CM.com Full Year 2022 Results

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Operator: Good day, and welcome to the CM.com Full Year 2022 Earnings Call. This meeting is being recorded. At this time, I'd like to hand the call over to Serge Enneman, Head of Investor Relations. Please go ahead, sir.

Serge Enneman: Thank you very much, operator. Good morning, all, and welcome to the full year 2022 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 show a video summarising the key highlights of 2022, after which we will have a Q&A session with our analysts.

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 on the analysts present – of the analysts present in this webcast.

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

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

Jeroen van Glabbeek: Earlier we published our results for the full year of 2022, and I'm pleased to present you the highlights.

2022 has proven to be another significant year for CM.com, as we completed the acquisition of Building Blocks, we increased our artificial intelligence capabilities, and with that, finalised all targeted acquisitions in the various segments of our firm.

The next phase of our growth strategy was to focus on the optimisation of the organisation and to use its full potential. Through the better focus on performance management, the deployment of all the talent through our Talent Programme, the female leadership sequences, the alignment of sales and marketing efforts and the integration of new technologies such as Chatbot AI, CM.com realised its best results ever in terms of revenue and gross profits.

Market developments in 2022, especially in the last six months of 2022, underlined the importance of the next phase in our growth strategy. A rise in inflation, and at the same time an end of COVID-related activities, had some impacts on CM.com financially. Something that was especially felt in 2022 was the development of voice minutes and the way in which it influenced our margins.

Additionally, sales cycles lengthened and sectors sensitive to retail-driven activity focused more on cost optimisation than on expansion and growth. This, however, did not steer us off course.

CM.com continue to optimise performance management measures to fully deploy the capabilities we've built in recent years through M&A and to reinforce different segments of CM.com. That resulted in double-digit organic growth in revenues in all segments and a decline in the growth rate of our OpEx in 2022 compared to the previous year.

The impact of OpEx alignment in the course of 2022 is something that will have an annualising impact in 2023. In the rollout of our growth strategy, CM.com also grew its workforce. But as we finalised the foundation of our firm at the beginning of 2022 and started focusing on integrating and optimising our organisation, the base of growth in FTE slowed down compared to 2021.

CM.com wants to make sure all of its employees are enabled to reach the full potential within our firm. That is why we started the Female Leadership sequences in 2022 and our Talent Programme, as we fully recognise the importance of the right balance between capabilities and opportunities within our workforce, independent of gender, age and origin. Our Great Place to Work Award in 2022 confirms the importance of this.

Let's take a closer look at the performance in 2022. After the pandemic, CPaaS and SaaS cloud solutions were embraced as tools to not only connect with our customers, but also for our customers to connect with their customers. After the strong performance in messaging of 2021, we saw a further growth in our messaging activities, as we grew our CPaaS revenues by double-digit rates in an entirely organic way.

The product mix shifted with the market developments as we saw mobile messaging take a bigger part of our growing messaging business in 2022 at the expense of voice. The slowdown in gross profits versus 2021 was explained by the shift from higher margin products, such as voice, to lower margin business such as mobile messaging.

In the foreseeable future, we expect voice to increase market share again. Towards the year-end, we absorbed the impact of price increases from operators in certain areas, which we choose to pass on to our customers in the new year. That had a temporary impact on our profitability.

Based on the inflationary pressures in 2022, we carefully prepared a substantial price raise for our clients. Because of the increased value of our offerings and our pricing power in various markets, we were able to execute on this price increase programme in the first quarter of 2023.

In SaaS, we experienced ongoing strong demand for our Mobile Marketing and Mobile Service Solutions, which boosted our gross profit growth and our annual recurring revenue base. The rapid growth in this business segments was aided by the consolidation of Consumer AI provider, Building Blocks, which was mainly organic and fuelled by new clients wins and increased cross-selling.

Building Blocks being our latest acquisition is all about AI and expands upon one of our first acquisitions after our listing in 2020: CX Company. With an enterprise grade Conversational AI management platform of CX, combined with a powerful consumer AI product of Building Blocks, we can do great things for our clients. We already integrated the first capabilities of Building Blocks in our mobile service cloud offering, and we are planning to continue powerful integrations in the upcoming months.

In Payments, we continued to see a steep growth in payment volumes we processed and a double-digit growth in revenues. The strong increase in volumes was realised while CM.com was working to integrate the recently acquired payment platforms and leverage on the technology. We anticipate the gradual launch of our in-house developed processing platform early in 2023. This will be a proprietary payment processing platform that offers competitive advantages, while offering us multiple additional benefits in terms of extra quality controls, faster innovations and lower cost. That works towards improving our ability to grow profitability in our Payments business.

Our Ticketing business clearly benefited from reopening sports, leisure and entertainment events following the lifting of COVID restrictions. Revenues and gross profits continued to grow at a stellar rates, as CM.com reinforced its position as a leading party in ticketing events at Benelux and in the UK. Given the large pipeline of festivals and events, we expect 2023 to be another good year for Ticketing.

