CM.com FY 2023 Results

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Serge Enneman: Good morning, all, and welcome to the full year 2023 earnings webcast of CM.com. My name is Serge Enneman, Head of Investor Relations, and I will coordinate this website on behalf of CM.com.

As you probably are aware, we will first share our video summarising the key highlights of 2023, after which we will have a live Q&A session.

Sitting here next to me are Jeroen van Glabbeek, CEO, and co-Founder of CM.com; and Jörg de Graaf, CFO of CM.com. They will present the highlights in the upcoming video, and later answer the questions of the analysts present in this webcast.

Before we start the video, please be reminded of the forward-looking statements for this presentation. If you choose to continue and watch the video, you are bound by these statements.

With this out of the way, I would now like to ask the operator to start the video.

Jeroen van Glabbeek: Earlier today we published our results for the full year of 2023, and I am pleased to present you the highlights.

In 2023, CM.com improved its gross profit and gross margins to record levels, while at the same time we decreased OPEX substantially, which led to a positive EBITDA over the second half of the year. 2023 was a year of optimisation and integration, to prepare the company for the next phase of profitable growth and the implementation of new business units.

Looking back at 2023, we see that the execution of our growth plan has gone according to plan. Since listing, CM.com has experienced three years of tremendous growth. In 2023, we delivered on our guidance as we successfully executed on our Path to Profitability.

In order to enable a better focus on performance and profitability, we decided to organise our company into four separate business units around our four existing segments. This organisational change was needed to be able to better deploy all the talents within our organisation and serve our clients better. This way our foundation will be ready for the next years of growth.

The four business units are now called: Connect, which was previously CPaaS; Engage, which was previously SaaS; PAY, which was previously Payments; and Live, previously Ticketing.

Next to that, CM.com continued to invest in talent management with the CMBA courses for Rising Stars and Future Leaders and with Female Leadership sequences. We fully recognise the importance of the right balance between capabilities and opportunities for our employees, independent of gender, age, or origin.

Last year, society embraced Generative AI at an unprecedented pace, putting artificial intelligence back on the agenda of many industries and investors. CM.com anticipated the rise of AI as a promising technology already for a while. Society is becoming more tech-savvy, and consumers discover more and more possibilities to use this technology. That is exactly where CM.com adds value through the delivery of unique technologies and applications.

In CPaaS, we shifted our focus to value over volume in the course of 2023. The focus on more value led to higher margins and better gross profits compared to 2022. The defocus on more Volume had a negative impact on our topline development, as expected.

Interesting to note is that traffic via Over-The-Top channels, and most notably WhatsApp, really took off in 2023. This generated significant volumes in our messages segment. It displays the transition we are in of moving to richer messaging communication between organisations and consumers. This is driven by sophisticated AI software and including amongst others integrated payment solution.

This is what CM.com has invested in for years. We are now able to deliver a seamless experience to our customers, and completely running it on our own platform. In SaaS, we invested in improving our software platform to be able to integrate more communication channels. We also launched our Generative AI proposition in the second half of the year. That further improved momentum in SaaS, especially towards the end of the fourth quarter. This will keep CM.com at the forefront for the next level of customer engagement and personalisation of services.

We focus on two specific developments within the AI domain: Conversational AI and Consumer AI. Last year we successfully introduced many Conversational AI based innovations in the Contact Centre-as-a-Service space. This year we will focus on introducing multiple Consumer AI solutions in the Marketing space, all to enable our customers to really personalise their communication towards their audiences.

In Payments, we further developed our proposition in 2023. We are now offering a complete and compelling product portfolio to our existing and new customers. As we developed online presence and possibilities of our other products, such as Ticketing, payment products were more and more included as an additional feature in the total offering of CM.com. This resulted in record volumes processed and in strong growth in gross profits and revenues.

The most remarkable fact of the Pay business unit is that we rolled out our in-house developed payment processing solution directly connected to credit card schemes like Mastercard and VISA. This is an extraordinary accomplishment in the payment space and will give us many advantages in the future in terms of faster innovation at lower costs.

In Ticketing, growth remained strong after the post COVID rebound in 2022, with margins remaining well above 90%. As the large pipeline of festivals and events kept on expanding and new deals for 2024 already have been signed, we expect 2024 to be another great year for Ticketing.

Personally, I believe that our experience, knowledge and solutions around mobile messaging, software and payments, will give us a great advantage in the live entertainment markets. For 2024 we are off to a good start. We had a strong finish in December, which gave us a good start into the new year in, especially SaaS and Payments. Pipeline continues to build well, as we see new clients enter and existing clients renew contracts or expand contracts.

Product developments remain a key item in further growing our business, focusing more on integrated offerings, supported by GenAI applications.

CM.com remains focused on growing our business from cross and upselling, faster commercial paybacks and operating leverage. We reiterate our goal of reaching a positive free cash flow by the second half of 2024. Our focus continues to be on growing our gross profit and gross margins.

Now I would like to hand over to our CFO, Jörg de Graaf, who will zoom in on our performance of 2023.

