COMPANY WEBCAST
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CM.com

H1 2023

Transcript Webcast

Tuesday, 25th July 2023

CM.com to become EBITDA positive over H2 2023

H1 2023 BUSINESS HIGHLIGHTS

(JEROEN VAN GLABBEEK, CEO)

Earlier today we published our results for the first half year of 2023, and I am pleased to present you with the highlights.

In the first 6 months of 2023, CM.com showed a good performance.

Adapting to the rapidly changing environment and at the same time meeting our guidance to become structurally EBITDA positive before restructuring charges in 2023.

As said during the Full Year 22 results, the next phase in our growth strategy is to focus on the optimization of the organization and to use our full potential.

Important focus points are:

- performance management,
- deployment of talents through our Talent Program,
- the alignment of sales and marketing efforts,
- and the integration of new technologies,

With this, CM.com realized an 8% growth in Gross Profit year over year.

Not only did we grow our Gross Profits, also our EBITDA grew strongly, as we tightened our grip on our OPEX development.

Looking at the markets in the first half of 2023, the macroeconomic circumstances remained challenging.

At the same time the world clearly sees a new and exciting era emerging with the almost instant adoption of Generative AI.

An era where CM.com sees ample opportunities as these new technological developments offer a great playing field for CM.com, now and in the near future.

Our clients are constantly looking for ways to engage better with their customer base.

Our integration of Artificial Intelligence technologies is aimed at helping them to achieve that improvement. As CM.com acquired several ventures in the field of AI in the past, we are excited about this development and look forward to staying at the forefront in bringing value-added propositions to our clients.

Recently, we also announced the release of our newly developed Generative AI applications in our Mobile Service Cloud and Conversational AI Cloud products.

A selective group of clients is now integrating it in their marketing- and sales setup.

And in the course of this year we expect the first results to show how powerful this transformation will be.

As said, the world still faces tough macro-economic developments with high inflation and the threat of a recession. This all affects the pace of growth in various markets as pricing starts to play a role in consumer appetite.

Such a change also impacted the priority of our clients, whose focus shifted towards client retention and cost optimization.

The products and services of CM.com aim to assist our clients to achieve their goals in connecting with their customers. CM.com supports its clients in all circumstances, as our SaaS solutions cater to both economic expansion and contraction.

The shift in client focus underlines the importance of partnerships. We now also have signed a partnership with Salesforce, in addition to partnerships with big tech companies such as Google and Microsoft.

As our software is being integrated into the backbone of the IT infrastructure of our clients, they can integrate other software tools more efficiently now.
That means they can improve their engagement with customers to grow their business.

To be able to stay at the forefront of all these developments, CM.com started to optimize and realign its organization in the summer of 2022.

Our foundation is ready and the next step in our growth strategy is to optimize our organization. Through the focus on profitable growth, cost control and data driven performance management, CM.com will be able to execute its growth strategy while safeguarding our financial base.

In the first 6 months of 2023, our number of FTE decreased to 881, which is below the FTE level a year ago. Our presence globally was also more aligned with our profitable growth focus. All to further strengthen our performance and reach our goals on the Path to Profitability.

CM.com wants to make sure all employees are enabled to reach their full potential within our firm. That is why we continued the Female Leadership sequences. We re-instated live quarterly updates to all our employees about developments in SaaS, CPaaS, Payments, Ticketing, and our Talent Programs. We fully recognize the importance of the right balance between capabilities and opportunities within our workforce, independent of gender, age, or origin.

Let’s take a closer look at the performance in the first 6 months of 2023.

In CPaaS the COVID-related tailwinds of 2022 show an unfavorable comparison base for 2023. CM.com managed to replace that flow with high margin business and sees an underlying trend with improving profitability.

We expect that trend to continue to support the performance in CPaaS in the remainder of the year.

In SaaS, CM.com’s software platform is being recognized as good added value to our clients. Our clients can swiftly implement the latest software tools to improve the engagement with their customers.
The knowledge and technology in AI that CM.com possesses through the acquisition of Building Blocks and CX Company, is expected to keep CM.com at the forefront of the developments in this field going forward.

In Payments, we made progress in the migration of our existing client base to the new platform, and we completed the setup with Visa and Mastercard. Our payment processing platform now offers competitive advantages for our clients. In the first 6 months of 2023, the performance of Payments improved year-over-year which confirms our growth strategy going forward.

In Ticketing, we grew our business as well, compared to the same period in 2022.

We sold more tickets via our platform than ever before and improved our gross profit and revenue.
For several years now, CM.com has seen new clients use more of our integrated products from the start and increase the number of products they use at a faster pace.

More clients embrace our vision as an integrated conversational commerce platform with multiple capabilities and solutions to address their various customer engagement needs. This is also typically reflected in the higher margin we make on new cohorts of clients and new products we launch in the countries in which we are present. For the same reasons, we added new AI and Voice capabilities to our mobile service cloud and conversational AI cloud. By doing so, we create a powerful and compelling offering for contact centers in which they can now combine all incoming communication channels in one SaaS-based solution.