In 2023, CM.com will investigate further possibilities to grow our Ticketing business in Europe. Contract wins are appearing and bodes well for our Ticketing business in 2023. For several years now we have seen new clients use more of our integrated products from starts and increase the number of products they use at a faster pace. More clients embrace our vision in an integrated conversational commerce platform with multiple capabilities and solutions to address the 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 countries in which we are present. For the same reasons, we recently added voice capabilities to our mobile service clouds. By doing so, we create a powerful and compelling offering for contact centres in which they can now combine all incoming communication channels in one SaaS-based solution.

For us, the past three years since listing have been a time of tremendous growth, not only by revenue and gross profits, but also by staff numbers and our global organisation as a whole. Now, with 930 FTEs, we believe that our team has the right capacity. We will now focus more on using our strengths and improving our efficiencies.

While we continue to invest in sustainable growth of our profits and future business, we expect to see a further slowdown in the growth of CapEx and OpEx going forwards. In addition, this will allow us to increase benefits from cross-selling and upselling and faster commercial paybacks and operating leverage aimed at reaching the structurally positive EBITDA towards the end of 2023.

Now I will hand you over to our CFO, Jörg de Graaf. And he will walk you through our full year financial performance for 2022.

Jörg de Graaf: As mentioned by Jeroen, in his opening remarks, we saw robust growth in revenue and gross profit growth in 2022, albeit, at a slower pace year-over-year. This was mostly due to a strong COVID-driven comparison base in 2021, and particularly in the second quarter of 2021, where we reached peak levels of COVID-19-related services.

In the first quarter of 2022, these tailwinds disappeared, and we headed back to normal business levels. Our 2022 revenue was up 19% at €283.2 million, indicating the best result on revenue that CM.com has ever realised, even considering the softer market conditions during the fourth quarter of 2022.

Geographically, we saw very strong contributions to growth from the Americas and APAC region, showing the success of our international expansion. In 2022, the non-Dutch part of our business amounts to 70% of total revenues, up from 55% in 2021.

Gross profit was up 15% to €72 million on the back of revenue growth across all business segments and strong contributions from SaaS and Ticketing over the year. For the first time, the contribution of our CPaaS business was less than 50% of our total gross profit, making the foundation of our business more diverse and robust.

Our Group gross margin came in at 25.4%, primarily impacted by the mix shift within CPaaS, where the higher margin voice traffic came down, with COVID effects fading out, while demand for mobile messaging continued to grow. Our robust performance for 2022 came amid some increasingly challenging environment with consumer activity slowing down in various sectors across the globe, affecting mostly retail and e-commerce related traffic towards the end of the year. This led to a softer fourth quarter performance.

Underlying business continued to perform well, where double-digit growth was realised among Messaging volumes, Payment volumes, ARR and Ticketing volumes. Let's take a further look into each segment’s performance.

First, CPaaS. Our CPaaS business empowers organisations to connect and interact with our customers through a range of communication channels. In 2022, revenue went up by 16% to €236.3 million. Our gross profit decreased year-over-year by 6% to €34.7 million.

Revenue growth was driven by increasing messaging volumes, excluding voice. The slowdown in COVID-related voice minutes heavily impacted the year-over-year comparison of our CPaaS performance, with gross profit development being affected most. Also in the last quarter of 2022, the anticipated uplift in COVID traffic in Q4 as a result of a new vaccination campaign did not materialise as expected.

Additionally, fourth quarter traffic normally peaks during the holiday season like Black Friday, Cyber Monday and Singles Day. This year was not so strong as previous years due to macroeconomic circumstances and more conservative consumer behaviour. At the same time, a number of operators adjusted their rates upwards towards the end of the fourth quarter. Since there is a bit of a lag in passing these increases on to our largest customers as we're balancing the total portfolio of routes with them, CM.com has experienced some temporary margin pressure as a result of this. Therefore, we expect messaging margins to recover in the first quarter of 2023.

Keeping our growing customer base happy and helping them grow their business is essential to us. Our churn rate of only 4% demonstrates that the vast majority of them decided to keep their business with us and expand it. Even though reported NDR came in at 100%, this was also materially impacted by the reversal of COVID tailwinds. Excluding voice traffic, the NDR of our messaging business was a healthy 119%, implying that the average customers spend 19% more with us than a year before.

When we look at our CPaaS volumes, we see a consistent picture with 24% increase in number of messages year-over-year, coming in at 7.2 billion and an increase by 18% to 2 billion in the fourth quarter of 2022. As flagged before, during the pandemic, we launched multiple innovative services accommodating the fight against COVID-19 in several countries. This acted as a catalyst for CPaaS growth throughout 2021 with peak levels in voice occurring in the second quarter of 2021.

For 2022, voice minutes fell by 34% to 455 million minutes, with only Q1 still seeing sizable COVID traffic. As a result, we believe voice traffic has been back at normal levels as of Q2 2022 with full fade out of COVID effects having been absorbed.

So underlying business remains sound. For Voice, market research is suggesting that voice can become a larger part of the communication universe in the foreseeable future. As we have fully integrated voice in our mobile service cloud offering and are enhancing it even more with our AI capabilities, we remain optimistic about the contribution by Voice towards our gross profit growth in the future.