Jörg de Graaf: As mentioned by Jeroen in his opening remarks, we saw significant growth in gross profit and gross margins, as we shifted our focus in 2023 to value growth over volume growth.

Our higher margin business, being SaaS, Payments, and Ticketing all grew double digit year-over-year, with Ticketing being the outperformer with 28% growth in gross profit. Those three segments have consistently grown in gross profit contribution and now account for 56% of our total gross profit.

In CPaaS, our margins improved significantly compared to 2022 and gross profit grew as well. The focus on value over volumes resulted in a rationalisation of our topline and an improvement of our bottom line.

In the course of 2024, we expect the impact on revenue by the shift of focus to value to be fully absorbed while the positive growth trend in gross profit continues. The performance in 2023 confirms that our focus on high value business and the shift in product mix has improved our business position and our ability to grow earnings organically after the strong momentum during COVID.

Total gross profit was up 9% to €78.5 million in 2023, on the back of profit growth across all our business segments and strong contributions from SaaS and Ticketing in particular. Our gross margin improved from 25.4% in 2022 to 29.5% overall in 2023, as margins consistently remained above 30% in the second half of the year.

Let’s now zoom in on the 2023 highlights per segment.

First, CPaaS. Our CPaaS business empowers organisations to notify and connect with their customers through a range of communication channels. Results of CPaaS were impacted by several developments. First of all, the 2022 comparison base included COVID in the first quarter of 2022. Secondly, we changed our focus to value over volume, which led us to change the commercial strategy from growing revenue to growing gross profit.

As a result, we improved underlying margins compared to 2022 and increase our gross profit despite revenues declining in 2023. This adjustment in commercial strategy was implemented in the first half of the year, so by the end of the first half year of 2024, we expect to be able to show underlying growth in CPaaS.

In 2023, our CPaaS gross profit grew by 1% year-over-year to €34.9 million. Gross margins improved overall to 16.5% from 14.7% in 2022, supported by especially a good performance in the second half of 2023. Our customer churn remained low at 6% at the end of 2023.

Looking at the market trends. In 2023, CPaaS started to move more into rich text applications, where multiple services can be offered in one application. Ever since the COVID pandemic, society has adopted a more digital way of connecting and communicating. That trend continued to evolve as we noticed in 2023 that the share of WhatsApp in our overall messaging total, was increasing rapidly.

Going forward, we see great opportunities to deliver our integrated solution of rich messaging channels, powered by our Software and AI capabilities and in-conversation transactions on our own payment platform.

Turning to SaaS, you can see that demand for our cloud solutions has continued to grow, with gross profit up 15% to €25.6 million and gross margins improving to 88.7%. As we introduced our Generative AI proposition during the second half of 2023, we witnessed strong interest from our existing client base and engaged with many new clients to discuss our software proposition, starting with contact centres in especially the Travel and E-commerce sector.

This is set to grow further across more sectors in 2024. Our annual recurring revenue continued to grow further in 2023, reaching €31.8 million by the end of the year, up 9% versus 2022. Given the strong interest in our Generative AI proposition so far, something we also noted in the order intake development at the end of the fourth quarter, we expect the performance of our new business unit CM Engage to evolve further and our annual recurring revenue to continue its record of growth in 2024.

In Payments, our gross profit grew 12% compared to 2022 to €8.3 million. The total payment volumes processed reached record highs, helped by a strong finish in the fourth quarter. This can be explained by several developments throughout 2023.

First of all we saw good momentum in other segments within CM.com that offer integrated products and services to clients, including Payments. Second of all, we further strengthened the relationship with the Dutch government, especially visible in the fourth quarter of 2023. And third of all, we migrated customers onto our payment platform, as we are now able to offer an acquiring and processing platform for clients in all our segments.

Processed payments came in at €2.5 billion in 2023, an increase of 24%. This supported the financial performance of our Payments segment in 2023. Rebranded as our new business unit CM Pay in 2024, we expect to further build out our payments offering, stand alone and in combination with the other business units.

A segment that performs well in combination with our Payment services is Ticketing. Ever since COVID ended, there has been a consistent year-over-year growth in events and hence in tickets sold. In 2023, Ticketing continued its record-breaking performance. Gross profit grew 29% year-over-year to €9.7 million and gross margins improved to 94.2% from 93% in 2022, with 2022 actually already being a very strong year for Ticketing.

So, after the first wave of events and the momentum that it brought in 2022, CM.com was able to further build on that in 2023. We did this by continuously improving the solutions we offer and streamlining our delivery processes, leading to more satisfied customers, increased value of our products and efficiency gains. It resulted in even better performance than before.

Going forward, CM.com sees ample opportunities to further grow our presence in the events and museums business, especially internationally.

With our CM Live business unit in particular, we will be able to combine capabilities in our company to build out our unique customer engagement proposition going forward. To illustrate, the first event organisers are already exploring the possibilities together with CM.com what Generative AI could mean for them and their business.

Now that we have reviewed the highlights per segment, lets now zoom in on our OPEX and EBITDA development in 2023.