For us, the past 3 years since listing have been a time of tremendous growth, not only by revenue and gross profit, but also by staff numbers and for our global organization as a whole. In 2023, CM.com has increased its focus on efficiency and started a transformation of revenue growth into profitable growth. That resulted in improving margins in the first 6 months of 2023, and a decrease in OPEX as we increased our grip on costs.

CM.com grew its gross profits in the first half of 2023, despite the comparison base with 2022, where we still had the tailwinds from Covid-related activities in the first quarter of 2022. We will continue to invest in profitable growth, by using our strengths and improving our efficiencies, as we expect to see a further growth in Gross Profits, while OPEX is expected to decrease further.
That is why we want to update our Outlook. We now expect to be structurally EBITDA positive, not only by the end of 2023, but already over the full second half of 2023.
Now, I will hand it over to our CFO, Jörg de Graaf. He will walk you through our financial performance over the first 6 months of 2023.
(Jörg de Graaf, CFO)
As mentioned by Jeroen in his opening remarks, we saw robust growth in gross profit and gross margins in the first two quarters of 2023.
The focus on profitable growth led to a Gross Profit in the first six months of 2023 of EUR38.2 million and a gross margin of 28%. The higher margin businesses Payments, SaaS, and Ticketing contributed more to our gross profit. At the same time COVID related impact on voice traffic still distorted the year over year comparison in CPaaS. For the first time since becoming a public company in the beginning of 2020 our operating expenses for the period came in lower than the same period of last year. Overall, we are pleased with the performance of CM.com in the first six months of 2023.
As announced by the end of last year, our financial goal is to become EBITDA- and Free Cash Flow Positive. Revenue is in that sense only an important driver for us to the extent that it drives gross profit and value growth. The KPI development reflects this change in focus. Our profitability grew as CM.com focused on selling more products with a higher margin. Which in turn led to a higher gross margin overall compared to 2022 over the same period, while our revenues remained stable.

Gross margins improved 2 percentage points to 28% due to the shift in product mix and volumes. In our CPaaS business CM.com has focused on replacing covid related Voice business with messaging business. We not only succeeded in doing so, but also protected our margins in CPaaS. Voice minutes tend to have higher margins, but as we focused on higher margins messaging business, we managed to keep our total CPaaS margins stable.

Overall, underlying business continued to perform well where double-digit growth was realized among Payment volumes, ARR, and Ticketing volumes Year-over-Year in the first 6 months of

2023. In CPaaS, volumes in messaging remained stable while focusing on value, and number of Voice minutes declined, impacted by the COVID comparison year-over-year.

Let's take a further look into each segment's performance.

H1 2023 HIGHLIGHTS PER SEGMENT

First, CPaaS. Our CPaaS business empowers organizations to notify and connect with their customers through a range of communication channels.

In the first 6 months of 2023, revenue and gross profit were 3% lower year-over-year due to the unfavourable comparison base caused by COVID, while margins remained stable following our focus on profitable growth.

Revenues were € 111.2 million, while gross profit reached € 17.3 million. Our focus on profitable growth meant we replaced higher margins Voice business by messaging volumes towards routes with better margins.

Underlying, SMS gross profit increased by more than 20% YoY, nearly fully compensating the impact of the fading out of covid related voice traffic, as the focus on generating volumes on more profitable routes started to bear fruit.

Our net dollar retention rate remained stable at 100%, where customer churn remained low at 5%. Important to point out here as well, is that our net dollar retention rate for messaging excluding voice minutes was 115%.

When we look at our volumes in CPaaS, we see a rather stable level in messaging volumes and a decline in Voice minutes year-over-year. That decline is the result of COVID related tailwinds fading out by the end of Q1 2022.

All in all, our business in CPaaS developed as expected, with the focus on profitable growth showing good results.

Turning to SaaS, we saw a consistent performance where both revenues and gross profits grew by 19% year-over-year and our ARR continues to grow further to €30.9 million. Our gross profit came in at €12.5 million and our revenue at €14 million. SaaS is core to our portfolio line up and we expect SaaS to contribute further to the improvement in profit growth to create a better balance with CPaaS.

In the first 6 months of 2023 we aligned our SaaS proposition with the markets we operate in and develop new, value-adding applications. Recently we launched a new set of tools which included Generative AI in our Mobile Service Cloud and Conversational AI Cloud applications. That new development is now being implemented with a selective group of clients and the first results of that are expected in the second half of 2023.

As our SaaS proposition caters to both economic growth and contraction, we see that momentum in SaaS remains good, although sales cycles tend to remain longer than in the past.

CM.com is adapting to this new situation to ensure our profitability continues to improve.

As a result, our annual recurring revenue increased to € 30.9 million in the first 6 months of 2023, up 12% year-over-year. So, although macro-economic circumstances remain challenging and longer sales cycles are still a fact, CM.com is adapting further to continue growing. As stated before, SaaS is expected to play a bigger role in the growth of our gross profits in the future.

In Payments, we saw a revenue increase of 22% to € 7.4 million while gross profit went up 12% to € 4 million. Processed payments rose by 28% year-over-year to just over € 1 billion in 2023 so far.

This increase was driven by the onboarding of high-volume customers, including the payment services we provide to the Dutch government that are now fully live. In the second quarter we also witnessed a pickup in credit card business, which is typically a higher margins business for us.

