

27-Apr-2022

WithSecure Corp. (FSC1V.FI)

Q1 2022 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Laura Viita

Director-Investor Relations, WithSecure Corp.

This is WithSecure, F-Secure, Helsinki, Finland. My name is Laura Viita. I am the Investor Relations of WithSecure, and wishing you welcome to this Quarter One Earnings Release.

Today's agenda is the following. First, we have Juhani Hintikka, the President and CEO of WithSecure, giving an update on our business and on our plans. After that, we have Tom Jansson, the CFO of WithSecure, giving an update on the WithSecure numbers. After that, we have Timo Laaksonen, the CEO to be of F-Secure giving an update on the future F-Secure. And Sari Somerkallio, the CFO to be of F-Secure also giving an update on the F-Secure numbers. So I'm wishing you all in the room and on the webcast warmly welcome. We have Q&A in the end. So during the webcast, you can post questions into the webcast chat. All good.

So I'm handing over to Juhani.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

Thank you, Laura. Good morning, good afternoon, everybody, on my behalf as well. Let me dive right into it. We had a strong Q1. I would like to start with some of the key takeaways from the corporate security products, where our revenue grew by 29% year-on-year. And when I say so, I mean the cloud-native corporate security products that we have been referring to in the recent communications. This to us means the underlying businesses are Cloud Protection for Salesforce, our Elements Cloud Portfolio and Managed Detection and Response.

Another important metric for us is the annual recurring revenue, ARR, where we grew 36% on a year-on-year basis to the level of €64.1 million. We saw strong growth in Managed Detection and Response. You may recall we already earlier discussed about this being one of the high-growth markets in our business. And there especially noteworthy to mention we landed a landmark deal in the end of Q1. Cloud Protection for Salesforce that we've also already highlighted as a fast-growing area, we also saw strong revenue growth and orders.

As expected, our on-premise corporate security products decreased by 8% to the level of €27.1 million. This is largely according to our expectations as we are ongoing a transfer towards fully cloud-native SaaS business. Of course, on-premise business is also a subscription business. So there is a continuing element to it as well.

In the cyber security consulting revenue on a comparable basis, we remained at previous year's level. As you may have seen already, we have communicated that we had made some divestments there. So that is why we talked about comparable numbers. On the Consumer Security side, we saw revenue growth of 4% to the level of €27.4 million. And that, of course, is largely in line with our plans, expectations and the market and Timo and Sari will talk more about that later on.

As a combined entity, our revenue grew 3% on a year-on-year basis. But of course, that is on absolute terms, taking into account also the divestments that we did comparable revenue growth was 8%. The key thing that has affected us all in Q1 has clearly been the war in Ukraine. It has changed the overall cyber security landscape globally. It has – if this wasn't already in the headlines, cyber security and the related threats, now it's even more prominently so. And of course, we have seen on one hand the evolution of the threat landscape. We've seen also actors emerging like visible governmental actions, but also organized civilian response to the situation.

For us, of course, it means two things: It means, of course, us and many other organizations, we've taken an active stand in stating our position about our shock, about the whole situation. And we have also then taken some concrete steps in terms of making for example; our FREEDOME solution available for free in Ukraine where we have seen I think at present over 20,000 downloads. And our personnel have also taken various – have in various ways been helping out with efforts, and we have a fairly large organization in Poland where many of our employees have taken in refugees, for example.

On the demerger side, the demerger of our Consumer Security business, it is progressing as planned. And some of the elements that have been now happening during Q1 are related, first of all, to the brand launch, which was a culmination for several months of effort. We have now launched the WithSecure brand, which from 1st of July onwards, is planned to be exclusively related to the corporate side of the business. And so far, the feedback about the brand launch has been really positive.

We have, for example, some data points where we have broken some records in the leading business daily, a couple I think. I think the front page [indiscernible] (00:06:16) our webcast saw record numbers for them as well. The other thing that was publicized heavily during Q1 was our directed share issue. We raised €77 million of new equity. And of course, that was welcome news for many of the people who have been asking about the future profitability for the corporate side of the business and also kind of asking questions in terms of the cash position. That money is earmarked for the use of WithSecure.

We expect to have the Extraordinary General Meeting in the end of May to take formally the decision on demerger and then going forward with the plan of having the planned demerger take place on 30th of June and then ending up with two listed company 1st of July. And as I said to somebody in an earlier session, we will then be the number one and number two cyber security companies listed in Finland in terms of our size.