As stated throughout 2023, CM.com has been working on improving its efficiency, lowering its OPEX and turning EBITDA positive. After three years of strong growth, we have optimised our organisation and cost base in 2023. The approach we have taken was very data-driven, based on return-on-investment calculations and process re-engineering. As much as possible we have used natural attrition to reduce headcount, but we have also taken the decision to close our local offices in five countries we were active in, being Kenya, Mexico, Kazakhstan, Turkey and Brazil.

In addition, non-personnel related expenses have been reduced significantly by focusing on what adds most value for our company. As CM.com always faces natural attrition throughout the year, we used this trend to slim down the organisation, filter out flaws in our setup and position the organisation for the transition into business units.

At the end of 2023, our headcount has come down from 930 FTE by the end of 2022 to 720 FTE by the end of last year, a reduction of 23% and total OPEX fell by 17% year-over-year to €81.3 million. In the second half of 2023, our operating expenses were even down by more than 25% versus the same period last year, as guided during the half year results over 2023.

As a result, our normalised EBITDA stood at minus €0.9 million for the full year. That means that in the second half of 2023, our normalised EBITDA was €2.8 million positive. So consistent with our guidance, we turned EBITDA positive, and we will continue to build on that momentum into 2024.

In 2023, CM.com has delivered on what was promised: continued gross profit growth, lower OPEX and positive EBITDA on a normalised level in the second half of the year. In doing so, we reduced our net cash consumption by about 50% for the third semester in a row, getting closer to our next milestone of becoming free cash flow positive. On the back of this solid financial progress and positive EBITDA performance, we have decided to strengthen our financial position and flexibility by arranging a revolving credit facility of €15 million with HSBC, which is intended to be a standby facility.

In 2024, our focus will continue to be on growing our business, by delivering our customers the products and services that help them be successful, coupled with agility and a strong focus on efficiency and cost levels. In doing so, we have taken the next step in our company's evolution by organising ourselves in four business units: Connect, Engage, Pay and Live. Each with their own management team, and with full accountability for the commercial, operational, and financial performance of their units.

But for more about our 2024 outlook, I now hand back over to Jeroen.

Jeroen van Glabbeek: 2023 was a year where performance and alignment were central topics within CM.com. After years of fast growth, we took the next step in our growth strategy, which was to improve our organisational structure and performance.

As markets changed, we want to be able to generate cash and grow our business independently. Our gross profits and gross margins improved as we enhanced our product suite and increased our presence in the higher margin business. As we focused on the execution of our growth strategy, CM.com managed to generate a 9% gross profit growth in 2023, with the last quarter even showing a 17% gross profit growth.

Of course, this could only be realised by the people we employ and the systems we develop. In 2024, we will focus on improved profitability as a result of further gross profit expansion and a lower OPEX. The OPEX development is expected to further trend down in the first half of 2024 mainly because of the annualization effect of the measures we already took in 2023.

All this will support our goal to be free cash flow positive by the second half of 2024. Looking further ahead, market research suggests that our markets will continue to grow bigger in all of our business units. Most important aspects of the CPaaS market remain security, the ability to offer a one-stop-shop for all products to improve customer experience and a strong reconciliation of services, requirements that are at the core of our business model.

CM.com will continue to strengthen its market leadership in conversational commerce. We are here to help organisations around the world to learn how to improve their communication with their clients and to grow their customer engagement. The combined strength of the four business units creates what we call "The value of One". And that is the title of our annual report in 2023.

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: Now that the video has ended, we would like to open the lines for the analysts to answer any questions they may have. Wim Gille of ABN AMRO, please unmute your phone and start your questions, please.

Wim Gille (ABN AMRO): Yes, very good. Can you hear me?

Serge Enneman: Yes, we can.

Wim Gille: Perfect. I basically have three questions to start off with. First of all, there was an article in the FD this morning where ABN AMRO struck a deal with Buckaroo, whereby Buckaroo is taking up some of the payment activities for SMEs in the Netherlands. So, what do you think about this trend, and how is CM.com positioning itself to potentially benefit from this trend?

Second question would be on the ARR and the SaaS business specifically. I think a lot is happening there underneath the hood but so far, it's not really showing up in the revenues and gross profit growth, as I think you should in terms of getting connection with Conversational AI, Generative AI, etc. So, I'm kind of looking for the inflection point here on when the SaaS revenues are really starting to accelerate, given all the product launches that you've done?

And in relation to that, if I look at your ARR at the first half stage, it was already €13.5 million. Your SaaS revenues in the second half were only €14 million, so that's below trend there. So how should we look at this ARR number going forward? And is it any indication for your future revenue growth in 2024?

And then lastly, on the Payments side again, TPV in the fourth quarter grew quite strongly with almost 29%. However, this did not fully translate into the same level of revenue and gross profit growth. Now, obviously we have two moving parts here. So, one is obviously the Dutch government, which is a processing only client and enhances lower margins. On the other hand, you also have the launch of your own acquiring platform, which basically should lift the margins. So, can you walk us through the dynamics here, and also a bit of a sneak preview into 2024 what we should be expecting in terms of the margins in Payments? Thanks.

