

F-Secure Q1 / 2019

# **STRONG REVENUE GROWTH IN CORPORATE SECURITY**

# AGENDA

Key takeaways from Q1

Key figures

Business updates

Outlook

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Financials

# KEY TAKEAWAYS FROM Q1

## Revenue growth improved in both businesses

- Consumer security business growing again
- Corporate security growth improved from the previous quarter
  - Endpoint protection business stable, strong renewals
  - MDR revenue growing, pipeline strong and renewal rates high, new sales lower than during the previous quarter
  - Consulting revenue in strong growth, large extension deal signed in the Nordics
- Adjusted EBITDA as expected

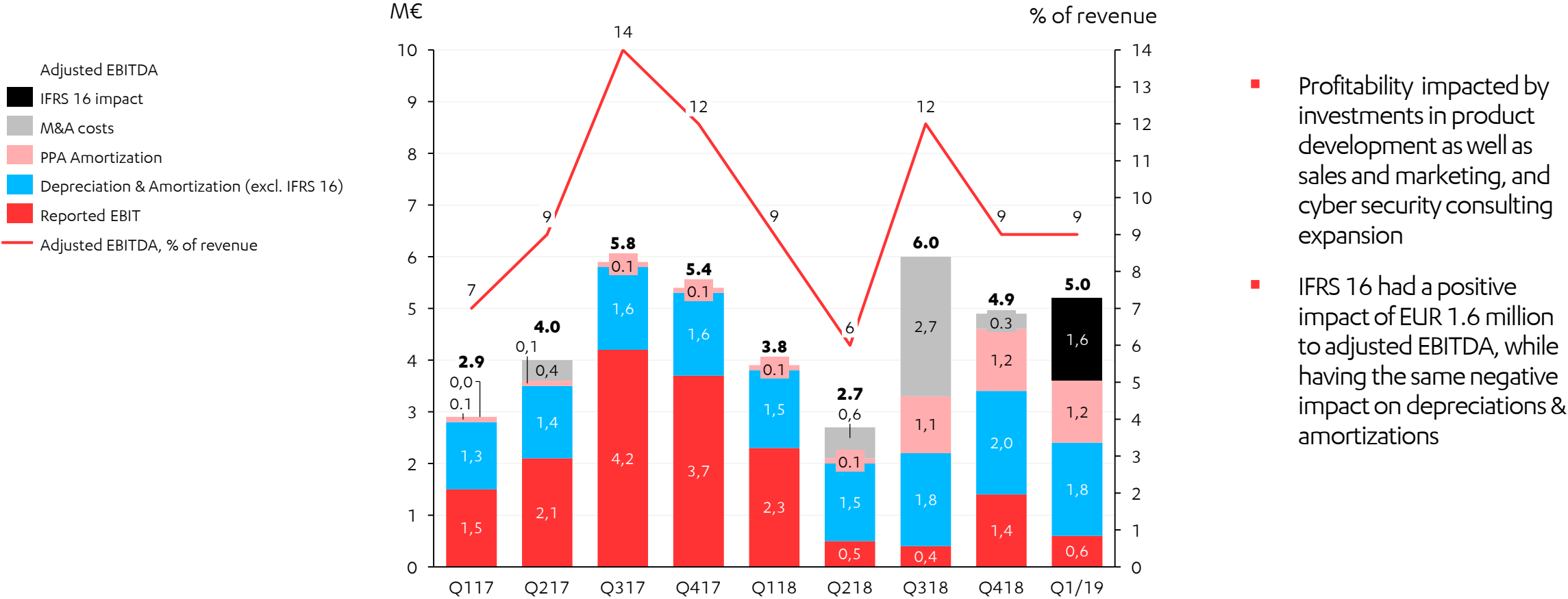
# KEY FIGURES

EUR m	1-3/2019	1-3/2018	Change	1-12/2018
<b>Revenue</b>	<b>53.4</b>	<b>43.1</b>	<b>24 %</b>	<b>190.7</b>
Consumer security	24.0	23.8	-1 %	94.9
Corporate security	29.4	19.4	52%	95.9
Products	17.8	14.8	21 %	63.8
Consulting	11.6	4.6	158%	32.0
<b>Adjusted EBITDA<sup>1) 2)</sup></b>	<b>5.0</b>	<b>3.8</b>	<b>31 %</b>	<b>17.4</b>
% of revenue	9.4 %	8.9 %		9.1 %
M & A expenses				-3.6
<b>EBITDA<sup>2)</sup></b>	<b>5.0</b>	<b>3.8</b>	<b>31 %</b>	<b>13.8</b>
Depreciation & amortization <sup>2)</sup>	-3.3	-1.5	121%	-6.8
PPA amortization	-1.2	-0.1	916%	-2.5
<b>EBIT</b>	<b>0.6</b>	<b>2.3</b>	<b>-74 %</b>	<b>4.6</b>
Earnings per share (EUR)	-0.01	0.00	-344 %	0.01
Deferred revenue	71.4	67.2	6%	72.9
Cash and financial assets at fair value through P&L	23.4	88.5	-74%	27.8
Personnel, end of period	1,680	1,145	47%	1,666

<sup>1)</sup> Adjustments are material items outside normal course of business associated with acquisitions, integration, gains or losses from sales of businesses, and other items affecting comparability.

<sup>2)</sup> IFRS 16 had a positive impact of EUR 1.6 million to adjusted EBITDA, while having the negative impact of EUR -1.5 million on depreciations & amortizations.

# ADJUSTED EBITDA ACCORDING TO EXPECTATIONS



- Profitability impacted by investments in product development as well as sales and marketing, and cyber security consulting expansion
- IFRS 16 had a positive impact of EUR 1.6 million to adjusted EBITDA, while having the same negative impact on depreciations & amortizations

Adjustments are material items outside normal course of business associated with acquisitions, integration, gains or losses from sales of businesses and other items affecting comparability.