And now we will go deeper into the separate entities. So Tom Jansson, our CFO, will take stage, and Tom will walk us through the WithSecure financials. And then Tom in turn will hand over to the consumer side, i.e., the future F-Secure.

So over to you, Tom.

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

Thank you, Juhani. And good afternoon to everybody from me as well. So if you look at our revenue a little bit more in detail. So we always saw good growth in all of our cloud-native products. The Elements portfolio that was launched last year has seen a good response on the market, and we see very good growth in that. The MDR, as Juhani mentioned, has progressed quite well. And we as said, also released a press release earlier, we signed a landmark deal at the end of Q1 that was very important for us on the MDR side. And then also the Cloud Protection for Salesforce continues its great growth journey and as it has been before as well, and we talked about that earlier.

And then we saw some decline in our on-premise revenue, which is really what we have planned, but we also see that there is a certain customer segment in this area that prefers still on-premise products for the time being.

Then if you look at our key metrics, our ARR. So we saw a 36% growth on year-on-year comparison. And that obviously is a good number for us. On the quarter-to-quarter growth, we had a little bit smaller number even though on an annual basis, over 20% as well but Q4 was quite strong for us and so on, especially the quarter-to-quarter was driven by Cloud Protection and the Countercept revenue. And as I said also, there was some decline on the on-premise product side.

Like Juhani mentioned, on a comparable basis, our consulting – sorry, not on a comparable basis, our consulting was flat year-over-year. We have done the two divestments, one in end of Q4, the UK public sector. And then we did in Q1, the South African divestment as well, altogether from our revenue with these divestments reduced by €7 million that we don't show in the financials. We haven't taken them out, but on a comparable basis that's what it means.

But we see on the consulting, a strong demand continue. And obviously strong demand means also there's a lot of competition for great talent, and that's our key priorities here, and we look very positive on this side of the business also going forward.

Here's to deferred revenue only for WithSecure. As just a reminder, this is all the deferred revenue that we have invoiced, somehow we have other elements also like the monthly payments subscriptions as well as orders that we haven't invoiced that would add to top on this. But just to give you a continuous view on the WithSecure-only numbers on this perspective.

Then we have reached a stage in our demerger plans that at this point, we have to apply the IFRS 5 standard. And this obviously have complicated the presentation of the numbers a little bit, because in that standard, you have to apply or report the numbers based on ownerships of assets and liabilities, people and so on. So it doesn't give a good view of the true profitability position of each of the companies.

So, therefore, we have introduced this estimated comparable EBITDA, where we try to present as close as we can at this stage of the different parts of the two different companies profitability, which means in basic practice that we have put back some costs that actually belong to F-Secure on a long-term basis as well related to R&D

and facilities and so on. And, therefore, we have these different numbers set also that we have reported today. Just to give you a bit of an explanation on that.

Then if you look at still the summary of our profitability for Q1. So as mentioned the total revenue, €32.4 million on WithSecure-only. And you can see the different breakdowns of that. And as said, the comparable EBITDA estimate is about minus €5.2 million at this stage, which is pretty much what we planned. And then on the IFRS 5, obviously it's much more.

Then as a last quarter, we will also provide you with the combined numbers just to give all those who potentially make projections on our numbers, what they are. And as Juhani mentioned, the comparable growth was actually 8%, if you take out what we have divested and so on.

And the adjusted EBITDA for combined operations was €7.9 million. So there have been some further investments during last year and so on that had some impact on the combined profitability as well. And also the comparable number was very much affected by the COVID at the stage when the costs were reduced significantly also for – from an activity point of view.

So with that, I would like to welcome on the stage CEO and President of F-Secure to be, Timo. Please welcome.

Timo T. Laaksonen

Executive Vice President-Consumer Security, WithSecure Corp.

Thank you, Tom. Good afternoon, everybody. So from a consumer point of view, the future F-Secure, we continued on our growth path. If you look at the numbers here on the slide, you can see that we've been growing steadily all the way from 2020. And it was a good and expected result for us in quarter one. From the partner channel point of view, the big news for us was that we launched our most important new product suite that we have in our offering, which we call TOTAL. It is the combination of our Endpoint Protection, our Identity Protection, Password Management, i.e., Vault and VPN, all-in-one application.

And our partners have taken this very positively. We have the first ones who have signed deals with us, either as new customers or as an upgrade to what they've been providing before. And that naturally provides us a good basis for increasing the breadth of services that we provide through our partners to the end customers. That means also an increase in ARPU.