Jeroen van Glabbeek: Shall I start with the first question around Payments and the announcement of Buckaroo this morning? Yes, great news. Great trend as well. You see that there is markets for mid-size enterprises in the payments industry, and they are – there are a lot of dynamics there. And I think that we will benefit from that in the future as well by attracting those clients.

The specific case where you're referring to between ABN and Buckaroo, it's about the point-of-sale terminals and the point-of-sale payments in retail chains. First, that's positive news because we are a technical supplier of Buckaroo for the key loading of their PIN terminal. So, we will also benefit from this deal. All the PIN terminals will be key loaded with our CM technology. So that's a great deal to be part of in the background.

And further it's a trend, that clients are shifting between different payment search providers within the payment space. And we are prepared for that. We were for that as well with KYC tools, with acquiring systems, with processing systems. So now, we are also ready to take on more clients in the future. So, it's good to see this market dynamics in the markets. So that's what we can say about this deal we heard about this morning.

Serge Enneman: Then perhaps on the Payments question by Wim on the TPV.

Jeroen van Glabbeek: Onto your third question then, and then we go back to the second question with Jörg, I think. So, TPV growth, we processed more volumes last quarter than we ever did before in a quarter. And that did translate in a growth of revenue and margin, but not in the same amount.

The main reason for that is that the KPI, the processed volume is around how many euros we process on our payment platform, but our margin is sometimes also related to the number of transactions we do. And especially in the Netherlands, we get paid a fixed fee per transaction, whether it is €1 we process or €100 or €1,000. It's always the same fee we get, connected with IDEAL and with the PIN payments, the point-of-sale payments in the Netherlands. And that's why you don't always see a direct connection between the KPI processed volume and the revenues we see in payments.

But in general, growing volumes is a good indicator for growing revenues and margins in the future. And that relates to the other point on acquiring - we process payments to Visa and MasterCard more and more directly. We're ramping that up. The processing platform was released last year. And for MasterCard, we transitioned all our traffic in the course of last year. For Visa, we are really ramping it up as we speak. And that will increase our margins with 10 to 20 basis points, because we get out the middleman, so to say. We don't have to hire all our processes in between us and the credit card schemes anymore. So, we expect to see higher margins in payments as of this quarter in the future.

Jörg de Graaf: Okay Wim, let me answer the ARR and SaaS questions. So indeed, as you mentioned, a lot is going on in our SaaS unit. Saas is becoming more central to what we do as a company. In September, we launched sort of this beta test with customers on our Generative

AI. Now it's really live also for other customers. So that resulted amongst others in a very strong order intake that we've seen in the fourth quarter.

Well, to have that materialised into ARR and revenue, obviously that takes a little bit of time, so that's something that you can expect going forward to see. At the same time, we still grew our gross profit on SaaS by 15%. So, in itself, that's quite decent. Obviously, we are always a very ambitious company. So, we try to get that up more and I think we have the right proposition for that, also as we expand the integration of our AI capabilities into more of our products, which is currently happening, and about to become live.

Related to ARR, I think it's good to see that ARR is sort of a snapshot in time, which only relates to the recurring part of business, whereas the total SaaS revenue also has some more transactional elements in it. So, for instance, Sign or identification services. Those are more transactional; those are not reflected in there.

At the same time, what we have seen in the second half of this year, but I think that's more a macroeconomic thing that we've seen all around us, is that post COVID certain companies are struggling a little. And in that sense, some of our customers also have been struggling a bit, and that has had a little bit of impact in the second half of the year. That sort of has an impact, obviously, on the ARR as it is a snapshot. Our order intake is however very strong. So that is good. So, in that sense, we're quite bullish about the outlook for our SaaS business.

Serge Enneman: Okay. Thank you very much, Wim. Then I would like to hand over to Thymen for his question. Thymen, please unmute your phone and go ahead.

Thymen Rundberg (ING): Thanks, Serge. Thanks for taking my questions. A few from my side. The first one, kind of high level on gross profit growth. So gross profit growth was 9% year-on-year in 2023, 15% in 2022. So, we see some decelerating growth there. I understand that in 2023, we also did see some macroeconomic headwinds. And then you mentioned in your outlook that you expect that gross profit will continue to grow in 2024, but I was wondering if you could give a bit more colour on this. So, 9% in 2023, is that the rate we could expect going forward?

The second question is on OPEX in 2023. OPEX came down to €80 million. Cost control was quite strong. You mentioned that you will continue to have good control over OPEX in 2024, but again, to your outlook in gross profits, it's not very specific. Obviously, the FTE base will be much lower. In your presentation, you also mentioned that it will trend down in the first half of 2024. But again, we appreciate a bit more colour on what we can expect for the full year. What can we expect in the second half of 2024.

And my last question is about the balance sheet. Good that you signed your RCF. Wondering if you could give maybe some background on what this will do for the flexibility of your balance sheet? Thank you.

Jörg de Graaf: Yes. Good questions for us. Thymen, let me answer. Thanks for your questions. So, for us as we are focusing really on value growth versus volume growth, growth profit is the name of the game for us. I think we have put a lot of effort in 2023 in re-adjusting our commercial strategy, but also had to label it the Mark Zuckerberg way, “the year of efficiency” in terms of our organisation.