# IMPACT OF IFRS 16 IN Q1/2019

## Income statement

Cost of revenue	Decreased (EUR +0.1 million)
Operating expenses	Decreased (EUR +1.5 million)
EBITDA	Increased (EUR +1.5 million)
Depreciation & amortization	Increased (EUR -1.5 million)
Financial expenses	Increased (EUR -0.1 million)

## Balance sheet

Interest-bearing liabilities	Increased (EUR +11.6 million)
Tangible assets	Increased (+11.6 million)

## Cash flow

Cash flow from operating activities	Increased (EUR +1.5 million)
Cash flow from financing activities	Decreased (-1.5 million)

- F-Secure adopted IFRS 16 Leases standard using modified approach on 1 January 2019. Comparative information has not been restated.
- Under IFRS 16 almost all leases are recognized on the balance sheet as the distinction between operating and finance leases was removed. Right-of-use assets (leased item) and corresponding lease liability was recognized according to the standard in opening balance sheet on 1 January 2019.
- For the full year 2019, the impact on adjusted EBITDA is estimated to be around EUR +6.0 million

## Key figures

Adjusted EBITDA	Increased (EUR +1.6 million)
Adjusted EBIT	Increased (0.1 million)
Equity ratio, %	Decreased (-3.1 p.p.)
Gearing, %	Increased (+16.8 p.p.)

# CORPORATE SECURITY REVENUE GREW BY +52% IN Q1

## CORPORATE SECURITY PRODUCTS

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### Revenue from products increased by 21%

- Revenue from endpoint security increased from previous year
  - Renewals at a high level
  - New customer acquisition lower than during previous year, but with good progress in several countries
  - Customers are supplementing their EPP solutions with new EDR functionalities, revenue impact small but customer and partner reactions positive
- Revenue from MDR increased significantly from previous year
  - Customer satisfaction and renewal rates very high, Sales pipeline continued to develop positively
  - Significant quarterly variance in new customer acquisition, Q1/19 was lower than Q4/18 also due to seasonality

## CYBER SECURITY CONSULTING

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### Revenue from consulting increased by 158%

- F-Secure continued to win new deals and expand existing accounts in many demanding verticals
- Revenue increased in all regions with growth being especially strong in Singapore, South Africa and the Nordics
- In the Nordics extension to a large project deal was also signed during the quarter



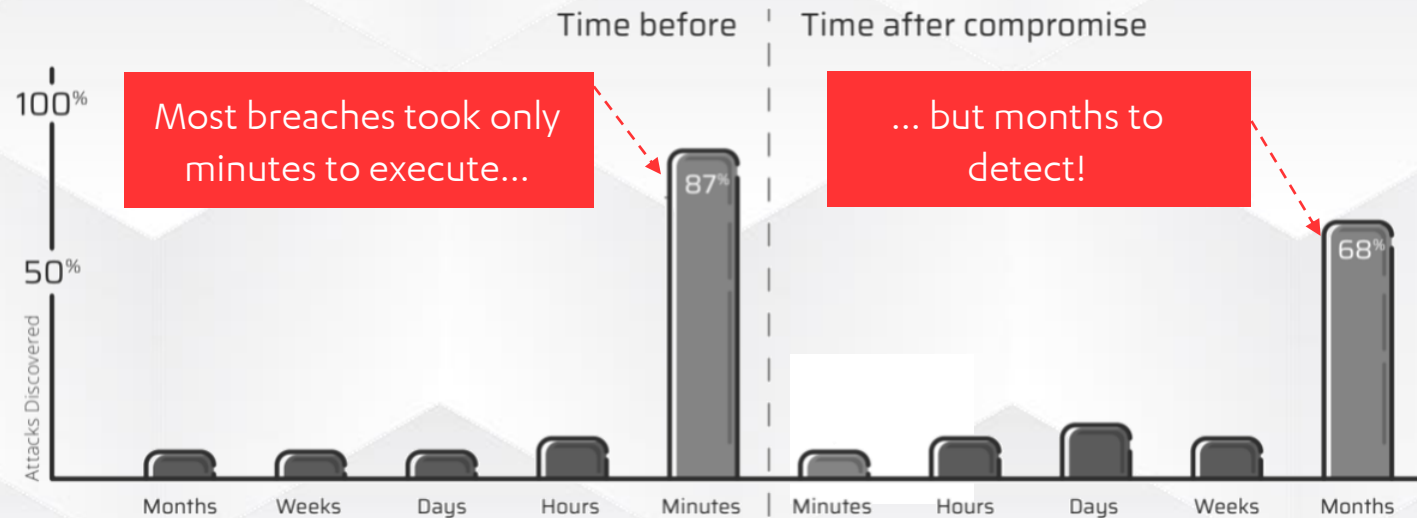
We continuously get awarded for best protection

We have beaten the following brands in the AV-TEST Best Protection category for business products in 2018:

Bitdefender	Sophos
Kaspersky Lab	Avast
Trend Micro	G Data
Microsoft	Seqrite
McAfee	Palo Alto Networks



# COMPANIES ARE STRUGGLING TO DETECT AND RESPOND



F-Secure whitepaper on continuous response: [https://img.en25.com/Web/FSecure/%7B59c4c3cc-69ac-4330-9344-bfbb8ce793d5%7D\\_Rethinking\\_Response\\_Whitepaper\\_-\\_F-Secure.pdf](https://img.en25.com/Web/FSecure/%7B59c4c3cc-69ac-4330-9344-bfbb8ce793d5%7D_Rethinking_Response_Whitepaper_-_F-Secure.pdf)