Turning to SaaS. You can see that demand for our cloud solutions have been growing nicely in 2022. Revenues were up 47% to €25.4 million and gross profit was up 49% to €22.3 million year-over-year. SaaS is core to our portfolio line up, and we expect it to contribute further to the improvement in our gross margin and absolute gross profit, as we emphasise the rollout of our SaaS solutions more in the markets we operate in and develop new value adding applications with a big focus on leveraging our AI capabilities.

Year-over-year growth has been largely organic, but has also been aided by the acquisition of Building Blocks, a consumer AI company, where commercial and technical integration was our immediate focus in 2022. We're already seeing strong appetite in the market for our integrated and smarter solutions resulting in some valuable customer wins.

As a result, our annual recurring revenue increased to €29.3 million in 2022, up 29% year-over-year. The strong growth of our mobile SaaS solutions positively impacts the development of our Group gross margin. When looking at the fourth quarter of 2022, ARR increased marginally quarter-over-quarter. This was slower than expected as recession fears contributed towards longer sales cycles towards the end of 2022. However, we seem off to a good start in SaaS in 2023.

In Payments, we saw a revenue increase of 16% to €13.4 million, while gross profit went up 3% to €7.4 million. Processed payments rose by 81% year-over-year to almost €2 billion in 2022. The 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. The increase of venue and event ticket sales, for which we also process payments, have further aided growth in this segment following the lifting of COVID restrictions.

In 2022, CM.com has been working hard to develop a new payments processing platform that will gradually replace the existing platforms, with the first batch of customers migrated per Q1 2023. In facilitating the entire customer journey, we strongly believe payments to be an integral part of our offering, in which better customer experience is based on in-depth knowledge of the customer preference based on data collected in all stages of the journey. In taking on larger parts of the value chain by our new payments processing platform, we will have more control over the quality of service, while at the same time improving our cost base.

Ticketing had an amazing year. After 2021, revenue continue to rise sharply again by 107% to €8.1 million, with gross profit up 109% to €7.6 million year-over-year. This jump in revenue and gross profit was due to the reopening of museums, theatres and other venues, as well as a surge in tickets for sports, music and leisure events after COVID restrictions were lifted. In 2022, CM.com enjoyed significant growth of ticketing revenues outside of the Netherlands, especially in the music and life domains, where our solutions are particularly strong.

Belgium, UK and Spain are key international markets for us. For 2023, we expect strong international traction and the pipeline for this year is looking healthy. Ongoing sharp growth in Ticketing, also compared to pre-COVID levels, clearly demonstrate that our continued investments in Ticketing business within the past years have paid off in market share gains.

New logos catering to nightlife such as Stardust in Madrid and Amnesia in Ibiza recently confirm CM.com's ability to grow its Ticketing business internationally.

In line with the rollout of our global expansion strategy and efforts to facilitate future growth, we further bolstered our organisation and expanded our staff in 2022. The pace by which we grew our FTEs however slowed down in 2022. The number of FTEs grew from 755 to 930 at the end of 2022. While FTE growth primarily occurred in the first half of the year, we focused on deploying our workforce in a more efficient manner. At the same time, we drastically reduced the number of external contractors while own employees took over the activities. As a result, these efforts started to actualise in the fourth quarter of 2022, where we see FTE count come down a bit for the first time since becoming a listed company.

CM.com feels we're now at the right size to facilitate future growth and capitalise upon internal capabilities further. For 2023, we expect headcount to be stable or slightly declining. This will mostly be achieved by balancing natural attrition with new recruitment.

In addition, in 2022 we saw increased expenses for travel and conventions as a result of the world opening up again. At the same time, IT licencing and implementation expenses were up, all of which are investments to facilitate efficiencies while growing our business. We invested in the right tooling, licences and educational initiatives to empower our workforce to deliver continued sustainable growth. These efforts have been implemented and finalised in 2022, with a positive impact on our expectations for 2023 OpEx development.

As a result of the items mentioned, OpEx went up by 42% to €94.3 million. The growth pace of OpEx, however, slowed down sharply in 2022, a trend, which is expected to continue in 2023. Also included in our full year results is the one-off bad debt provision of €4.2 million we reported in the first half results of 2022. As a result, our reported EBITDA over 2022 came in at minus €26.5 million. When normalised for this one-off item, EBITDA stood at minus €22.3 million.

After years of investing in our global organisation, product offering and team, we believe that we have built an organisation that can shoulder more growth with less incremental cost. In the course of 2022, we've started to focus more on leveraging our current scale and team and growing profits faster than we grow our cost. This brings us to our outlook.

Jeroen van Glabbeek: CM.com managed to generate significant growth in 2022 as we focused on the execution of our growth strategy. Although markets were challenging in 2022, CM.com managed to grow revenues and gross profits in all segments after a very strong 2021. The market conditions in combination with the end of the pandemic, almost everywhere in world, however, had an impact on our profitability in 2022.

That underlined what we also pointed out during our Path to Profitability in June last year. Deploying the capabilities of our organisation while keeping a tight control on our cost base. That process is now underway and expected to show the full impact in 2023.

Additionally, we'll start to see a more stable comparison bases after the first quarter in 2023, as the first quarter of 2022 still included elevated traffic related to COVID services. Based on the inflationary pressures in 2022, we carefully prepared a substantial price raise for our clients. Because of the increased value of our offerings and the pricing power in our various markets, we are executing on this price increase programme in the first quarter in 2023.