In 2024, it's really all about our products, our offerings to our customers, again, aimed at growing the value, growing our gross profit. We don't give a very specific guidance of it, but I think that our ambition always is to be a double-digit growth company and that sort of in the mid-term what we are certainly aiming for. So therefore, we expect gross profit to be the main focus for us going forward, driven by new customers, new business, not by shrinking our business further, but really by growing our business.

And the same basically applies to OPEX. I think we've made huge steps forward there in rationalising our organisation. Also, sometimes making painful decisions like pulling back out of some countries where there may still be opportunities, but not for us at this moment in time.

Right now, we're at a place where we're actually quite happy with the level of our cost base, that we think is sustainable. That means that we'll have an annualization effect. As you know that for the second half of the year, our year-over-year cost went down by more than 25%. So, if you annualise that, it means another significant step down in OPEX in full year results for 2024.

On top of that, we will remain very cost conscious. We will keep optimising our business, but we don't expect major new restructurings upcoming. Obviously those two combined will lead to a continued growth in EBITDA, and therefore also the tipping point in free cash flow in the second half of the year, which brings me to the RCF question that you have. I think also there, it's very suitable for where we are today, as a company. We're now at a stage where we are a positive EBITDA company again and growing, that brings us in that sense to a new level of maturity that also has standard credit standby facilities as part of your financial framework.

For us, that's the same thing. We don't anticipate on using the facility. However, it does give us flexibility, if opportunities pop up, if there are certain working capital investments that we think we need to make, then at least we have that flexibility. But it's really a standby facility that suits the financial profile of where we are today.

Thymen: Alright, very clear. Thank you. And any covenants that you can speak of, because there were none described in the press release.

Jörg de Graaf: No, we don't have any real restrictive covenants. Obviously, it's always related on to the business, the business outlook but there's nothing restrictive there for us. Otherwise, we also wouldn't do it because we don't have to, but it's just part of creating additional flexibility. We don't have any restrictive conditions that are worth mentioning, I think.

Thymen: Alright, clear. Thank you very much.

Serge Enneman: Okay. Thank you, Thymen, for your questions. Robert of Kepler Cheuvreux, please unmute your phone and ask your question. Thank you.

Robert Vink (Kepler Cheuvreux): Yes, thank you for taking the time. Some questions from my side. So recently we've seen a competitor of yours in Netherlands announced significant cut in SMS prices also saying they're taking the market to zero, calling CPaaS commoditised. So, I'm wondering, have you seen any impact from this? Could you maybe provide us with some insights on how you're thinking about this?

Second question. So financial media reported that Jeroen said last year, that CM.com is six to nine months ahead of competition in GenAI. I think he also said that you can do things the competition cannot do. I mean, these are of course big statements considering there are hyperscalers investing more to your market cap easily on the annual base in GenAI. So maybe you could elaborate on your reasoning behind this.

Third question. You guys process quite a lot of iDEAL, I can imagine. EPI acquired iDEAL. And EPI been launched payment methods in other European countries. Is this something you guys are looking at? I can imagine this is relevant for merchants in other European countries. Have you seen any impact from this?

And maybe as a fourth question. In the press release, you highlight that the CTO is going to depart from the company. He's been there for a long time. Of course, there's also been some other senior departures before that. So, a question on that. First of all, maybe you can give some clarity on Jörg, his current term is ending April 2024. What's going on there? And maybe you can give us some more insight into your executive committee, how you're dealing with this with the new business structure and the turnover you've seen. Thank you.

Jeroen van Glabbeek: Okay, thank you very much, Robert from Kepler for the questions. Yes, indeed, we saw also some comments about particular price fighter in our markets. I think you asked us about our thoughts about it and the impact.

With CM.com, I founded it together with Gilbert 25 years ago, and we were the first CPaaS company in the world.

20 years ago, we were already a very advanced company in Voice. We worked for telephone companies then.

15 years ago, we already invested in our own in-house developed customer data platform, CDP.

10 years ago, we already applied for our financial institution license.

And five years ago, we already invested in AI, and we acquired some other companies there, that we integrated in our platform.

So, in short, CM.com has always been on the forefront of innovation, and we always invested in that.

Because we're so innovative, that's why clients love us, and they want to work with us. If we talk to our clients, the discussions are about what we can bring for them, the value, the quality, the trust, the compliance, and many other aspects. So, price might be one of the aspects we talk about to our enterprise clients, but it's not the most important part.

Now, in over these 25 years of history, we always have seen that, being a market leader, others followed us, sometimes a few years later, sometimes a decade later in this specific case. We don't see any impact of those developments recently, no other than that we always have had price fighters in our market.

So not much news there for us I would say. But nice to see that when you are front-runner and you are the first in the market, that later on others follow, because that defines the market. If you're the only one doing something in the market, it is really lonely. Like we were 25 years ago, and we founded CM.com, decades before most other competitors were founded. So, it's good to see that we have friends in our market. It's a big market, it's fast growing, and we see a lot of opportunities in the future for us.

And then about the other question, as you say about us being a front with also in AI. Why are we six or nine months ahead of the competition? What are the specifics? That's another question you asked, Robert. And you also mentioned the hyperscalers.