# F-SECURE COUNTERCEPT IS THE ONLY MDR SOLUTION **DESIGNED TO SKILL-UP YOUR TEAM**

*“Demand for MDR has been particularly strong in the midmarket. It provides a turnkey service that fills gaps in security expertise and 24/7 operations for incident response and threat containment. Organizations that have not yet invested in, or are underinvested in, detection and response technologies and internal capabilities should consider MDR services.”*

- Gartner



## **Gartner's sample vendors:**

- Alert Logic, Arctic Wolf, CrowdStrike, eSentire, mnemonic, **F-Secure**, Paladion, Rapid7, Red Canary

# CONSUMER SECURITY REVENUE GROWING AGAIN IN Q1

## OPERATOR CHANNEL

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### Revenue increased slightly from the previous year

- Business developed as expected, and the company continued to work closely with its broad global network of partners to increase product activation
- Negotiations with operators and router manufacturers to include F-Secure SENSE's capabilities in their router offering progressed well with several partners

## DIRECT SALES

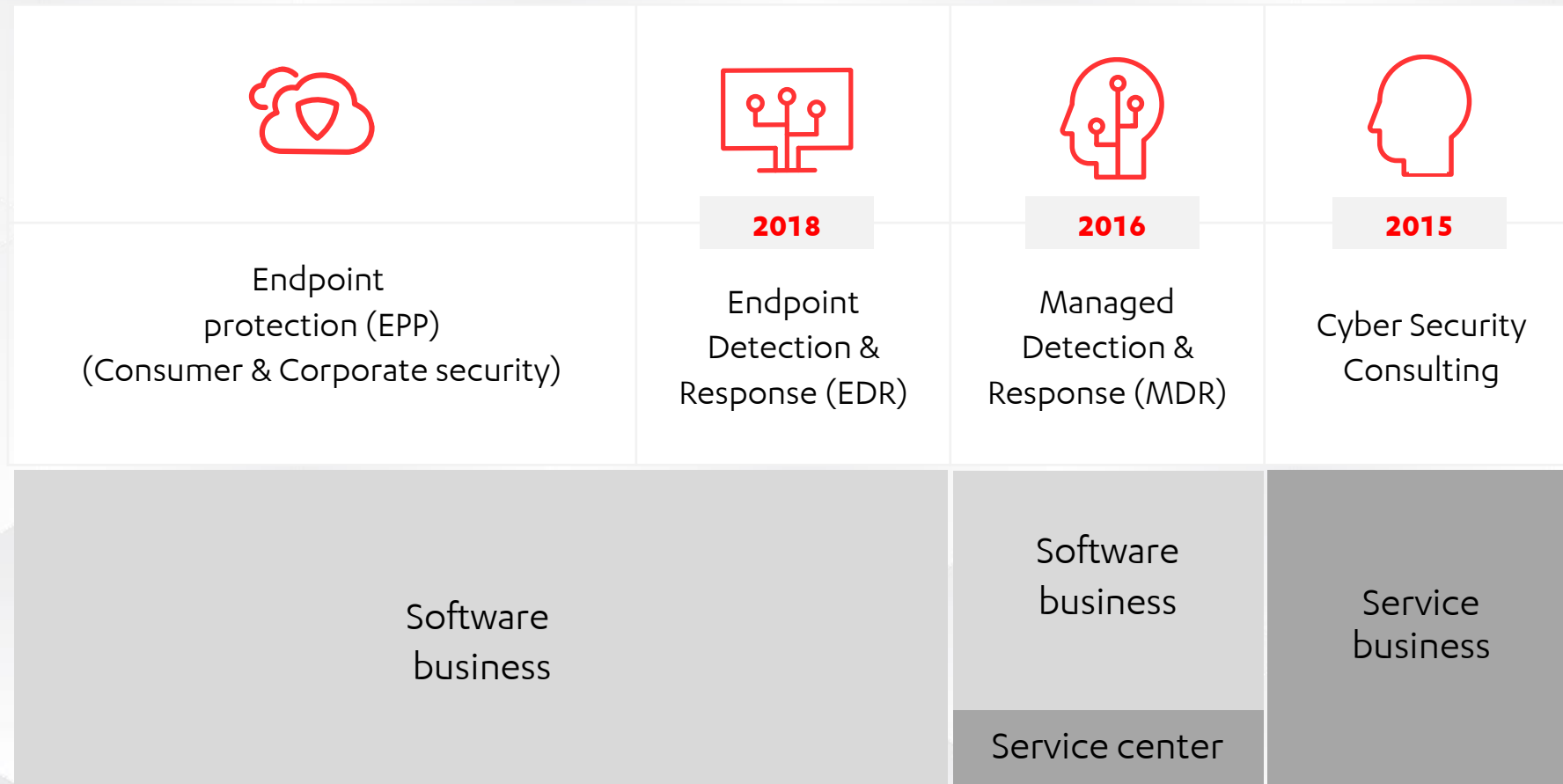
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### Revenue increased slightly from the previous year

- Renewals remained at a good level
- F-Secure continued to focus on pushing the sales of the company's broad consumer portfolio to increase average revenue per customer

# SCALABLE SOFTWARE BUSINESS COMPLEMENTED BY EXPERT SERVICES

SCALABILITY



78% of total revenue

22% of total revenue

# OUTLOOK FOR 2019 UNCHANGED

- Revenue from corporate security is expected to grow by over 30% compared to 2018
- Revenue from consumer security is expected to stay approximately at the same level as in 2018
- Adjusted EBITDA is expected to be above EUR 15 million excluding the impact of IFRS 16

# OUTLOOK FOR 2018-2021 UNCHANGED

- The demand for corporate cyber security products and services is expected to grow strongly. F-Secure aims to grow faster than the market, with revenue from corporate security expected to grow above 15% annually during our strategy period 2018-2021.
- Driven by the anticipated revenue growth and scalable business model, the company's profitability is expected to improve significantly in the long-term. The board and the management continuously seek to balance growth investments and profitability to optimize long-term value creation for the shareholders.