Furthermore, the increase of venue and event ticket sales, for which we also process payments, have added to the growth in this segment following the lifting of Covid restrictions. In the first 6 months of 2023, CM.com completed the building and certification of the new acquiring platform and began migrating customers onto it. We expect this to positively impact the customer experience and our take rate.

As the Payments platform is integrated with other segments within CM.com, we see that this adds to the growth of our payment volumes processed. Going forward we will continue to focus on the integration of the payment platform with the other segments within CM.com, cross sell our payment suite to existing customers and at the same time focus on generating profitable growth with new labels.

In Ticketing, CM.com managed to sell a record number of tickets, resulting in a 31% growth in gross profits year over year to EUR4.3 million and a 35% growth in revenues to EUR 4.7 million. This growth is a mix of a weak comparison base in Q1 2022 when covid restrictions were still in place, and a strong comparison base in Q2 when everything opened up again. In the second quarter of this year, we do see early signs of a consumer holding back on spending, with lower average attendance of events as a result.

The landmark deal with Amnesia is now underway and as we continue to receive interest from other foreign event organisations, CM.com remains committed to an international expansion in the Ticketing business. Our integrated offering with ticketing, payments and costumer engagement solutions in one makes us very competitive in this space.

OPEX AND EBITDA

In line with previous guidance, CM.com is optimizing its organisation and cost base. As we continued to execute on our Path to Profitability, we focused on profitable growth through improving margins and at the same time reduction of our operating cost. As a result, our headcount decline from its peak in Q3 2022 is continuing to accelerate with current FTEs at 881 being already at a lower level than our FTEs of 888 in June last year. As we are pressing on with our efficiency roadmap, based on performance and return on investment data, we expect headcount to come down further in the second half of the year. Even though we aim to realise the decline as much as possible through natural attrition, a level of involuntary departures is unavoidable. Furthermore, we have also decided to close our offices in Kenya and Mexico, with more offices under review. Those offices no longer meet our benchmark requirements. Therefore, we have taken an initial restructuring provision in H1. For H2 we expect to add to that provision, to achieve the cost level that will bring us sustainable positive EBITDA and cash flow.

In 2022 CM.com finalised the investments in tooling, licenses, and educational initiatives for our workforce to operate efficiently at the current scale. In 2023, these costs are behind us while we are reaping the benefits of the investments made in the past.

As a result, OPEX, corrected for one-offs, fell below prior year levels to € 41.9 million before restructuring costs, a major departure from OPEX developments each year since our listing early 2020. The pace at which the OPEX declines year over year is expected to accelerate in the remainder of 2023, reaching more than 10% decline for full year as we continue to lower our number of FTEs and other costs significantly.

As a result of continued gross profit growth with lower operating expenses, normalized EBITDA came in at minus €3.7 million for the first half year of 2023. That is in line with the guidance we gave during the first quarter trading update of EUR -3m to -5m and a substantial improvement compared to 2022.

After years of investing in our global organization, product offering, and team, we believe that we have built an organization that can shoulder more profitable growth with lower cost.

This brings us to our outlook, for which I'd like to hand back to our CEO Jeroen van Glabbeek.

OUTLOOK

(JEROEN VAN GLABBEEK, CEO)

Since listing, CM.com has managed to generate significant growth, as we executed on our growth strategy. In 2023 so far, CM.com managed to keep revenues stable and grow gross profits and gross margins while OPEX decreased. 2023 marks a year of transition, where we keep focusing on becoming structurally profitable and laying the foundation for further profitable growth in the future.

The market conditions in combination with the worldwide end of the pandemic, underlined the importance to be flexible and adapt our organization to the new world. A world that is now changing again due to the introduction of Generative Artificial Intelligence.

These are challenging and exciting developments, that underlines why our Path to Profitability is important. By deploying the capabilities of our organization more efficiently and keeping a tight control on our cost base, we expect to be able to accelerate our growth again in the future.

Our OPEX is decreasing, and our past acquisitions strengthen our ability to grow our pipelines and increase the conversion rate. Our pipeline is building well, and we are converting leads into client wins. That is why CM.com is convinced of being on the right track.

Looking further ahead, we will continue to strengthen our market leadership and innovative strength in conversational commerce.

Overseeing the targets as set out in our Path to Profitability, CM.com expects:

- normalized EBITDA before restructuring costs to be positive in the second half of 2023 (This was structurally positive in end 2023)
- OPEX to decrease by at least 10% year-over-year excluding restructuring cost for the full year.
- to be free cash flow positive in the course of the second half of 2024 (this was by the end of 2024)

CM.com is here to help organizations around the world to improve their communication with their clients and understand their needs.

We want to make every conversation count for our clients and their customers.
Helping our clients to retain their customers might be more relevant now than ever before.

Thank you for your attention. I would now like to hand it over to the operator for the Q&A session with the analysts. We look forward to your questions.

Questions and Answers

Serge Enneman (CM.com): Then we now start with our Q&A session. If you have a question, this is for the analysts, if you have a question, please raise your hand in the raise bar. I see the first questions by ING, Thymen. Please go ahead.