On the side of April, we've already launched these new services with several service providers across the world, especially in Asia and in Europe. There is a lot of excitement. We expect this speed of conversion from single products to TOTAL continue during the course of this year. We've set the ambition pretty high by the end of the year.

In terms of sales regions especially Asia, Northern Europe and North America developed very, very nicely. But there's always trouble somewhere in paradise. And in this time around, we had some headwind in our retail partner business, slightly below plan as well as in Poland, where the regulator has corrected some of our partners who have typically provided their services on an opt-out basis, and now they need to do that on an opt-in basis. And that had a negative effect on our business.

So the 4% growth is naturally the net effect of some very good things and some things that didn't go quite as planned. We are continuing our efforts to expanding into new vertical partnerships. And in this report, we're telling about a major insurance company in Europe, who is piloting together with us. This pilot is still expected to take

another couple of quarters before we will see the end results, but that's a very promising partnership that is budding there.

From the direct channel point of view, our e-commerce developed very positively and especially in Germany. Juhani referred to the changes in the world that are ongoing and especially here in Europe. And in terms of cyber security products coming out from the Nordics or more specifically from Finland are seen as a trustworthy partner and trustworthy service. So we clearly saw a positive impact on that in Germany, and hopefully going forward also in other countries.

Our renewal performance was good, quite as planned and that naturally creates the strong foundation for our business. We've always enjoyed very high levels of renewals and that continued. Also, development that we've seen already for quite some time in direct business is that our average revenue per user has been going up, as people have been going from single products to TOTAL and the same development continued. And this is actually the role model that we expect to see in our business performance also in the future on the partner channel side as they are now moving in larger numbers towards the TOTAL offering.

So that's all I had planned to share this time around. And I would now like to hand over to our Chief Financial Officer to be, Sari Somerkallio. Over to you, Sari.

Sari Somerkallio

Chief Financial Officer-F-Secure, Fiskars Denmark A/S

Thanks, Timo. Good to be here. I almost feel like saying good to be back in these circles. This reminds me of a time like 20 years ago; I worked as Investor Relations Manager for Wärtsilä and before that actually an analyst. So back in – I feel that environment again. Here in between last – my previous job was I worked mainly in different business finance tasked with Fiskars, but also with business development and other things. And maybe if you're interested, you can check the other details on LinkedIn.

But, yeah, let's go back to this topic. So Timo just went through the revenue picture, pretty much. So we grew by 4%, which is a combination of positive and negative things. Very nice to see growth outside Europe, because, yeah, we are big in Europe, but want to grow also outside this region. And the rest of Europe where you see a negative number, this Poland topic and the retail business were the ones taking that down. But also in that area, we also see positive things.

On the right-hand side, you see here the Rule of 40. That's a metric that we are following, combining the EBITDA and the growth. And you see here numbers this year and last year on a very similar level, but the combination of very different numbers. So this is a metric where with growth you can sort of compensate some of the profitability.

Yeah. Rule of 40 implies a level of 40%, we are above 50%, and our target is definitely to continue to outperform that 40% level. In terms of these numbers, Tom explained that we have some challenges with this, now the IFRS 5 numbers and these comparable numbers, but I think you can take this as a ballpark and assume that we continue following this metric.

Then if we look at some more details, revenue we covered already. Adjusted EBITDA, that's the IFRS 5 number, and I would not focus on that. IAC €2.7 million here, that is related to our ongoing demerger project and I guess – a big number, but I guess this is also a very big project that we are carrying out. Then the relevant number here is the estimated comparable EBITDA, €13 million, 48%. I think that gives a good reference for where we are at the moment.

If you remember what we disclosed in February, the carve-out numbers there, the adjusted EBITDA was 44%, this is 45%. So just showing that that it is ballpark correct. We are here at the same time, working with carve-out numbers for also the first quarter and then when we publish the prospectus, those numbers will be in there. So, I would say that this is something that analysts can use for modeling from now on, but there will be – the carve-out numbers will be the right base to build on longer term.

Also, I want to remind that this is the current situation still as part of a bigger group. And we will lose some of the synergies on the admin side. And we have said that it is up to €5 million on an annual basis that we need to add cost. So in that sense, this is a very good number and we assume it to go down. And we will – as we have said, we will come back to the full year outlook later on.

Deferred revenue, you see it has gone down a bit in our business. This comes from e-commerce and retail partners, which is part of the partner channel. And there, as Timo mentioned, retail business has gone down. So that's where this deferred revenue number comes from.