As our OpEx growth trend is notably slowing down and our past acquisition strengthened our ability to grow our pipelines and increase the conversion rate into new contracts, we have every confidence that we will improve the performance of our company in 2023 and beyond.

For 2023, we are off to a good start. As previously indicated, our foundation is now ready, and no new additional investments in growth are foreseen in the short term, although we always remain on the lookout for opportunities. Our pipeline is building well and our client wins are coming through. That is the reason why we now turn to gross profit growth. And we have now integrated all acquisitions and use all strengths to grow our presence in all markets in which we are currently active.

So, we no longer steer predominantly on revenue growth, although that of course does remain a key performance indicator. It is now all about profitable growth.

Looking further ahead, we will continue to strengthen our market leadership and innovative strength in conversational commerce. The momentum in AI and the pace by which the development of new technologies and applications take place is amazing. It also proves that CM.com is on the right track for the future.

Overseeing the targets as set out in our Path to Profitability, CM.com plans to further decelerate the pace of OpEx growth in relation to revenue growth; to improve gross margin to high 20s through improvement in a product mix; to use our innovative technology to further enhance our AI capabilities; and to remain at a flat FTE growth rates. All these elements considered, we reiterate our confidence to deliver sustainable structural, positive EBITDA by the end of 2023 and beyond.

We are here to help organisations around the world learn how to improve their communications with their clients, grow their customer engagement 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 over to the operator for the Q&A session with the analysts. We look forward to your questions.

Questions and Answers

Operator: Thank you. Ladies and gentlemen, if you wish to ask a question at this time, please signal by pressing star one on your telephone keypad. And please make sure the mute function on your phone is switched off to allow your signal to reach our equipment. Again, please press star one to ask a question. And our first question comes from Wim Gille from ABN ODDO. Please go ahead. Your line is open.

Wim Gille (ABN AMRO-ODDO BHF): Good morning, gentlemen. Can you hear me?

Serge Enneman: Yes. Loud and clear. Hi, Wim.

Wim Gille: Very good. Good morning. First of all, I had a few questions about the outlook. So firstly, you mentioned that there's a bit of a cap on the cost. I think you intended to keep the costs stable on absolute level. What's the baseline that we're looking at? Is that the €98 million including one-offs, or is the €94 million executing one-offs? And also looking at the OpEx in terms of your guidance, what do you have embedded in there in wage inflation versus headcount? As I can only imagine that also you guys have to raise wages in line with the rest of the country.

And maybe also for the other OpEx. Because if I look at the year-over-year delta in the numbers, the other OpEx line increased quite significantly more than the wage component or the employee cost. What room do you have to cut there, if needed? How should we move that directionally?

And last, a bit of colour on the gross margin increase that you provide. What should be the main driver here? Is it improving the margin in the CPaaS business, which was obviously quite weak in the fourth quarter based on, let's say, the commercial element that you described with telcos increasing their pricing, and you following up a little bit later than the telcos did. So is it more of a margin improvement within the CPaaS business? Or is it more of a mix shift from CPaaS into the higher margin parts of the company? I've got a few follow ups as well. But let's start with these.

Serge Enneman: So thank you. Thank you. Thank you, Wim, for that. First question, I'd like to hand over to Jörg.

Jörg de Graaf: Yeah. So on the OpEx, indeed, the total reported OpEx is what we guide upon. So that's the €98 million we expect to come in. Yeah, maybe also a little bit slightly below that, but that's indeed what we based our guidance on. It does include wage inflation, because obviously, yeah, we are also operating in the real world. So, in order to retain our talents, we have to pay them compensation in line with markets. So yes, we do expect that to increase as well.

However, what we do see is that, on average, the wage increases that we see in the market and also that we hand out do not translate to the same amount in terms of year-over-year OpEx growth. And the reason for that being is that we are very actively focused on developing our own talents. So we recruit people in a more junior functions, often either straight out of school or with just a very few number of years working experience. And then we educate and develop them ourselves. And yeah, the people that flow out typically flow out on a more senior level.

And by doing that, we have been able so far and expect to continue to be able to contain the impact of the wage increases going forward. So yes, that's absolutely included.

And then your other question related to OpEx was on the other OpEx that did increase more rapidly in 2022 than the wage-related OpEx. And that, indeed, needs to go down more next year. And there are some very clear levers there to pull for us.

So first of all, a lot of investments in that sense had been made in large implementation projects, as we already mentioned, for systems and tools to be able to facilitate, yeah, our bigger scale for salesforce, for HR, what have you. Those are very important projects, expensive projects, of course. We also have, yeah, released a lot of consultants and contractors that have been working for us, because, yeah, they were done with what they had to do. So now our own folks can take over.

And then at the same time, we saw after everything opened up, a surge in travel-related expenses, both internally so that we could meet each other again. Many of the people we onboarded in the last couple of years, never met their colleagues outside of the country they were located in. So yeah, it's really a bump in that sense in travel expenses.

So, yeah, we're able to contain that now and bring that back to more normal levels. Yeah, and we're also very clearly evaluating the return on investment in marketing euros that we spend there because that's also in there, just to make sure that wherever we allocate our money, it's really generating the right returns.