Thymen Rundberg (ING): Sure. Thank you. Good morning all. Thanks for taking my questions. Let me start off with my first question, and then I have another one after that. The first one is around growth. So, I know you guys no longer provide top-line growth but zooming in on gross profit growth in the first quarter this year, we saw around 6% gross profit growth, year-over-year. But adjusted for COVID-related business, the underlying growth should be higher, much closer to 20%. In the second quarter, gross profit grew by 10% year-over-year. And when you compare it to the first quarter, underlying growth is a little bit lower. Do you see the second quarter gross profit growth as a run rate for the rest of the year? So, in short, do you expect this underlying trend to continue for the rest of the year? I know that you saw some microeconomic headwinds as well, got more cost-focused customers, how should we look at it for Q3 and Q4? Thanks.

Serge Enneman (CM.com): Jeroen, would you like to take this question?

Jeroen van Glabbeek (CM.com): Yes. But it's also rather financial of course. We see growth continuing for the next half year. Especially the gross profit growth, indeed, We are less focusing now on revenue growth. We still had a slightly revenue growth in the first half year, but the focus indeed lies around gross profit growth. Last quarter, that was 11% up. And that was higher than the first quarter. That was 8% up. So, I think that that's trend is that gross profit will go up and that that's important in our path to profitability. I don't know if you have any more detail to share about this, Jorg?

Jorg de Graaf (CM.com): Yes, I think the second quarter was sort of the first real normalised year-over-year comparison base. So of course, profit growth is for us, obviously very important KPI right now. But I think what we've seen in the second quarter is a, well, let's say a reasonable proxy for our expected run rate.

Thymen Rundberg (ING): Thank you. Then I have a question on gross margins. So we've seen gross margin expansion of course due to non-CPaaS business giving faster than CPaaS. But also looking at the segments individually, we particularly see some good margin recovery, again, in CPaaS and SaaS on the back of price increases, I believe at the start of the year as well. But payments, gross margins are still a bit down year-over-year. I know you guys have the in-house processing platform that should lead to higher margins later this year. Could you elaborate a bit more on the gross margin trends that you expect to see per business unit going forward?

And then a quick one just to run the restructuring costs there. So that's something new, I believe, and just to clarify. You can also show in your presentation. So, is it just purely shutting down those two offices in Kenya and Mexico or is it also some more FD cuts in other locations in the world? And to what extent do you expect more restructuring in the rest of the year to get to your minus 10% OpEx growth for full year 2023? Thank you.

Serge Enneman (CM.com): Would you like to take this one Jorg, please?

Jorg de Graaf (CM.com): Yes. So, our gross margin development has indeed been doing well, positive as we expected. So it's a combination of basically a few deliberate strategies that we pursued. Strategy, which we basically already have in place for quite a while, is that we are focusing on changing the more balancing the mix of our portfolio between the different pillars of our group where the non-CPaaS parts are generating a higher margin. So, as they deliver larger contribution to our gross profit, we also expect them to drive our gross margin up for the company as a total. So that's one effect that is going to continue. That's a deliberate strategy that we have.

Then at the same time, within CPaaS right now, we have a very strong focus on profitability, so growth mostly due to routes that are performing better in terms of gross margin and gross profits. We've been quite successful in basically offsetting the impact of losing all the high margin voice traffic at the high margins that we had of replacing that with SMS business. I think I also mentioned in the video that underlying we see on SMS, we see about 20% gross profit increase year-over-year. So that's pretty good. So, we're focusing a lot on value over volume. At a point in time, obviously, that mix comes back where, we're just going to grow that volume also again but at a higher margin than in for example Q4 last year.

So, in that sense, we believe that in CPaaS we have gone a long way in improving the margins on SMS. As a result, you see a little bit of a drop off in volumes. But that's really the effect of value management instead of growth management just for the sake of growth.

The other items, the other group segments that we have SaaS margins; we do not expect to change them because they're just very high. They're 90% plus margin that's going to stay that way. Payments, we expect improvements in margins. We've taken a little bit of a margin squeeze there by the on-boarding of a couple of customers where we do different types of business, but also pre-empting already our new acquiring platform. So, as we're implementing that now, we're expecting that to have a positive impact on our gross margins in payments going forward.

And then our ticketing business is also a pretty stable high margin business. So, we expect those margins also to remain approximately as is. And in the mix of everything, we continue to push towards the 30% in the midterm. So that's one on the gross margin.

Then on your question on the restructuring cost, those include the cost that we are taking for restructurings are related to indeed decisions that we make on certain countries and the costs that are related to that. But also, if we decide to part ways with employees, whether it be performance related or efficiency related, we just want to do that in a nice way, in a good way. And that sometimes comes with termination cost. So those are included in the restructuring costs. So it's both personnel and the offices. And yes, we also expect more restructuring costs in the second half of the year. But we're not quantifying that right now.

Thymen Rundberg (ING): All right, perfect. That's very helpful. Thank you. I'll go back in line for now.

Serge Enneman (CM.com): Okay. Thank you very much for your question, Thymen. And next question is for ABN Amro, Wim Gille. Please go ahead, Wim.