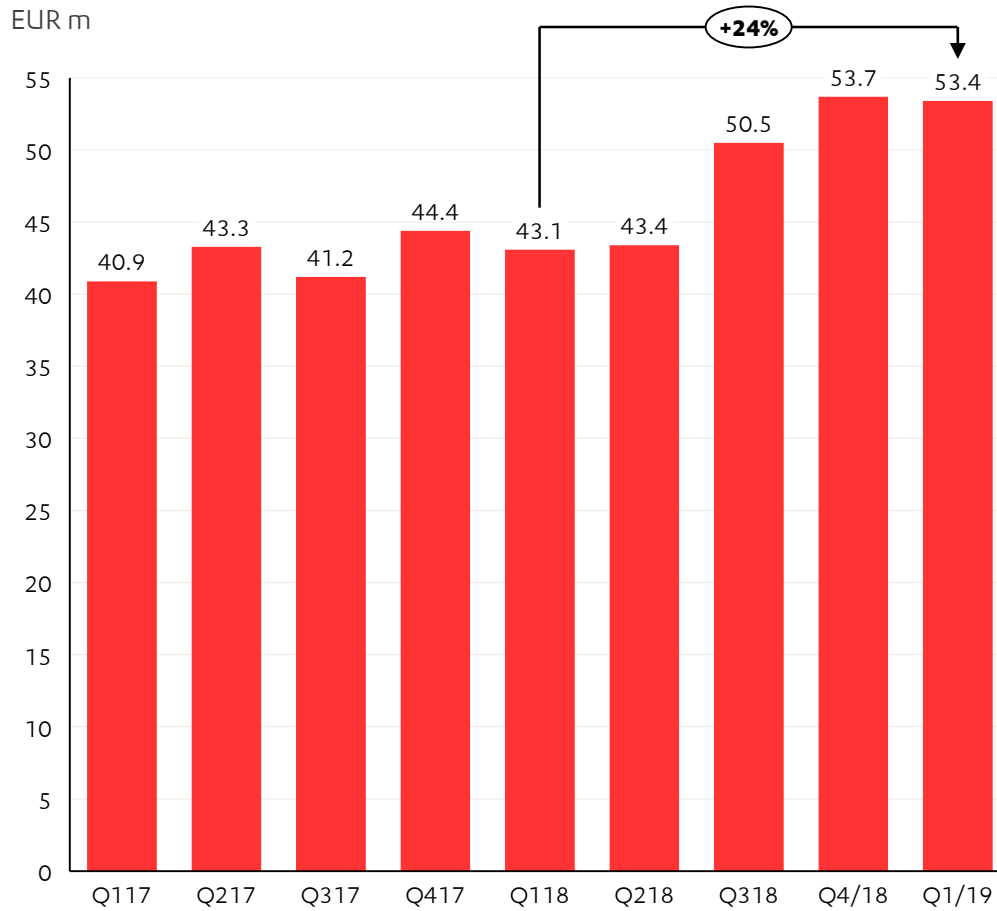
# FINANCIALS

## Q1 2019

All income statement figures refer to continuing operations, and figures in brackets refer to the corresponding period in the previous year, unless otherwise stated.