The more data we have, the more we learn, the more we can optimise. So those are the levers we are pulling to bring that part of the OpEx down in 2022. Jeroen, over to you, or you'd like me to answer that?

Jeroen van Glabbeek: Yeah, the last question, Wim, must have noted gross margin increase come from CPaaS or domestic? I think it's both. But yeah. Maybe explain better.

Jörg de Graaf: Yeah. Okay. So okay, so where do we – what do we expect to happen? So first of all, if you look at all of 2022, then the margin for CPaaS has considerable pressure, obviously by the fading out of the voice traffic from the COVID related voice traffic, that typically comes in at a significantly higher margin than SMS. So yeah, with that fading out after the first quarter of 2021, yeah, that had a downward pressure – put a downward pressure on our CPaaS margin.

At the same time, in the fourth quarter of this year, so the last quarter, we've seen some temporary margin pressure from region, where some operators have increased the cost. And we have decided to temporarily not pass that onto our customers because we wanted the markets to stabilise first. And yeah, we view that relation from a portfolio point of view, that's now rebalanced. So yeah, we immediately see our margins there recover. So that's on the CPaaS side.

The – after Q1 this year, year-over-year, the COVID effect has faded out completely and we already see the recovery in SMS margin after Q4 for the reasons I just mentioned. But then going forward, our strategy remains the same, which is that we are putting a lot of efforts into growing, let's say, the more high margin parts of our business, SaaS, Ticketing, Payments, with Ticketing already showing a very large growth, but we also expect SaaS and the other elements to contribute a lot in 2023, thereby driving the mix up – the margin up by more favourable mix. So that continues. So those are the two elements, CPaaS specifically, and from a portfolio point of view, what we foresee for 2023.

Wim Gille: And on the delay in passing the telco costs through to your end consumers in the fourth quarter, can you quantify the impact for us? So what was kind of or what is a more normal margin in CPaaS, should that not have happened in the fourth quarter? Or the second half, whatever you want to look at?

Jörg de Graaf: Yeah, I think margins would have been more stable. You know that, typically, SMS margins vary between the 13-15%, 16%. Voice is 30%. So that's sort of ballpark what we have been in for, I don't know, 12 quarters already.

The impact in Q4 was material. But as I mentioned, yeah, we see recovery already in January and in Q1 to a more normal levels than what we have – what we used to have.

Wim Gille: Very good. And on 2023 CPaaS, would you expect messaging to grow faster than voice or the other way around?

Jeroen van Glabbeek: I think, well, voice is a lot smaller. So as a percentage, yeah, it can increase more easily. But so far, what we have seen is that in the last couple of years, our growth in SMS has – yeah, has always sort of – yeah, been very good. So it makes it more competitive for the other portfolio elements to outpace it and drive margin up. But we believe that, in absolute terms, the contribution from SMS will be most important. Yeah, but we – certainly now that we have integrated voice in our mobile service cloud offering full-fledged CCaaS solution, yeah, we do see opportunities for voice to contribute nicely and grow nicely, but from a much smaller base.

Wim Gille: Thank you. I will move back to the end of the line and give some room for the others.

Jeroen van Glabbeek: Thank you.

Operator: Thank you. Our next question comes from Daan Arends from Kepler Cheuvreux. Please go ahead.

Daan Arends (Kepler Cheuvreux): Hi. Good morning, everyone. Thanks for taking my question. Firstly, maybe on the Path to Profitability, and then specifically on cashflow. I think we can all appreciate CapEx coming down to 5% of sales in 2023. But there seems to be other moving parts that is not discussed being leases. Looking at 2022, there's a large step up in lease assets of around €17 million. Can you break down what it is exactly? Because it looks like a lot for just real estate.

And maybe also give an indication of where you expect lease payments to go in 2023? It was already 2.5% of sales going forward. So shifting stuff from CapEx to leases obviously, yeah, doesn't help towards profitability.

And then on Payments, the volume processing growth is impressive. But there seems to be a sharp deterioration in the take rate, and there's almost no corresponding revenue and gross profit growth. Can you maybe help explain what is happening here? And what caused this deterioration to take rate? Is that new business being in share of margin or is the take rates deteriorating over the entire client portfolio?

And maybe regarding the processing platform for Payments. Can you give an idea of the financial benefits we should expect here? Is this mainly driving revenue growth going forward? Or should you also see a corresponding increase in margins? Thanks.

Jörg de Graaf: Shall I take this?

Jeroen van Glabbeek: Yeah, please.

Jörg de Graaf: So hi, Daan. Yeah, about cash flow. We are very mindful of cash flow, especially because the end of next year we also want to look on cashflow positive after the EBITDA breakeven points and this year. We are heading towards 5% CapEx spend based on revenue. But it's not our goal to be that by the end of this year. So this year, we will still spend money in CapEx and it will go down from where we are today. But heading to 5% but not reach the 5% I expect because we still are investing for mild CapEx mainly as R&D.

We invest in long-term software development for the future revenue streams, but also in hardware. And that's also coming to the second question – your second question about leases. When we say leases that sometimes is lease of the real estate, but it can also be lease of like hardware. So sometimes when we buy hardware or software to build our own in-house a global cloud platform with this consistent surface, we negotiate a lease, financial lease from the suppliers like Dell, etc. And then we recognise it as lease because we buy this – yeah, this hardware but we also need to pay at least – it is mainly hardware, and the €10 million you referring to. A lot of topic on payments.