Wim Gille (ABN Amro): Yes, a very good morning. First few questions on the payment business. Can you give us a bit of an indication or split the revenues between the software versus the TPV-related revenues, or alternatively, give us a bit of the take rate and how did this develop in the business? Also you have converted or you have launched the new platform. Are all the clients now moved to the new platform or is this still work in progress? And are you gradually churning through that process, feedback from clients on the new platform? And you've shown a bit of growth in the first half, but how should we look at the second half? And even moving into 2024, do you expect that growth to accelerate now that the new platform is live?

And last question around the payment business, the volumes that you're now processing through the PayPlaza software, how much is that today, and which portion has been migrated to your own payments' platform and which part of the volume is still processed by other merchant acquirers? That will be my first set of questions on the payment side.

Jeroen van Glabbeek (CM.com): All right. Shall I answer those questions, about payments?

Serge Enneman (CM.com): Yes, please.

Jeroen van Glabbeek (CM.com): Payment is a very attractive space to be in. All business in the world use payments to receive money into, to pay money. And this, we see increasingly migrating this to online payments of point of sale payments away from cash payments. We see a lot of opportunity to grow there, also together with the other products like SaaS, Ticketing, and Messaging. And this combination offers a very sometimes even unique proposition for our clients in terms of efficiency.

So, we see growth in payments and also expect growth for the future. Indeed, we have a mix in income in payments between, the take rate we have on the transactions that we process on the volume there and the software on the other side. So especially for point of sale devices pin terminals in which our clients pay a monthly SLA fee to maintain those fees. And that's also an interesting business. So indeed, the margin we make payments as a combination of take rate and SLA based fees. And that leads to a margin of now 54%, 55% in the first half year.

At the moment we don't disclose take rates exactly but what we've seen in terms of take rate is that we were anticipating for a while already on new volumes and better and lower costs by introducing our own in-house developed payment processing platform and our own direct acquiring licences. Now, acquiring licences, we have already received the for a while now from both Visa and MasterCard, but we want to run those acquiring licence on our own processing platform. And this has a lot of advantages for our clients, have better quality, better price. I feel you have a question?

Wim Gille (ABN AMRO): No, no. Okay. Sorry.

Jeroen van Glabbeek (CM.com): Conventional commerce where we combine messaging and payments and a lot of new things to do there and having our own direct, we own the channel, so to say with having our own process. It was quite unique, not that many companies have that Europe, it will give us a very good advantage in the market. Now, did we already move clients to the new payment system? Yes, we did, but only a few. So, if you look at the margin update, we expect this is to materialise in the next half year, and this didn't influence the last half year that much. So because the platform is running the first clients are live, we're now observing how everything goes, and everything goes well, and then ramping up the migration as we speak. So not many clients have moved yet but we're on the first of migrating there.

And then there was also a question about opportunities we have with PayPlaza and their volumes. So, when we acquired PayPlaza a few years ago already, they had thousands and thousands of terminals live in the field, payment terminals, but PayPlaza was not payment certified. So, all the payments on the terminals, PayPlaza sold in the last decade, were connected to other banks and acquiring platforms. And that's a huge opportunity, because there's a lot of volume in terms of money going through those terminals, which now go to other banks and acquirers. And indeed, we have the plans to migrate this traffic towards CM.com. And we started it already a year ago. We have a small portion of volume with it in the single-digit percent, I think, of the volume already migrated to CM platform. If that goes very well, this is very attractive for us but also for our clients.

Our clients have now one connection of one supplier for both the terminals online, offline payments, and the processing of payment. So that's very attractive compelling proposition for our clients which we are just starting to migrate this from. And this will give a lot of growth as we expect in the upcoming near future. We have already this money flows through our technology, and now we have to also migrate into our payment system. We see the same also with ticketing. With ticketing we also process a lot of money on behalf of our clients, but not all that money goes to our payment service provider yet. So there also there, we have room to grow with money we already have in our system but not in our books yet. So, we see a lot of opportunity there for further growth of payment in years to come.

Wim Gille (ODDO ABN BHF): Very good. And there's a bit of a follow up. I know that the benefits of having your own kind of processing in place can add about 20 BPS to the credit card volume that you're doing in terms of gross profit margin. What percentage of your total TPV is now credit cards versus iDEAL so that we can calculate what the added benefit is going into the second half?

Jeroen van Glabbeek (CM.com): Yes. Now, we are not disclosing all those details. We are strong in the Netherlands with payments and there is also a decent market share of iDEAL as a payment method. So, in the Netherlands, iDEAL is the first payment method and credit cards are smaller, if you look at the markets. If you look at all the other European countries where we also have some activities in payments, like in Spain and in Belgium, we see that credit cards are the first majority of the traffic. And then we have, of course, our client base where - where we also have like international clients, like the museums we have, like in Amsterdam, where we sell the tickets. Also, if we migrate more clients there to our own payment service provider then we will have also more international credit card traffic there.

So it's a growing number and there's a lot of opportunity there. And indeed, 20 basis points can be the uptake of margin because that's a standard fee we pay to banks at the moment to process our payments for us. But actually I expect the uptake will be a bit bigger even than 20 base points because we're also like a few hidden fees with some banks which we also get rid of. So, I think there is an opportunity to increase our margin and it's also substantial, but we have to wait and see a little bit to see how it materialises in our figures the next quarters.