# REVENUE



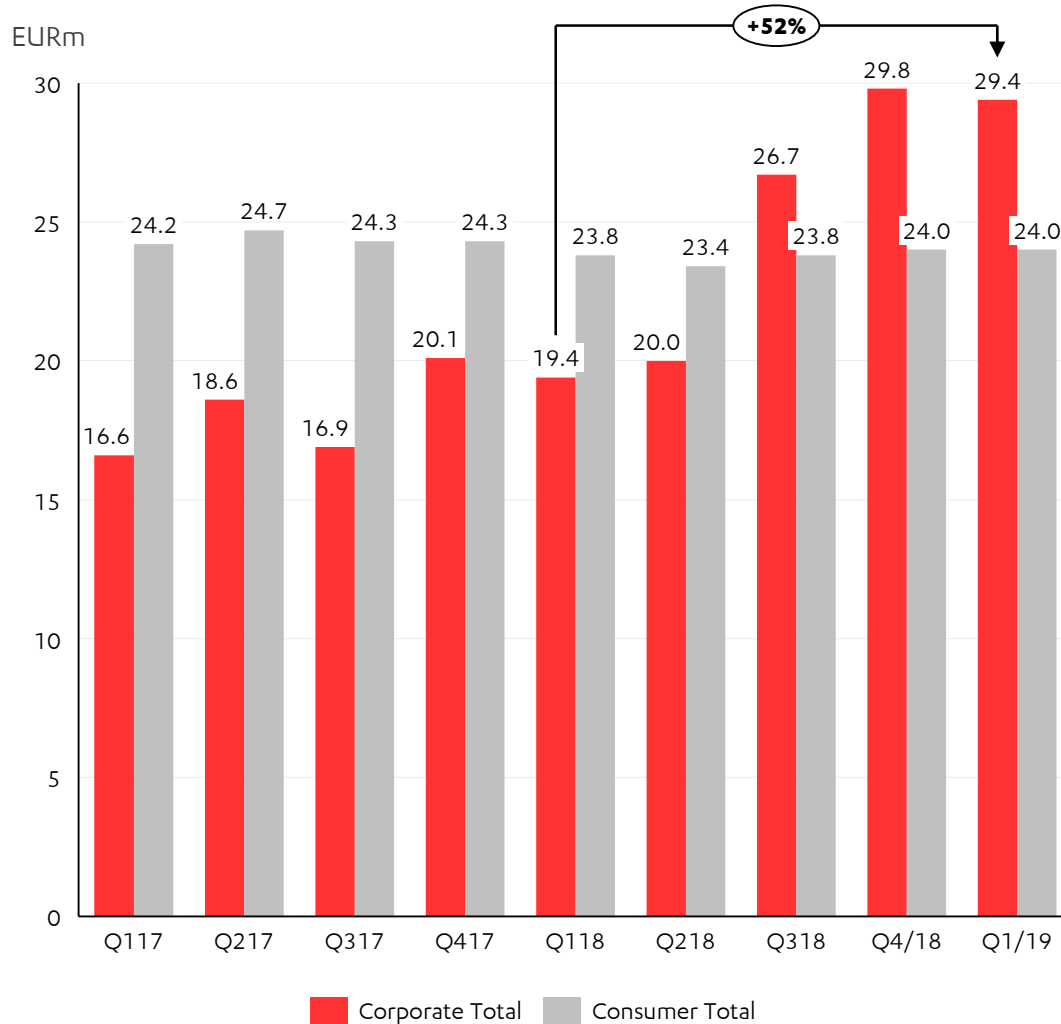
## January-March

- Revenue increased by 24% y-o-y
- Total quarterly revenue 53.4m (Q118: 43.1m)

Revenue



# REVENUE SPLIT

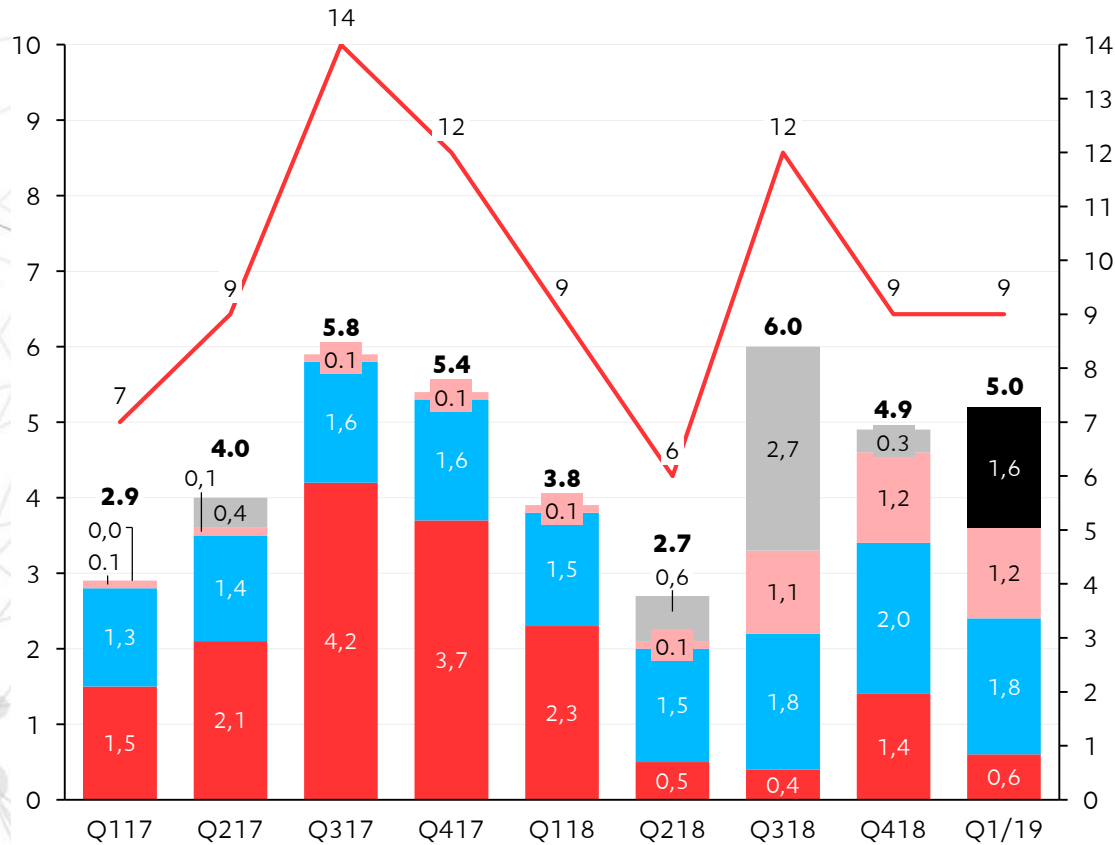


## January-March

- Revenue from corporate security increased by 52% totalling EUR 29.4 million (19.4m)
- Revenue from consumer security increased by 1% totalling EUR 24.0 million (23.8m)
- Corporate security represented 55% (45%) and consumer security 45% (55%) of total revenue