Jeroen van Glabbeek: Yeah, volume growth was terrific last year. We were already letting in new streams of payments volume in – on our existing payment platform in anticipation of the release of the processing platform in this year, because when we release our in-house default processing platform, it's quite unique. So our estimations are only like eight of those platforms in Europe at the moment. So it's quite unique that we build this processing platform from scratch, because it will save us money and make us more efficient, and it will also give us more quality and speed and innovation.

Well, it also just saves cost to do it in-house, especially on a bigger scale. So we are scaling up there already. And so – and we accepted temporarily some volumes of payments at, yeah, marginal margins. But once we release this platform, we – yeah, we anticipated that the tickets will go up because of the cost goes down. We don't have to pay over acquirers or other processes anymore to handle our credit card volumes with Visa and MasterCard. That is the idea behind Payments.

Serge Enneman: And the question around the cross-selling impact on payments to our business.

Jeroen van Glabbeek: Sorry?

Serge Enneman: Cross-selling question, Daan asked – also asked the impact is of cross-selling.

Jeroen van Glabbeek: I missed that question. Did you have another question, Daan, about cross-selling?

Daan Arends: No, I don't think I said anything about cross-selling.

Serge Enneman: Sorry, my apologies.

Daan Arends: But maybe on what causes deterioration of the take rate, maybe you mentioned that I miss it, but could you give us?

Jeroen van Glabbeek: So we have, I think, the same take rate on the same clients we already had. But on top of that, we added new volume with a very low take rates. So the mix we got because we almost doubled the payment volumes, altogether, the ticket came down. But it consists of the more or less stable take rate of the existing base plus a low take-rate of the new base, but this not – this low take-rate on the new base is only temporary until we can release our in-house processing platform. And once that has been released, all the volume sales, data volume share that will have a higher take rates in force.

Daan Arends: Okay, thanks. That makes sense. I will jump back into the queue as well.

Serge Enneman: Alright.

Operator: Thank you. And we'll now take our next question from Charles Brennan from Jefferies. Please go ahead.

Charles Brennan (Jefferies): Thanks. Good morning, everyone. Thanks for taking my questions. I'm going to go with four but they are going to be brief. So firstly, we've seen slowing gross profit growth trends through the course of 2022. That's actually pretty closely correlated with the slowdown in FTE trends. I'm just wondering how do we get comfortable that you can return the business to material growth without significant headcount increases? Because the correlation there I think is noticeable.

Secondly, just in terms of the growth that you're aiming for. Very simplistically, if I think about a €95 million OpEx run rate, that's €24 million per quarter. If I take your fourth quarter gross profit from 2022, that implies that you need to see something like 35-40% gross profit growth in the fourth quarter of '23 to hit breakeven. Is that the kind of run rate that you're comfortable with?

And then secondly – or thirdly, you've spoken a few times about material price rises in the first quarter of this year. Can you actually size those for us? And in terms of our modelling, you've called out the tough comps in Q1. Do you think that gross profits will actually grow in Q1? Or are you flagging that up because you expect negative growth? Thank you.

Jeroen van Glabbeek: Shall I answer a few questions, Charles. Hi, Charles.

Charles Brennan: Yeah, go for it.

Jeroen van Glabbeek: Yeah, you mentioned the correlation between the slow – slower gross profit growth and the FTE stabilisation. Yeah, I think there is not much correlation between those two. If you look at our OpEx, we roughly spend 50%[?] of our OpEx in maintaining and servicing the clients we have, and roughly 50% of our OpEx position around growing in marketing sales.

If you spent more or less the same OpEx this year, as we did last year, we still will spend like almost 50% of our OpEx in growth. So we can also now expect a similar type of growth this year compared to last year. Of course, there will be upside positive effects like we are better trained team now because we have more attendees with us. But also maybe, yeah, the markets should – uncertain, so that will balance each other sort of off maybe. But yeah, we're still investing a lot in marketing and sales. And we don't want to spend less in at the moment. And that's why we keep our portion out.

So I don't see that much correlation between FTE and gross profit growth. The gross profit growth was 15% last year. And I think if you look further into that, underlying, it's also a bit higher, but it's also within that [inaudible] COGS related traffic. So I think there's underlying, there's still a great growth, and we keep on investing in the growth. And we also expect growth for the upcoming year.

And yeah, indeed, we have quite some growth indeed to reach the breakeven point because the costs – the OpEx now is higher than the gross profits. And there's a gap to bridge. But it can go – come from two directions. We can group where we can grow our gross profit. And everything is – we're really, yeah, spending a lot of time and effort to grow our gross profit is our main goal but also the OpEx can come down a little as well. We had discussed it, since we are not growing that fast anymore in FTE, are not growing at all, we don't have to hire bigger officers, we don't have to already order new laptops, we don't have to buy a new licence, we don't have to train more new people.

So we can save a lot on other OpEx as well, while we keep FTE flat. So yeah, there's a gap between the current level of spending and the current level of gross profits. But we will get that by the end of the year. That – at least that's our guidance to become EBITDA-positive.