Wim Gille (ODDO ABN BHF): Very good. Then I like to add a few follow-up questions, if I may, that is on the SaaS revenues. We've seen €14 million in revenues in the first half of 2023. that's only up €500,000 versus the second half of 2022. In addition to that, we see the ARR being relatively stable, also hardly moving. So, what drives the confidence that SaaS will continue to increase its contribution in the gross profit growth in the second half of this year and beyond. And a question on the ticketing side as well. If we look at the price per ticket, it's €0.55 per ticket in the first half which is stable compared to the first half 2022. Can you give a bit of a view on how you are looking at ticket pricing going forward?

Jeroen van Glabbeek (CM.com): It's nice that we have different business units within CM.com. They have all their own dynamics and, they are really intertwined. This is for our financial figures a nice to have separate discussions, we just discussed Payments, now we discuss SaaS.

We saw models grow there in the last six months compared to the half year before. I think that's a good achievement. If you look at the global markets for SaaS software, we are obviously in the business-to-business software as a service market, companies very specific focus on costs control in the last half year.

A lot of CFOs were looking at, also our CFO, I could say, how can we reduce cost for SaaS players? At the same time, we were still able to grow. I think that's a great achievement and very promising looking forward. I think most of the cost reduction in the market is behind us now, as we've seen that our software is so important and vital for our customers that they keep it and to continue to stay with us. So, I think that is great. And there's a good base going forward. Now, going forward we see a lot of opportunities with everything that is possible now with generative AI, which wasn't possible, let's say a half year or even a year ago.

So a lot of new possibilities there, a lot of traction with our clients. Nice conversations going on, live pilots going on, also good traction, nice pipeline. So, we feel bullish about SaaS possibilities for the future. Also, we have not only the possibilities we now have a generative AI but also there is a real need in the market now with our clients. Let's say we have a call centre, a contact centre, nowadays it's very hard to find all these people to man your contact centre. So, it's not only that our clients want to buy our new technology, but they also more or less need to buy our technology in order to retain their customers, to answer all the questions, to understand the questions, to understand the consumers, and generate the right answers.

So, we see a lot of opportunities to grow our ARR further over the next quarters to come. It's a great opportunity and we witnessed that the growth for the last half year was not the highest compared to the past, but I think without any acquisitions in this time, it was a great accomplishment, certainly if you look at the broader markets.

And then for Ticketing, Ticketing was the business which had a real impact from COVID. A lot of theatres closed; events cancelled. It was all closed during the lockdowns and reopened and rebounded last year with everybody wanted to go out and buy all the tickets available for every possible concert or event. At least it felt that way. This year, consumers feel little bit in the wallet, that they cannot buy everything, and they cannot go to every restaurant and every museum and every concert anymore. So they're a bit more precise in which ticket they buy and which not. So that's stabilising a little bit now.

We had a tremendous growth, of course, in ticketing, if you see how the market functioned in the last half year. So we have a growing base of customers there. We have a great product and a lot of organisers and specifically museums, events and attraction parks want to buy our software. There's so much growth possible there, that it's more a question of delivering the features the clients want than whether the market is there. The market is there, and we are growing again, growing very fast there. And also I think if you look at margins they're quite okay around 90% gross margins. So, it's a good business to be in.

Serge Enneman (CM.com): Thank you very much, Jeroen. Thank you for your question, Wim. We move on now to Kepler Cheuvreux, Tim Ehlers. Tim, please go ahead.

Tim Ehlers (Kepler Cheuvreux): Yes, good morning everyone. Thanks for taking my questions. One question regarding your working capital and your free cash flow development in general. Could you maybe elaborate a bit on the drivers behind your working capital? So we've seen that the payables decreased quite a bit while receivables also decreased. So, there's some offsetting effects. What can we expect going forward there?

Jorg de Graaf (CM.com): Thank you for the question. Let me elaborate a little bit. I think the first thing to keep in mind is that we basically have two sides of the working capital here. So one is that relates to sort of the restricted cash app, so where we collect on behalf of merchants and then pay out to merchants. That amount, that doesn't belong to us, we're sort of just a short-term custodian if you like, and then we pass it on. And then there's our own operating working capital that we actively manage.

Let's start first with the restricted one. There we've indeed seen a significant step down in the payables position, but that is immediately related to the cash position, because the cash that we hold is immediately also payable to the merchants who we owed that cash to. The volumes were higher towards the end last year, where mostly because of people wanting to finalise their study, settle their study debt, college debt.

So there was a high volume there. We collected a lot, and there was a payment sequence. So that meant we actually held a higher cash balance, but as a result, also a higher payables balance. So that's sort of settled right now to where we are today. It's not something we actively manage but we just collect it and then shortly thereafter, we just pay it out. So that's one significant step down in terms of the accounts payable position, if you look at it on a consolidated level.

Following that also in our own working capital drivers and positions, then obviously on the accounts receivable part there's, there's never an issue how fast we're invoicing it, because we always invoice either directly or we invoice ahead of time. So, the more SaaS business we do, the more we invoice ahead of time and the sooner we sort of collect.