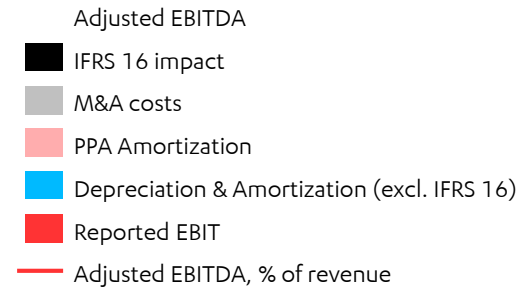
# PROFITABILITY

EURm

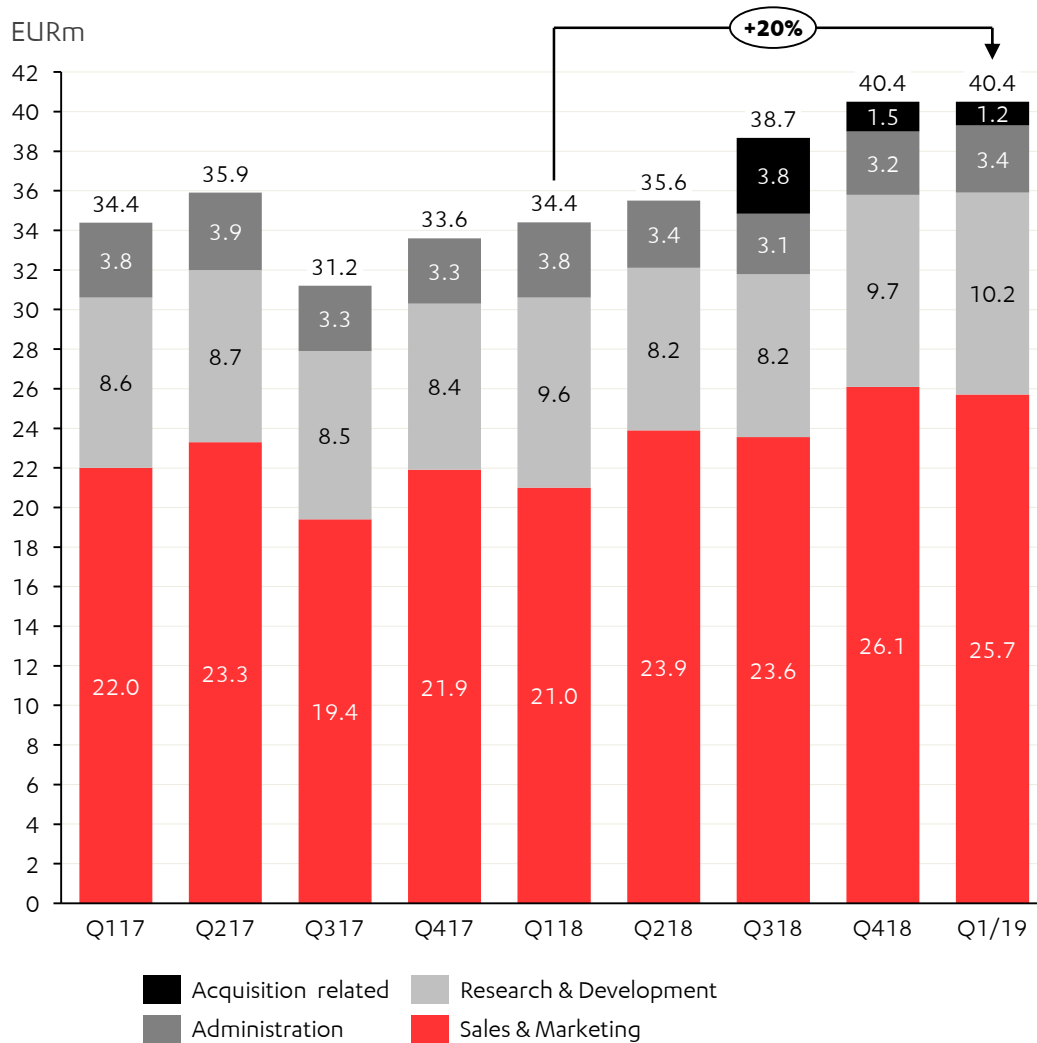


## January-March

- Adjusted EBITDA 5.0m, 9.4% of revenue (3.8m, 8.9%)
- Earnings per share (EPS) EUR -0.01 (EUR 0.00)
- IFRS 16 had a positive impact of EUR 1.6 million to adjusted EBITDA
- Depreciation and amortization increased by EUR 2.8 million to 4.4 million (1.6m).