Hyperscalers, like Google, Microsoft, they are the basic elements of AI. So, they have the data centres, where you can run AI language models. We are a layer on top of that. We implement the core technology of AI from these hyperscalers into the business processes of the enterprise customers. And this is a very important role, of course, because there is a lot of value in AI for enterprises. It helps them to better interact with their customers, to better understand them, to learn from these interactions and those applications is what we provide.

And what are a few aspects of the many aspects why we are ahead of the competition? We were earlier, of course, investing in this more and longer than most of the startups who started lately.

A few things. I think what we see are from our clients, if they want to use Generative AI, for example, what they really need is not only the answer, but also the source of the answer. So, we are very advanced in proving not only giving the answer to a question, but also naming the source. That's one of our advantages.

Another thing is that we are advanced in, we - what we really help our clients to build their own knowledge graph. So, it's not - you ask any question to open AI and you get any answer, no, you can ask a specific answer to the specific knowledge of a specific company, and you can answer in that context. And that's very important, because if you can ask anything to any language model, sometimes these open language models also hallucinate, they say stupid things.

So we had a few weeks ago we saw that in the news that was it an airline in Canada gave a strange answer that they chatbot gave a strange answer to a customer and then they got a claim. So, our clients really value that the answers given by their own personnel, but also by their own chatbots, that they're legitimate. And that's one of the enterprise-features we have as well among many other things which are very important for our clients.

Again, we can talk for this about ours, and sometimes I do, but now I think we are a bit limited in time. But by being direct in contact with the enterprise customers, seeing their success, measuring that, and trying to improve that on a daily basis gives us the advantage in the market. We started earlier as well. We had already natural language understanding five years ago when we acquired CX.com early 2020.

We also had more and more technology. So, this experience by applying the technology into the enterprise, that's just gives us our competitive edge here.

And then you asked another question about the market, more in payments, iDEAL, the Dutch payment methods. What we see around the world but also especially in Europe, is that in the past, every country had sometimes their own payment methods, the local payment methods. We, in Netherlands with IDEAL, in Belgium, we have Bancontact, in Germany, for example, with Sofort. And you see that there's a consolidation going on.

So, we always expect it in the future, and we see proof of that now in the market, that there will be less payment methods. So, you have Visa, you have MasterCard, PayPal is big, Klarna is becoming bigger and there will be a European follow up for IDEAL. So, less payment methods, but more volume per payment methods.

So, where we invest in our payment infrastructure is a very solid in-house developed payment processing platform, capable of handling all the payment volumes of the biggest streams. What we see happening is there's more and more value going to - more volume is going to MasterCard and Visa.

That is according to our strategy. For us, that is good news. It means that in the future, our clients can use a handful of different payment methods, and there is some competition. So, consumers in the future will be able to choose, which is maybe the follow up of iDEAL, maybe a new payment method of Visa, MasterCard called Click-to-Pay, and some others and we can provide that for our clients.

We have multiple offerings to our clients, and our gateway functionality in combining all these methodologies into one solution is really valuable for our customers. So, that's a bit how I see the developments.

And then your last question about our CTO. Indeed, our CTO is leaving us after a few decades working on and off within CM com. And it's always sad to see a friend leaving the company, but if you look at what we are doing within CM.com, it's maybe a logical moment. We had a transition year last year, where we transitioned our company into four different business units. Each of those business units have their own management team. Each of the management teams have their own head of technology.

So, this role of centralised management function is changing, of course. We now have four business units with four head of technologies, and that works well. It made our CTO decide to leave our company. Like I said, it's always sad to see a friend leave, but it is explainable giving the circumstances and the choices we made as a company.

And then lastly about, Jörg, indeed, our CFO, we didn't announce anything in our press release this morning. But since you ask, next week, we'll have the convocation of our shareholder meeting 19 April. And then one of the topics there is that we want to ask our shareholders to re-appoint our CFO, Jörg de Graaf, as we are very happy in our corporation on a daily basis and management board. So, we are really looking forward to work together for the next period.

I hope this answers all your questions, Robert.

Robert Vink: Yeah. Perfect. Thank you.

Serge Enneman: You're welcome. Okay. There is an opportunity for follow up questions if there are any. If so, please raise your hand so we can hand over the mic to you. If not - Thymen, you have follow-up question, I see.

Thymen: Yes, if possible.

Serge Enneman: Please go ahead.

Thymen: Thank you. Perfect. A few follow up questions from my side. The first one about free cash flow and CAPEX. You reiterated your guidance for the second half of 2024 free cash flow to call it positive. Just talking about the bridge from EBITDA to free cash flow. We've seen already a decrease in CAPEX in 2023. You guide towards CAPEX as part of revenue, 5% in the mid-term. What do you exactly define as mid-term? What should we be thinking about and what can you say about CAPEX developments then in 2024, specifically as we go towards the second half of 2024?