And then the price raises. Yeah, this year – early this year, we – 2023 in January, we made a programme of the price raises, especially in SaaS. The value we add to our clients with our SaaS portfolio it has raising a lot. So we invested a lot in our SaaS portfolios. And that's a higher value for our clients. So we also increased price there. Now in line with inflation, I would say.

And then in other parts like messaging, we also saw some opportunities to increase prices to – yeah, also to follow the markets where we also – our buying price was a bit higher by the end of last year. So I think, yeah, this will have a significant impact on gross profit already in the first quite a bit also going forwards.

Serge Enneman: Yeah, I hope that answered your questions.

Charles Brennan: That does. And just – yeah, exactly Q1. Can you just help us with your expectations? You flagged it up as a tough comp. Can you see gross profit growth in Q1 or not?

Jörg de Graaf: No, we see certainly growth in Q1. But as you also see is the spread out of the COVID-related profits of a year ago. So this last quarter, and then this whole COVID comp will be concluded. But for the first quarter, we have to grow to come on part what we lose with COVID. And then still we expect growth – so but the growth will be less steep than it used to be and we also expect to be later on the year. So we expect a little bit lower growth first quarter than we expect for the rest of the year.

Charles Brennan: Perfect. Thanks very much.

Operator: Thank you. And we have a follow up question from Wim Gille from ABN ODDO. Please go ahead, sir.

Wim Gille: Yes. A few follow-ups on my end. First of all, ARR. And you mentioned two things. I think if we look at the Q4, it was slightly disappointing being flat quarter-over-quarter. You mentioned longer sales cycles in the current macroeconomic environment. Can you give us a bit more colour on the impact of that on the business, and to what extent you already see customers basically shrugging off that shyness in signing new contracts and new client wins in the first quarter?

And if we then supplemented with inflation, we have core inflation around 5%. We have headline inflation north of 10% here in the Netherlands. So should I be thinking about 5%, 10% in terms of pricing or somewhere in between? So can you give us a bit more feeling on where we should pinpoint the ARR at the end of Q1?

Then on the Payments side. You mentioned that you already, let's say, started to onboard clients on the new processing platform. Just from my understanding, is this a processing platform or an acquiring platform? And can you also give us a bit more feeling on what it will do to the business? Is it more something where you would be able to generate more revenues or do you expect to increase gross profit margins? An can also quantify that the impact on the gross margins versus, let's say, the relatively low incremental margins that we've seen in the second half of this year?

And lastly, on the Ticketing side. You mentioned, obviously, strength in the Netherlands and the UK, which is not surprising, given the stronghold of the, let's say, business – the Ticketing business that you have. But you also mentioned Belgium and Spain. What's the reason why you're so strong in these two countries? And in terms of the mix that I'm looking at – I lost a little bit of the feeling around seasonality of the Ticketing business. So what's the mix between large scale events versus the more recurring ticketing businesses such as museum, theme parks, and what have you? I.e., what's the kind of underlying trend of the number of recurring tickets that you're selling versus the incremental step up during the festival season?

Serge Enneman: Alright. Yeah, thank you for your questions, Wim. On the ARR, Jörg, would you like to comment on that?

Jörg de Graaf: Yes, of course. Yeah, indeed, as you mentioned, Wim, in the fourth quarter, we've seen a lower ARR growth than we typically see, indeed, through lower sales cycles. For next year, yeah, we do expect to see new customers come through. We do have a healthy pipeline. We also expect customers to adjust to market conditions. So yeah, we also cater to organisations that want to reduce costs, or want to be more efficient in reaching out to their customers and converting them into buying customers.

So we think that's where the emphasis may shift if – yeah, consumer spending is under pressure. So what we see right now is indeed a pickup in sales on SaaS, and we will include, indeed, an increase, where possible, sometimes contractually, we're not allowed to, but wherever we can, yeah, we just do what everyone in the market does.

I think the range that you referred to is realistic. Yeah, that's not obviously applicable to our entire portfolio but to a significant part. So we do expect increased ARR in Q1, picking up again and then, yeah, it's very important driver for us going forward to become profitable and to improve the business mix.

Serge Enneman: Then on Payments, Jeroen, you perhaps would like to take that question?

Jeroen van Glabbeek: Yes. The question was about processing platform and acquiring. At the moment, CM payments is more like a payment service provider for unified commerce. We have online payments and point of sale payments. But we still work with external acquirers and external process. Two years ago we got already the licencing to become an acquirer. So take risk on behalf of Visa, MasterCard in the scheme. And yeah, that's where we are preparing for.

And in the meantime, we also built a processing platform. And especially the processing platform is quite unique technology. And what we are trying to implement is both at the same time, so we want to become full acquirer for Visa, MasterCard, and using the – our own in-house processing platform. Yeah, we are now in the last phase to become fully certified for online payments. And then we can go live anytime soon for the online payments. And later on, we will also work on the processing platform to be capable of handling the point of sale payments, which are a bit different technology.

But we are preparing that for as well towards cloud processing as acquiring, especially the processing part is quite unique and will give us unique benefits in terms of, yeah, quality, sustainability but also scalability. Especially for the scalability part, we expect more volumes, to be able to handle more volumes like we did in the past with SMS and with voice and all the technology we developed. So if you own all the technology, you can, yeah, let's say, endlessly scale at a low incremental costs.

