes, it should be pretty comparable. I don't think we had a big shift anywhere. I think it's also good to remember that we continuously work on our costs and have also received some progress in that that offsets any price pressures that we have. We have not particularly seen a lot of price reductions in Q3.

A

**Matti Riikonen**

*Analyst, Carnegie Investment Bank AB (Finland)*

Okay. Thank you.

Q

**Laura Viita**

*Director-Investor Relations, WithSecure Corp.*

Thanks for the questions. Our webcast does not have other questions unless you send them in really, really fast. Are there any more questions in the room? If not, we're ready to finish. So thank you, everybody, for joining today.

**Thomas Jansson**

*Chief Financial Officer, WithSecure Corp.*

Thank you.

**Juhani Hintikka**

*President & Chief Executive Officer, WithSecure Corp.*

Thank you.



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