The other one where we made a significant step forward is our trade receivable positions with our customers. We resolved a lot of friction in getting payments in on time. Certain customers in certain regions have very specific requirements before they will make the payments. We're working very closely and have been working with them very closely to facilitate that and settle on the process that works for both ends. As a result, we've seen a sizable improvement there in our accounts receivable position.

Then our trade receivable position on the other side was a little bit lower. That's a little bit timing, so when the payouts were timed, and also our overall cost level was a bit lower compared to Q4 of 2022. Both in cost of sale but also the lower OpEx at 2% made sure we had a lower cost base. As a result, our trade receivable position is lower than by the end of 2022.

Tim Ehlers (Kepler Cheuvreux): Okay. Clear. And any outlook regarding the working capital going forward, or what you would highlight within your cashflows that's important to come? So, you're guiding for the positive free cashflow at second half of 2024, anything in between that you would guide for or what you expect?

Jorg de Graaf (CM.com): The main driver of our cashflow outlook is obviously our EBITDA performance. If we deliver on our EBITDA performance as we expect, then positive cashflow is not far out. We are also, as you see, managing actively our capital expenditure. Which is another big item between EBITDA and our cash flow generation. In 2022, we made a lot of investments in tooling, in licences, but also in hardware and servers around the world. In 2023 we believe we can do with a lower level, structurally, also going forward. So, in that sense, we expect CapEx also to come in below what we've seen in in recent years. Those elements are the main items.

On top of that, the efforts that we started in the second half of 2022 to improve our working capital is as always work in progress. So, we keep working with both our customers and our vendors. The more SaaS business that we do, obviously the more upfront payments we'll be able to collect. That's also a driver of working capital improvement. I think the main one is EBITDA performance and lowering the CapEx. On top of that, we are continuously working to optimise our working capital, also going forward.

Tim Ehlers (Kepler Cheuvreux): Okay. Clear. Thanks very much. Maybe a bit of a odd question, but if I look at your geographical split and where you generate your revenues, what struck my eyes was that suddenly you report for the Seychelles. And also, if I look at the EMEA performance, for example, in CPaaS, we see a decline in The Netherlands, but overall, quite a significant improvement or growth of CPaaS for EMEA. I guess partially driven by the Seychelles. Can you maybe elaborate a bit where the business in the Seychelles is from, and why it grew or what new deal you struck there, maybe?

Jorg de Graaf (CM.com): Sure. So obviously we have customers around the world and what basically happened in the last year is that on top of the regular business, is that one of our larger customers was routed through their contracting entity at the Seychelles. We report on where the entity that we execute the contracted flow with, is located. And as a result, that part of our business grew to more than 10%. So that's why we have to disclose it. That's basically what we do, but it's just a very large global business that happens to have moved the flow for their contracting entity to the Seychelles.

It's not always necessarily a very stable business in terms of sometimes some customers do more business with us in a quarter, sometimes a little bit less. The push that we have in terms of profitability makes that mix a little bit more fluent. By and large, what we see is that we are, happy with the growth of our business around the world and the diversity that we try to achieve outside of our traditional home country to be a more diverse company. We're making progress there.

Tim Ehlers (Kepler Cheuvreux): Okay. Cool. Thanks. And then maybe just a follow up question regarding the geographical split. So in the Americas, for example, revenues dropped quite a bit. Is that also due to the volatility within CPaaS or is that ongoing trend that you witnessed there?

Jorg de Graaf (CM.com): It's exactly that. It's certainly related to volatility that may be temporary. But again, depends very much on where we believe we can find the most attractive business. And that's what we're going after.

Tim Ehlers (Kepler Cheuvreux): Okay. Clear. Thanks. And then one last question, to wrap it up, regarding the AI tool. I guess you haven't seen any impact there on the SaaS business yet. Do you expect that to materialise in the second half or maybe 2024 going forward?

Jeroen van Glabbeek (CM.com): I can answer that. Yes, this of course a very attractive proposition for our clients, and they really need to buy it, as I just explained it, and it's really integrated in our setup. It helps us to build pipelines with sales, to increase fees to clients, to retain customers, to renew them at a higher margin level. So there are a lot of advantages within SaaS to add these generative AI opportunities. And we also have a whole roadmap in front of us with new developers we also are working on at the moment. So it really makes our offering more compelling. And that, of course, will materialise, by our expectations, in also more revenue and margin for SaaS.

Because what we already see is that it adds value for our clients, it makes our clients more successful in better answering the question to the clients, understanding the customers better. In the future, also speaking more the sound of the customers, that the AI really has the right intonation. There are so many opportunities now, which we have with AI, which was just not possible half year ago or a year ago. That just makes our product more compelling and our clients more successful. And, as we've always seen in the past, if we add more client value for our clients then it will also translate into more revenue margin for CM.com.

Tim Ehlers (Kepler Cheuvreux): Okay. So that maybe an offering within SaaS that's a bit more resilient given the current changing circumstance and the reluctance to invest in general, and AI is maybe something that gives some tailwinds in that field?