And another one about CPaaS. Very strong gross margin development in second half of 2023. It was almost 18%. But on the other hand, we do see a decline in the net dollar retention rate to 87%. And I know that you were focused on value over revenue. And that's clearly what we see in the strong gross margins. But can you just explain what we can expect from the CPaaS going forward in the messaging segment? How sustainable are those gross margins going forward?

And then my last question is, with regards to the business units. You've already alluded to them in your presentation, also in your previous answer a bit, but you mentioned that they should drive more gross profit growth. Can you give a bit more colour on that? So how do you exactly aim to achieve that? That would be great. Thank you very much.

Jörg de Graaf: Okay. Alright. Let me try to answer the first two and then hand over the business unit question to Jeroen. So, what we have already guided on and are working towards, as you can see, is also to increase our CAPEX efficiency, so CAPEX as a percentage of revenue is going down. Actually, the interesting part is that with our value over volume strategy actually sort of because the volumes have gone down a little bit, it kind of optically bounced a little bit in the other direction. But I think if you compare it to the gross profit generation, then it's actually trending in the right way.

What we see is that, as we build our businesses to scale and more maturity, it also implies that we can be more efficient in our CAPEX. That trend will continue. Indeed, as you have already seen, there was already a step down in CAPEX in 2023. And that trend is expected to continue also in the future.

The term we're looking at, mid-term is typically something about three to five years. So, I think, that’s ballpark still correct, actually maybe even a little bit quicker. For us, the most important thing is that we're able to finance the CAPEX investments that we do, out of the EBITDA that we generate. And I think that's the first milestone that we're heading towards in 2024. And from there onwards, obviously that gap in positive sense will widen.

Then your question on the NDR decline in CPaaS. Yeah, obviously that's an immediate result of the value over volume strategy. And in that sense, it's not worrisome. We don't see very different behaviour from customers other than the shift that we have been going through. So that will have a little bit of impact through 2024 as well. But I think we started this new commercial strategy on CPaaS in the beginning of 2023 to really roll that out and execute that and get to the level where we are right now.

It took us probably about half a year. So, I would expect that in the first half of 2024, you'll see a different comparison base in that sense. The second half will probably be a little bit more representative. So also, for CPaaS, we are aiming for growth, but valuable growth that will show through in gross profit, and I think it will come through in revenue as well, probably in the second part of the year.

The gross margins that we're currently seeing are improving. I mean, we had questions about CPaaS gross margins for a very long time already. And so far, it has been stable for us for very long until we changed our strategy and now actually it has gone up. So, we think there's still a lot of value in what we - the services we deliver, the solutions we deliver. And since we're really going for customers where we can add value, it means that we can also have a fair price for our services. So, we don't see an immediate erosion of the gains that we made in terms of profitability there.

The interesting thing is that this whole segment is also very dynamic because we see a large uptake in the application of WhatsApp and RCS, which provide a whole new set of opportunities with value added services included in this whole package that we deliver, with very interesting margin profiles. So, I think that's a bit of the answer to your question. Jeroen?

Jeroen van Glabbeek: And about CPaaS markets in general, what we've seen as a long-term trend is you used to have one-time text messages going out. Up to 80%, 90% of our traffic 10 years ago was outgoing text messages. We always said, okay, we will see there will be a few trends, and they materialise as we speak. It's more becoming interactive. So, we see more and more incoming questions recognised with our AI and answered with our software. And then we have more meaningful conversations. That is happening as we speak and already happened last year in very much with our CCaaS solutions and AI solutions.

And then you see that there really is a flywheel. The more messages our clients get, the more software they need to answer them, and the more software they have to answer them, the more questions they can answer. So, this is really a flywheel between CPaaS, which we now call Connect business, and SaaS, which we now call Engage business.

And then after this, meaningful conversations, back and forward traffic, we see another trend, and that is rich messaging. Last year we saw a really big uptake in richer messages. In the past only a few percent of our traffic were WhatsApp and the majority - the fast majority was text messages.

Now, last year, we saw already that many, many more WhatsApp messages with richer possibilities. We also see trends in RCS messages, mainly in Europe, where we send more and more richer messages to the telco operator. So, there's also some competition there, which is great for us. Also, here we play this gateway role. The more ways there are to send an actual message to a mobile phone, the more value a gateway, that CM.com is, has, that's also positive for our margin. So, the combination of rich messaging, interactive messages, software, AI on top of that, that is really taking off as we speak.

And then what is the next step? The next step will be that we also will become better and better in integrating our payments proposition into this messaging. And then we are heading towards this real conversational commerce strategy, where businesses around worlds communicate with their consumers in a meaningful dialogue with rich messages, but also that will lead to actual payments in the end. So, to real conversation.

And then, the future will be that we actually give money to our clients because they're so successful with our services and we sell actually their products to the messaging channels. And they use our payment methodology and then they receive money. And we can show them in our software dashboard that the Return-on-Investment they have with using our services. That's what we are aiming for with conversational commerce. And this is strategy we had for a long time, and we see really materialising that now, and that will help us with further growth and improving margins.

Serge Enneman: Then on the business unit question.