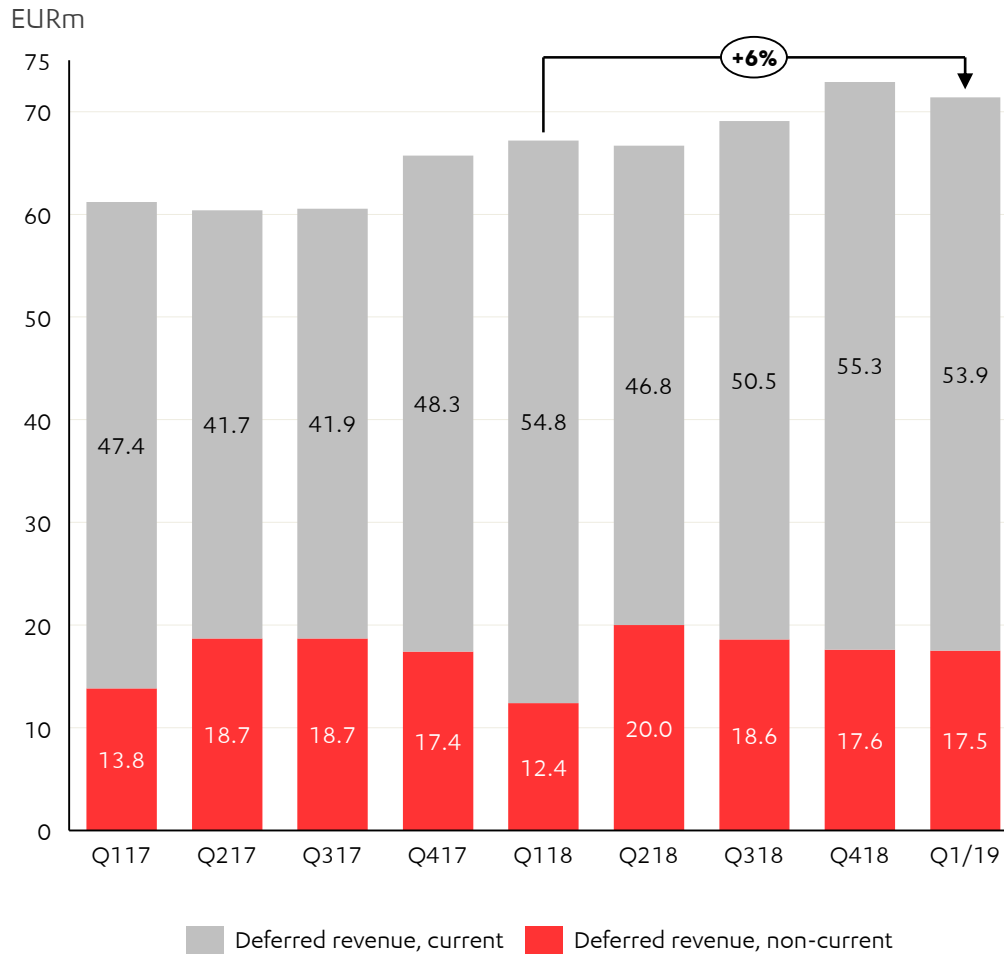
# OPERATING EXPENSES



## January-March

- Operating expenses excluding depreciation and amortization increased by EUR 3.2 million to 36.0 million (32.8m) due to the inclusion of MWR InfoSecurity in the company's financials.

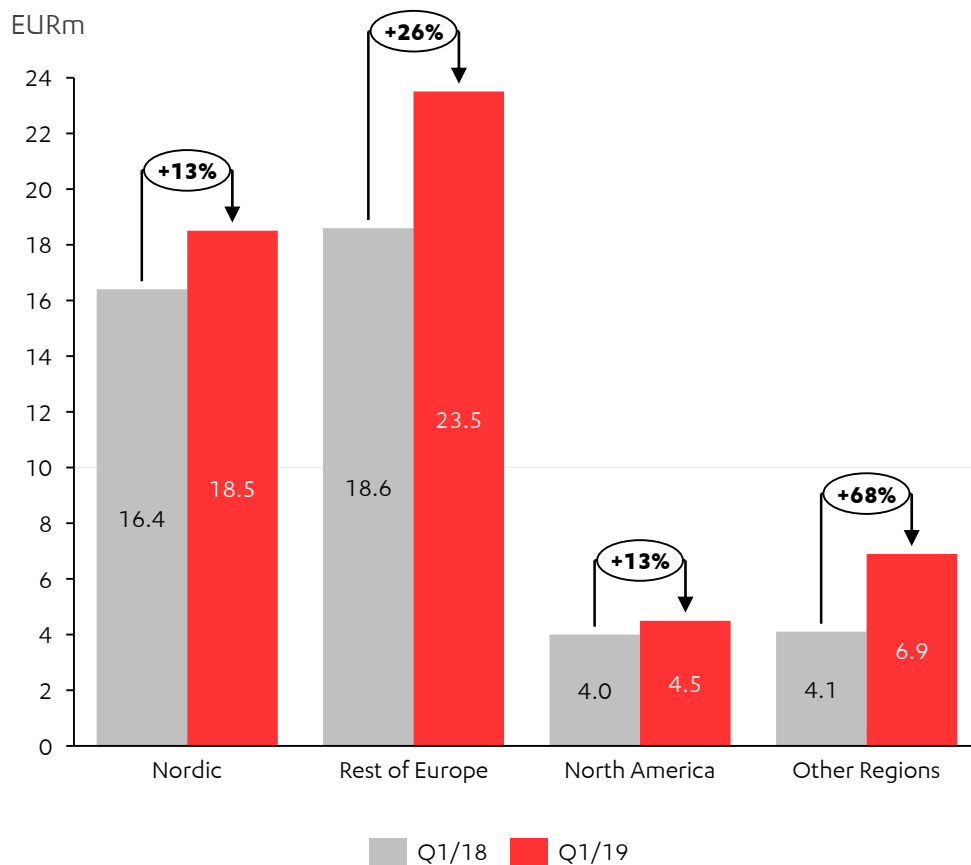
# DEFERRED REVENUE



## 31 March 2019

- Deferred revenue increased by 6% (year-on-year) to EUR 71.4 million (67.2m), driven by the inclusion of MWR InfoSecurity.