And now, I'd like to hand over to Juhani.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

Thank you, Sari. And first of all, a bit of advertising. So, we will be having a Capital Markets Day for WithSecure and F-Secure on 3rd of June. So, I hope to see as many as possible here in Helsinki at that event that will be preceded by – also by a brand event called Sphere, which is then related to WithSecure brand building.

We have now the opportunity for Q&A. So, I will be here. I will invite Timo to join me here on stage. And of course, we have Tom and Sari available as well. I suggest that you also move closer as I'm sure there will be financial questions for you to tackle as well.

So, Laura, over to you. Let's take the first question.

QUESTION AND ANSWER SECTION

Felix Henriksson

Analyst, Nordea Bank Abp

Q

Hi guys. It's Felix Henriksson from Nordea. So in light of the current geopolitical tensions, I'm wondering if you've done any sort of your own assessment on the potential market growth tailwind from the current environment. I know you mentioned that the corporate market, for example, is expected to grow at around 12% rate. So I'm wondering if you're seeing this as a prudent estimate as of now?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Yes. So we haven't made any precise calculations about additional potential because of the geopolitical situation. But we are seeing an influx of inquiries hitting us. And of course, there are also markets where the government entities have given recommendations not to use, for example, Russian cyber security products.

Felix Henriksson

Analyst, Nordea Bank Abp

Q

Yes. I was going to actually follow up on that in terms of the competitive landscape. Obviously, we're seeing Kaspersky in quite struggles with the current situation right now. Are you seeing this in your conversations with potential customers or customers right now than churning from Kaspersky or other vendors who are in trouble with the geopolitical situation?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Yes. We are seeing discussion around that. But of course, we need to remember also that in some of the cases, the price levels have been relatively low. So I think we also need to decide separately which business we want to take and so forth.

Felix Henriksson

Analyst, Nordea Bank Abp

Q

So then finally, a question on the [indiscernible] (00:25:32) environment. Salary inflation was not a topic that we touched on in the presentation. So I'm curious to hear about your thoughts on how do you see this been developing as of now, for example, when we compare to Q4 and the outlook for the rest of the year?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Yeah. In general, there is salary pressure and salary inflation. I think that we can say with confidence that is visible. But I think what is, of course, more specific to our market and our business is that we have in some markets a mismatch of demand and supply in terms of the people, and that tends to actually inflate the salaries more.

Felix Henriksson

Analyst, Nordea Bank Abp

Q

Thank you.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Thanks.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

Hi. It's Atte Riikola from Inderes. About this new upgraded total package, can you elaborate how much potential it has for increasing ARPU for compared to this now – I guess to what do you have now?

Timo T. Laaksonen

Executive Vice President-Consumer Security, WithSecure Corp.

A

Okay. So most of our consumer customers have been using the SAFE product for Endpoint Protection. Then we have a much, much smaller share of customers who have already started adopting VPN, Password Management, Identity Monitoring. So depending on how many modules – additional modules, they will take, the additional value can be anywhere between, I would say, roughly 1.2 to 2 times within that range.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

Okay. Then about the attrition levels in consulting, I think you mentioned in Q4 report that they were pretty high, but what's the situation?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So during Q1, I think we saw the peak in January. And in February, March, we have come down from those figures. So the situation in that sense has improved.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

Okay. Can you say anything about the profitability level in consulting in Q1?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So overall, I think we are in pretty good shape regarding profitability in consulting. It's not really the key worry because, I mean, it's a pretty straightforward business if you price it right in terms of your delivery cost, then I think the unit economics work there, but I think it's more of a question of maintaining the top line growth and balancing the high demand for the kind of talent that we have and are after with the growth projections. But it is true that currently, especially in consulting, there's a lot of demand.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

Okay. And can you open up a little bit more about those divestments? So, for example, do you have any more – any exposure in South Africa or how about the situation in Great Britain?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Yeah. So, the South Africa deal was a management buyout, which we have executed on. We continue on a partnership basis. So, there is an arrangement with the management of the company. And so we maintain a relationship with them, but it is a standalone fully independent company that carries its own responsive fiscal and other responsibilities.

And in the case of UK, we divested the business to a private equity player who has been active in this kind of a specific space where they were operating the same as well so that we don't have ties, but we do have a relationship with the buyer.

Atte Riikola

Analyst, Inderes Oyj (Research Firm)

Q

All right. Thank you.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Thanks.