Jeroen van Glabbeek: Did I forget a question about business units? How it works? If it works. We started at 1st January officially. We found that the business units already earlier, of course, in the year, it was a big process, of course, going on to appoint all the business unit managers to design the governance, how it would work. We delegated a lot of powers as being a management board towards these management teams to make them more autonomous. They really value that - and clients value that. They're successful. They are with a smaller group of people combined with sales development and other functions directly focusing on one product and one market, then that works really well.

This year is the proof, of course, about this design and that that the proof will lie and that it also will be successful in this combination of the business units, because there CM.com is really powerful if we can combine messaging with payments, with software, whether or not in live entertainments sector with our Ticketing division.

I think this whole combination of solutions is really powerful. It's our task as a management board to make that successful and task of the management teams to be successful in these different markets and with the different products. We’re very optimistic about this. We're very happy that this whole change and position is behind us. So, we can focus this year on our products, on our clients, on further growth. So, I'm looking ahead of the year.

Serge Enneman: That - did that answer your question, Thymen?

Thymen: Perfect. Thank you very much.

Serge Enneman: You're welcome. And Robert, you have a follow up question I believe?

Robert Vink: Yes, I do.

Serge Enneman: Please go ahead.

Robert Vink: Maybe two, if I can.

Serge Enneman: Yes.

Robert Vink: You’ve closed quite some international offices in the last year. So, are you satisfied with the current base of your international offices? Are you confident you can kind of achieve sufficient scale in each of the countries you're active in?

And maybe the second question is kind of a follow-on the hyper scale question. You also have firms with scale on the applicational customer engagement side, like Salesforce. Could you maybe elaborate a bit more on your propositions versus these types of scalers?

Jeroen van Glabbeek: Yes. About both questions, we are present in many countries around the world with clients all over the world. But we did close two offices last year, Mexico, Kenya. And why did we close those two offices? It was because we didn't see how we could be profitable there anytime soon. And we didn't want to spend there more money in the long term because we are data-driven company and we knew if we spent our money in other countries where we have more attraction, more return on investment, that it would give a shorter path to profitability. And we were on a path to profitability where we now are. So that fitted in that strategy.

And also, this quarter, the first quarter of this year, we also decided to close three other countries, our offices there. There is Kazakhstan, Turkey, and Brazil. These are in itself were very promising countries, but also there, we had some doubts if our scale at the present time would be enough to be very successful now and in the future.

That leaves us with all the other countries where we are active. I believe there are 18 at the moment, if I'm well. We are successful there and we have enough scale, and we believe that they are profitable or will be profitable very soon. So, we are happy with the global footprint we have today, and we see ample room for growth in those countries.

Indeed, scale is important, like you mentioned. For example, CPaaS, you have to have a certain scale to do negotiations with telecom operators, to get attractive prices. But it's also very important to know that there is like a scale. If you have that scale, you get the best price from the operators or from WhatsApp or from any other vendor of messaging. And with it - with this price, you can be successful.

So, there are maybe a handful players in the world, bigger in volumes in CPaaS than we are, but they don't have necessarily better procurement prices because it's a regulated business and all the operators, they sell more or less at the same price if you have the right scale. And CM.com always had the scale and we qualify for buying at the best price.

Also with Meta, owner of WhatsApp, we are in the highest tier of the relationship. We are their premier partner and only a handful companies in the world are that. So, we are very happy with the scale. It's big enough. It's not that if we are three times weaker, that our price will become lower. So, we are happy with the scale. That's why we're not purely focusing on having more scale by doing acquisitions or to go into business relationships which are not profitable. We can focus on our profitability. So that's great. But that's for the CPaaS business, which we call our Connect business.

You also mentioned now larger SaaS companies, like you mentioned, Salesforce in your question. Salesforce is indeed a large SaaS player. It doesn't mean that they've been doing all deals. What we've seen in the last year, we won more deals from Salesforce than they did win from us. Sometimes we also publicate those wins on our website in our Marketing. And then we also explain why we are actually capable of winning those deals.

And that is because the clients choosing for CM.com, they really feel welcomed by the helpfulness of CM.com. And also, they see that our product has exactly the right features they are willing to pay for.

So, for example, if you have a competitor and they have 10 times more features and they ask 10 times more money for that. But the client only wants to use 10% of their features. CM.com has exactly those features, that are exactly the features you want, and you only have to pay for exactly the features you really want. They choose for CM.com, because they have a better solution and maybe for a more attractive price for their specific situation. So, it's a big market, the worldwide global software market, Contact Centre-as-a-Service, marketing, AI marketing, all the markets we are active in are really huge.

And there are also the niches we play in and the focus we have on the certain verticals, the focus we have in certain parts of the world, the focus we have on different combinations of products. We can be very attractive for a large group of customers. And that's why we win deals also from competitors who might have a bigger scale. I hope that answers your question.

Serge Enneman: Did that answer your question, Robert?

Robert Vink: Yes, it did. Alright, thank you.

Serge Enneman: Okay, thank you. If there are no further questions, then I would like to thank you all for attending this webcast and for all your questions. Our next release will be the first quarter trading update, which will be released on 17th April 2024. There will be no webcast for that release. The next webcast presentation will be on 23rd July 2024 when we release our first half 2024 results. 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. Thank you.

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