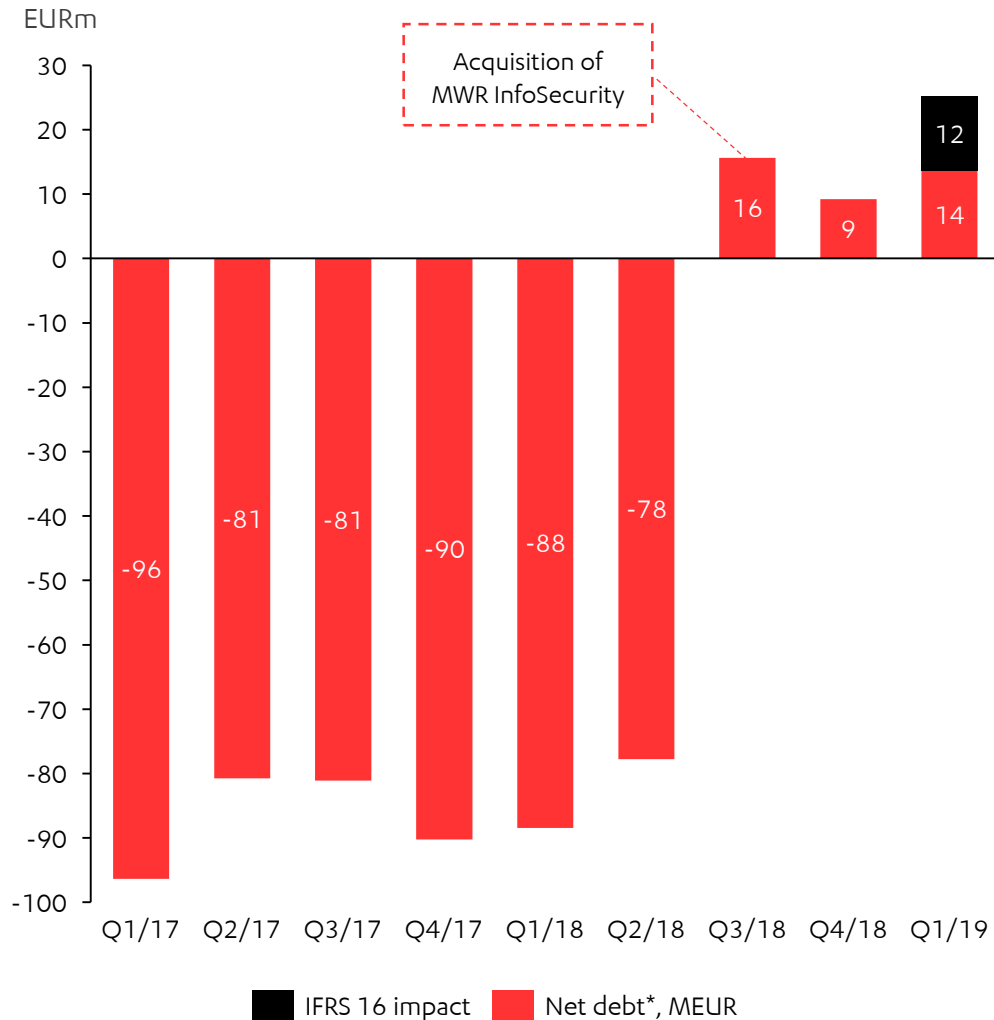
# REGIONAL REVENUE



## January-March

- Revenue increased in all regions
- In Rest of Europe, North America and in Other regions increases were driven by the increased contribution from MWR InfoSecurity

# NET DEBT

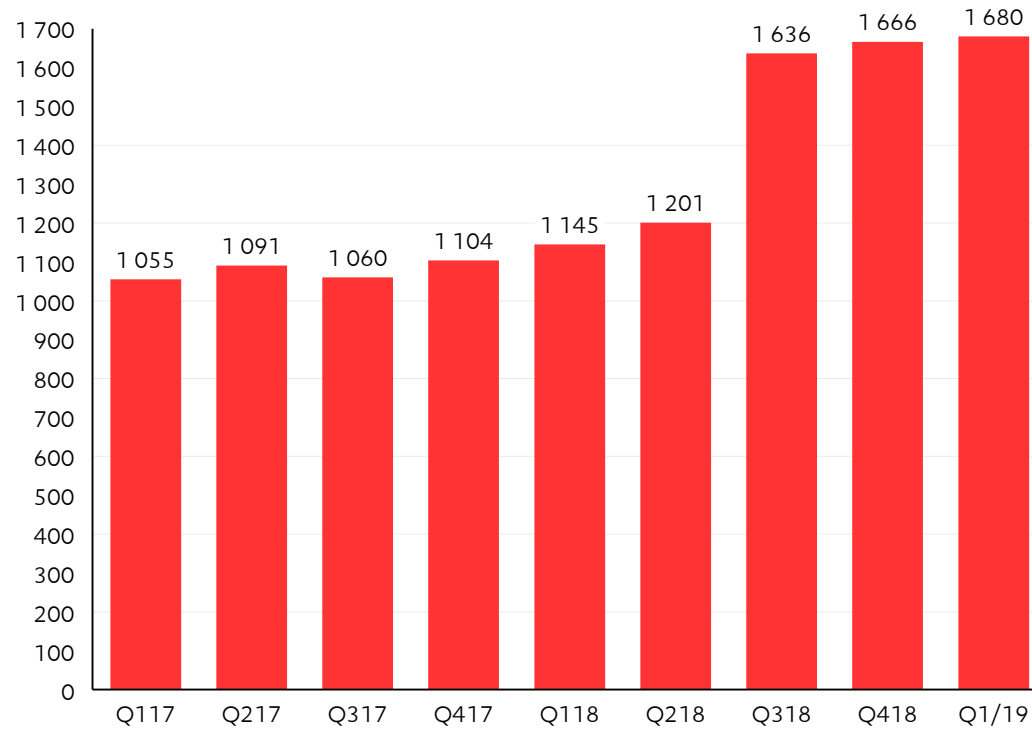


## January-March

- F-Secure's financial position remained solid
- The main driver behind the y-o-y change in net debt was the acquisition of MWR InfoSecurity in Q3/2018
  - Excluding the impact of IFRS 16 net debt was EUR 13.6 million
- Increase in interest bearing liabilities compared to previous year-end is due to adoption of IFRS 16 Leases -standard.
- Cash flow from operating activities before financial items and taxes was -0.3m (1.2m)
  - Cash flow decreased due to slower growth in deferred revenue
- Cash flow from operations was EUR -1.4 million (-0.3m)
  - IFRS 16 had a positive impact of EUR 1.5 million to operative cash flow
- Gearing ratio was 36.5% (123.1% negative)
  - Excluding the impact of IFRS 16 gearing ratio was 19.7%

# NUMBER OF PERSONNEL

Employees



## January-March

- At the end of the quarter, F-Secure had 1,680 employees (1,145)
- In Q3/18, the increase in personnel from the acquisition of MWR InfoSecurity was 391