So that's the rationale behind it. So more volumes, more revenue, and also more margin because we don't have to pay any other acquirers or process in the value chain because we can do it ourselves with Visa and MasterCard Europe. So that's the rationale behind it.

Serge Enneman: On Ticketing, why we are so strong in Belgium and Spain? Would you like to comment on that as well, Jeroen?

Jeroen van Glabbeek: Yeah, so at the moment, yes, indeed we’re very strong in Netherlands. Also UK is taking off well. Belgium and Spain is also growing at the moment. We take it country by country. Yeah, why going so well? Yeah, because we have a unique portfolio, which in this call we still refer to as ticketing, but in the market we are now more referring to the CM live portfolio. So we really support the whole leisure industry with – not only with ticketing, but also the marketing communications, the servers, the AI, also apps.

Yeah, and this is quite unique portfolio, which really stands out in the market. And yeah, our revenue in that field grew more than 100% last year. And then you said, what is a seasonal impact? I think the seasonal impact is less than it used to be because we used to focus a few years ago more like on the festivals, which typically were held in the summer, also large scale sport events. Actually, today, we have – this week, we have the ABN AMRO Tennis Tournament in the Ahoy Hall in the Netherlands, which is one of the biggest sporting events in the Netherlands, is live now, and yeah, it’s taking due at this moment.

So – and then we have – we focus more on venues there as well so [inaudible] machine and many other machines which are open all year round. So ticketing as will become more all year round activity than mainly focus on the summer. And other effects, of course, yeah, during COVID, a lot of lockdowns in the winter as well. So a lot of things were closed in the past. Now when things stay open, we think we can have a decent income from ticketing the whole year round going forward. I hope that answered your questions about the seasonality as well.

Wim Gille: Yes, that was perfectly fine. I didn't quite catch why, specifically, Belgium and Spain were doing well. Is it just by coincidence that you have a good equipped sales force there? Or do you do something specific in these two countries? Why you're picking up base there? I mean, the Netherlands is quite obvious, given your heritage. The UK is quite obvious because you picked up, let's say, a good sales team from Eventbrite I think it was last year or two years ago. So that all is quite easy to explain. But why Belgium and Spain?

Jeroen van Glabbeek: Well, I think Belgium, we did an acquisition there, Appmiral. Appmiral produced apps for festivals and they did for whole Europe but also for Belgium, clients like Tomorrowland, which is one of the biggest event in the world. So that help us to think of bits with traction in Belgium.

If you look at Spain, yeah, we’re strong in Spain. We have two offset there, Madrid and in Barcelona, been there for a long time. We have – the economy in Spain is that leisure is a big part. Travel hospitality, leisure is big there. So our services there are also well received in Spain. And we have some big wins there both in travel as in event locations. And I think we've good momentum there. And we expect us to grow further in Spain, so those are bit the dynamics in those countries.

Wim Gille: Perfect. Thank you very much.

Operator: Thank you, as a reminder to ask a question, please signal by pressing star one. And we have a follow-up question from Daan Arends from Kepler Cheuvreux. Please go ahead.

Daan Arends: Yeah, one minor modelling question for me to finish it, for my part. Looking at balance sheet, there seems to be some borrowing accumulating there. Can you explain a little bit what is this? Is this bank debt? And I don't see any corresponding cash inflow on the – in the cash flow statement. So what is happening there? Is this being rolled at higher amounts or could you explain it for me? Thank you.

Serge Enneman: Seems like a typical question for our CFO.

Jörg de Graaf: Yes. No, Daan, those are not bank-related facilities. Those are partly related also to the lease contracts that we have. And therefore, you see an uptick there. So it's an obligation that we have. But it's not necessarily – it's certainly not bank-related, because we don't have those.

And I think also in terms of, yeah, the step-up there. The large chunk of it related to the leases is not increasing our cash outflow in year, because we already have shorter term lease contracts, but a number of them, we extend it partially by the acquisition of Building Blocks, but also for our campus in Breda. And we are moving to one new location in Amsterdam, closing down three others. So in that sense, yeah, you do see a larger obligation, but you do not see – you will not see a larger cash outflow as a result.

Jeroen van Glabbeek: Yeah, and [inaudible] balanced.

Daan Arends: Yeah, that’s clear. Thank you.

Operator: Thank you. And as there are no further questions in the queue, that concludes today's question and answer session. And at this time, I'd like to hand the call back over to Serge Enneman for any additional or closing remarks. Over to you, sir.

Serge Enneman: Thank you, operator. Thank you all for attending this webcast and for all your questions. Our next release will be the first quarter trading update will – which will be released on 19th April 2023. There will be no webcast for that release. The next webcast presentation will be on 23rd – 25th July, apologies, 2023 when we release our first half 2022 results. For all other details and our full financial calendar, please visit our Investor Relations website on CM.com.

With this, we conclude our earnings webcast. Operator, you may not end this call.

Operator: Thank you. This concludes today's conference call. Thank you for your participation. Ladies and gentlemen, you may now disconnect.

[END OF TRANSCRIPT]