Veikkopekka Silvasti

Analyst, Danske Bank A/S (Finland)

Q

Hey, thank you. So, Veikko Silvasti, Danske Bank. Maybe continuing on Atte's question. So, you think there could be additional divestments in the consulting side?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So currently nothing is planned. I think the ones we executed were obviously part of our plan and we wanted to get a bit more geographical and business-focused, but apart from those, no such plans.

Veikkopekka Silvasti

Analyst, Danske Bank A/S (Finland)

Q

Clear. Then moving on to questions on WithSecure. So, this on-prem business is still quite large percentage of your total offering in the annual recurring revenue. So, can you describe how the transformation process works? And does it require a lot of work from you or from your sales partners to transform from on-prem to cloud?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

So, on one hand, of course, this is a question of offering. So, what we have on-prem is an EPP solution, classic endpoint, on-premise protection solution. And a lot of the demand in our space, the endpoint space, has actually shifted towards endpoint detection and response, which is a native cloud solution that we have. Now, customers who want that automatically need to actually move into this cloud-based solution. They will not have access to that as on-prem.

Veikkopekka Silvasti

Analyst, Danske Bank A/S (Finland)

Q

Okay. So, it's kind of an upselling process?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

In a way. It is, of course, a different product. So, it is kind of a transitioning to that as well. And of course, we are also making it commercially attractive for customers who are contemplating to actually make this shift. And part of it is, of course, the future roadmap for on-prem that we can use to influence that decision making.

Veikkopekka Silvasti

Analyst, Danske Bank A/S (Finland)

Q

Okay. Clear. So, maybe you touched upon it already a bit. So, is there any price difference in your solution – EPP solution in on-prem and then cloud are the same?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

There is a price difference, but I can't tell you exactly what that is, so.

Veikkopekka Silvasti

Analyst, Danske Bank A/S (Finland)

Q

Okay. So maybe then regarding the consulting unit. So, for me, it seems quite weird that the organic growth there was basically 0% or flat. So, because the demand should be basically exploding in some services like red teaming and so forth. So, are you experiencing some bottlenecks or something? And should we expect a bit stronger performance from the consulting going forward?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

Yeah. So, even though on a comparable basis, it was flat, I think some government business that we have been doing actually wasn't increasing that much that we had before. So the actual pure, I would say our mainstream consulting actually grew slightly. So it's not – when you dig a little bit deeper, it's actually not totally flat there.

But I would say that, like I said in my previous answer, we are really kind of us and other vendors in the market are increasing some shortage of resources. So – and resources, people, consultants, equal revenue in consulting businesses, as we know. So I think it comes down into our ability to recruit and attract, retain talent.

Veikkopekka Silvasti

Analyst, Danske Bank A/S (Finland)

Q

Okay. Then maybe final question on WithSecure. So, the MDR business seems to be growing quite nicely. You won a big deal again. So, is this basically taking away some resources from the consulting unit?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

No.

Veikkopekka Silvasti

Analyst, Danske Bank A/S (Finland)

Q

Okay. Then on F-Secure. So Poland, there were some headwinds there. So do you think there could be similar headwinds in other geographies? Is this just Poland-specific issue?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

This is Poland-specific.

A

Veikkopekka Silvasti

Analyst, Danske Bank A/S (Finland)

Beautiful. And then, will you see this kind of headwinds also in the coming quarters or was this it?

Q

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

Always moving from one person to the next.

A

Sari Somerkallio

Chief Financial Officer-F-Secure, Fiskars Denmark A/S

[indiscernible] (00:33:23)

A

Veikkopekka Silvasti

Analyst, Danske Bank A/S (Finland)

Yeah. So, final question for me. So can you describe what's the price difference of the total package if you buy it directly from your website or through a partner channel?

Q

Timo T. Laaksonen

Executive Vice President-Consumer Security, WithSecure Corp.

The pricing of our total service through the partner channel is completely up to what the partner defines it to be. So there is no one single price level that the partners will be following. We're not giving a suggested end-user price even. It is their call. And this varies quite a bit market-to-market.

A

So there's a certain let's say, acceptance point for Consumer Security services among consumers. And in the lowest of the low cases, it may be anywhere from a couple of euros to maybe €5, €6 in other markets, most of the markets that we operate in, it's somewhere between \$6 and \$12 a month. But so, it varies from partner-to-partner and country-to-country.

Veikkopekka Silvasti

Analyst, Danske Bank A/S (Finland)

Okay. Yeah. You have 16 million subscribers. So it seems like the monthly revenue from those subscribers is quite low. Can you just elaborate on that?