Jeroen van Glabbeek (CM.com): Yes. Especially, but I just talked about contact centres. Imagine you have a contact centre you must man that with a lot of people, and you get more and more questions coming in, and you want to answer all this question because you want to maintain your client's consumers as a brand. And it's harder to find people to man a contact centre, more than ever before. If you then can automate these questions by the AI listening into the questions, analysing it, advising the agents, but also taking over conversations from the agents, and you can just run a contact centre with less and less employees than you used to as a client of CM.com.

That's then of course as a direct business value, if you have a contact centre first of like 40 people, and now you can manage with 30 people. If you add our software, the reduction in cost for your clients is so substantial that they see value in our software. And if you can translate value into our pricing then our revenue and margins will also go up. So, for us it's very attractive, but it is also successful, because we integrate it in our platform and we really believe in an integrated platform where our clients can do the server, they can do the sales, they can do the marketing. It's also integrated on the one data source that makes it so efficient and so compelling for our clients.

The downside maybe for integrating all efficiency in one platform, is that it's harder for us, of course, to really disclose per business line as if AI was like a separate business line. So the total portfolio of SaaS will grow, as I believe, to this new technologies and this new added value. But I don't expect you will see a separate business line anytime soon with AI. It is fully integrated in a SaaS portfolio.

Tim Ehlers (Kepler Cheuvreux): Okay. All right. Thanks a lot.

Serge Enneman (CM.com): Thank you for your questions. Then we have a follow-up question from Wim Gille, from ABN Amro. Please, Wim, go ahead.

Wim Gille (ODDO ABN BHF): Some bookkeeping questions. First as a follow up on the Seychelles discussion, is this one client moving their headquarters to the Seychelles or their billing entity to the Seychelles and hence you are now exceeding the 10% threshold, or is the complete €18 million related to one client only? So that would be the first question.

And maybe as a follow up, how big is the biggest client for CM.com as percentage of total revenues? I think that's the first one. Second follow up question would be on the gross profit growth in messaging. You kind of already hinted towards it, but obviously you did a great job there. Is this sustainable or would you argue that competitive pressure would actually force you to kind of be more competitive going forward, again, and hence the gross profit margin in the CPaaS business go down again?

And the last question as a follow-up is looking at the headcount. Obviously, if the business starts to show significant growth again, the answer to this question might change, but if you look at the current size of the business, what would be the appropriate headcount? And when would you basically start to contemplate and start to replace the natural attrition that you have in the business?

Serge Enneman (CM.com): Jorg, would you like to take these questions?

Jorg de Graaf (CM.com): Yes. So, obviously we're not disclosing information on individual customer level. That's a little bit difficult, but what I can say is that the change that triggered the fact that we are now specifically disclosing Seychelles is, as I mentioned, the changing of billing entity of an individual customer to that location, which brought us over the threshold. So that's that one. The other one is the gross profit growth in messaging. And there's gross profit growth and there's gross margin growth, of course, as two different elements. I think we are putting a lot of effort right now into bringing that up quite successfully. So that's good.

Are we able to keep that up? Yes, we can for a bit, but it's a volatile market, so it's very hard to mention it straight away. But what we do expect is that we are able to continue our gross profit in this sector and in the messaging business going forward, which is what we have been quite successful in right now. We've practically fully replaced the whole contribution of the voice part, which is very high margin business that kind of went away. We've been successful in that effort, and we will continue to push on that and are also comfortable that we're able to continue to grow gross profit in our SMS and our CPaaS business.

And then your question related to our appropriate headcount level and what happens if we grow again, et cetera? I think what we're doing right now is, we're just sort of rightsizing our company to what fits us right now. So we're now at a stage where we have a lot of data. We see where things are paying off or things are not paying off that much. We have now the ability and also sort of the headroom to optimise our processes. If you're growing by 60%, 70% a year, then everything goes into making that happen. Right now, at the current growth rates that we have, we have the room to optimise the processes that we have.

We have implemented a lot of tooling in the last year. As you know, that helps improvement of efficiency. People can do more. An individual can do more than they could do a year, or a year-and-a-half ago. That gets us to an optimum size of our business, based on where we are right now. We don't have a specific target headcount to announce here, but we do expect cost to come down more, also headcount to come down a bit more, but certainly cost to come down quite significantly. The outlook that we provided is that we expect OpEx in Euro values, excluding the restriction cost, to be at minus 10% versus last year. If you know that we're at minus 2% for the first half of the year, that really means a rapid acceleration in year-over-year cost decline. And that's what we have plans for, which we are executing on, and are making very good progress on. That's why we're also comfortable making the statements on EBITDA.

When we're done with doing that and we're growing our business, then, very specifically in pockets where we want to invest in growth, we will continue to invest in growth because ultimately, we are a growth company. We are focused on growing our business bigger. But now the focus is on rightsizing first and then we move on.

Serge Enneman (CM.com): Thank you for your questions, Wim. If there are no further follow-up questions, then this would conclude our call. Our next release will be the third quarter trading update, which will be released on 26 October 2023. There will be no webcast for that release.

For all other details and our full financial calendar, please visit our investor relations website on CM.com. Operator, you may now end this call.

[END OF TRANSCRIPT]