Q

Timo T. Laaksonen

Executive Vice President-Consumer Security, WithSecure Corp.

So through our partner channel, most of our business has been Endpoint Protection-only. And selling Endpoint Protection-only is a lower amount of money when the partner still adds their margin on top of it. One of the reasons why we are so popular with our partners is that they actually get a lot of margin.

A

Our typical partner margins are in the visibility of, let's say, almost an average of 70%. So we are one of their most profitable value-added services that they provide to market. The total revenue level for a partner may be slightly smaller, but the margin that they make may be up there with the best of them.

Veikkopekka Silvasti

Analyst, Danske Bank A/S (Finland)

Clear. That's all for me. Thanks.

Q

Laura Viita

Director-Investor Relations, WithSecure Corp.

Any other questions in the room? If not. So, I'm moving on the webcast side. And here, we have a question regarding consulting revenue. What is the ambition level for 2022 and beyond for consulting revenue?

A

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

So, we haven't given out any guidance at this stage for 2022. That includes also consulting. But just maybe non-numerically, we of course see the opportunity in consulting, obviously the demand in the marketplace. So we will continue to focus on that.

A

Laura Viita

Director-Investor Relations, WithSecure Corp.

Very good. And another question regarding consulting as well. How do you tackle the challenges in attracting and retaining talent especially in consulting? What specific actions do you take in that space?

A

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

That's a million dollar question. Of course, we would like to be the most attractive employer. And partly I think part of this attraction is also related to the work we do. I mean the best consultants and generally, I would say, consultants, of course, look for interesting projects. And in our case, we have a profile of doing very, very difficult things. Some of the industry verticals like financial industry that we serve are operating in a complex, highly attacked environment. And that, of course, gives us the opportunity to offer these kind of projects and work opportunities for consultants. And we believe that that will continue to be something that will attract consultants because we can offer the kind of carrier progression all the way from entry-level consultant to a very senior principle consultant handling our most demanding customers and tasks.

A

Laura Viita

Director-Investor Relations, WithSecure Corp.

Very good. Then we're changing to a topic, which I think we partly answered already, you had strong performance in cloud ARR, but on-prem has declined notably. How large share of the SaaS ARR increase was thanks to on-prem clients transforming to SaaS?

A

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

Off the top of my head, I probably couldn't give you a breakdown there, but I think what – just to give you an idea, so if the ARR for the cloud-native solution was €64 million end of now Q1, I don't remember, but the end of last year, if we look at what our total subscription revenue was ARR, that was in the range of €90 million. So if we continue with the flat assumption on consulting, then we are at €94 million pure ARR-related revenue, but we are making the distinction between the cloud-native ARR and then the on-prem ARR because, of course, it's just a question of delivery mechanism, the business model is the same. But we just want to also communicate that we especially see the strong growth in the cloud-native portfolio.

A

Anything you want to add Tom there?

Thomas Jansson

Chief Financial Officer, WithSecure Corp.

A

No. I think that's quite clear on that topic.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Very good. Then Ukraine topic, which also was already discussed, have you seen change in customer demand or purchasing behavior after the escalation in Ukraine?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

A

There has been an increase in demand because of that.

Timo T. Laaksonen

Executive Vice President-Consumer Security, WithSecure Corp.

A

Same thing on the consumer side, both on the direct business side and on the partner side. I would like to add one thing. It was asked earlier, what kind of effect it will have in the numbers going forward? I would say that, Juhani's comment was spot on, that the pricing from Kaspersky has been clearly lower than what we have typically provided to market.

So that's one thing to keep in mind. Another one is that, customers may be in the middle of a service agreement with Kaspersky, either partners or end customers, but they want to jump to a new product. There are also certain discounts that we may need to give to them so that they make the move now and not when the service period ends. So we have to make amends to get these people to move to us right away or partners right away, which takes a little bit of the growth edge off to begin with.

Laura Viita

Director-Investor Relations, WithSecure Corp.

A

Very good. Thanks. Our chat has gone silent. So, no more questions there. What about you in the room? No?

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

Well, in that case, we would like to thank you for tuning in for listening and just reminding everybody, please be there at our CMD in June. Thank you very much.

Timo T. Laaksonen

Executive Vice President-Consumer Security, WithSecure Corp.

Thank you.

Juhani Hintikka

President & Chief Executive Officer, WithSecure Corp.

See you're there.

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