

Clavister Q2 2019 Interim Report – Q&A

Question: Is the 4MSEK [from a new operator customer order] included in the Q2 CSP Revenue and can you give a more detailed breakdown of the CSP revenues?

Answer: The 4 MSEK is part of the revenue. We have a very healthy mix of revenues in the CSP vertical, where a fair amount of the revenues come from licenses, support and maintenance contracts that have been signed and a fair part of the revenues come from professional services engagements. We expect a similar split/mix going forward.

Question: Start with top line, can you elaborate a bit on what is driving that growth, is it bigger orders? New customers?

Answer: It is a combination, both the fact that we start seeing leverage and start seeing the return on the investments we made into new areas such as the CSP vertical and with larger customers engagement within Global Key Accounts. But also the growth for instance in our DACH market. There was a bit of a setback in the Nordics market, however the second quarter last year was a particular strong growth quarter for the Nordics market. We grew 67% that quarter and despite our restructuring in the Nordics we were still able to maintain that level. So the entire growth comes from a number of combined initiatives.

Question: Regarding the Nordics, you mentioned the restructuring of the organization, could you elaborate on why you are doing that?

Answer: We have invested in a more comprehensive and bigger go to market organization, not only in the Nordics, but across the company. We know, based on market analyses and our own understanding of the market, that the Nordic market alone has enough of space for us to grow significantly in. We also know that we have no problem addressing or attracting new customers, based on our products. With both market and portfolio existing, we need to build an even stronger platform in the Nordics to monetize and capture that market, which is the reason for the restructuring.

Question: In terms of the sales organization, are you pleased with the size of team today or do you need further additions going forward?

Answer: As we continue to grow, as we continue to take market share from competitors on the market, we will need to scale our sales and Go-To-Market organization accordingly.

Question: You reported a strong gross margin at 82%. Can we expect these margins going forward?

Answer: Our gross margin is mainly driven by our product mix. With larger share of pure software or licensing revenues, we will see high gross margins. Our ambition is however to continue to grow our

entire business, which means that we will see the gross margin vary over the quarters. For the time being, we maintain our previously communicated target of +70% gross margin.

Question: How would you say that the ramp up in 5G deployment has effected the business? Is that development the explanation of the quarterly numbers?

Answer: It is definitely a strong driver and catalyst. Keep in mind that our virtualized security solution is not applicable to 5G only, but also applicable to 4G networks. 5G is definitely a driver, but not the sole explanation. Some of the initial networks that have been proof-of-concepts to us, and are about to go live, are actually 4G core networks, but upgraded to become virtualized.

Question: If we look on the competition, has there been any changes in the competitive landscape in the CSP vertical?

Answers: We still see the same type of competitors and same type of landscape. We do believe we have a very strong offering with our virtualized platform and so far we haven't seen any vendor that has anywhere near our capacity numbers.

Question: And if we look at the broader product portfolio and your product launches, can you say anything about the strategy or is it too early to draw any conclusions?

Answers: In Q1, we announced that we are expanding our entire portfolio; our Aurora Security Framework that becomes the full ecosystem in our product portfolio. In the past quarter we have launched a number of new products as part of this strategy, one being our new fully-cloud based management and security operations center, called Clavister InCenter. We already have a good uptake in terms of customers. We have close to 100 customers right now that are being on-boarded to that platform. We also launched a product in the advanced threat protection space, called Clavister NetEye. We have already seen initial sales and customer wins for this product. However, we are only a few months into the product lifecycle. But the feedback from the market on these products have been good.

Question: How do you see these initiatives affecting cost and investments for the coming quarter?

Answers: We maintain the position we communicated earlier, that our cost base will not increase compared to last year. For this past quarter, our operating costs were actually reduced compared to the same quarter last year.

Question: Are there any new trends in the security market worth highlighting affecting your business going forward?

Answers: Not any new trend, but definitely emerging markets and emerging technologies that have been cooking for a while, but haven't appeared on the wider market yet. One of them is obviously connected cars and the automotive industry and the security perspective there. The other one is within the industrial IoT space where awareness starts to happen now, although the actual products and technology is not entirely new.

Question: Regarding Nokia, How do you see the activity in 5G now and how does this translate with your cooperation with Nokia? They have got over 40 5G:s orders, so can we expect continuous strong, even increasing growth in CSP?

Answers: As mentioned above, the 5G activity really catalyses the need for virtualized functions and with that comes a necessity for security. All of that very positive drivers for the Clavister business. In terms of actual networks being deployed, we are currently having +20 different mobile operators that have embarked on using Clavister's technology. We are however not first in-line to supply technology to a new 5G network. Typically the radio equipment vendors come first, then the core network, while security gets complemented after a while. That means there is a gap between networks being deployed and us seeing revenue from those.

Question: Do you work to improve the owner base and maybe take in larger owners?

Answer: My role as CEO is to drive business and not to change shareholders or improve shareholder base. Nonetheless, we have seen a very strong interest for Clavister and the Clavister business from institutional shareholders in Europe over the past period of time. One of the reasons for the equity event we conducted in Q2 was to allow institutional investors coming into the company knowing that that is healthy for the business. It creates credibility for the business and it's good for the shareholder base in general.

Question: Regarding 5G, do you see any differences in activity in Europe versus the US?

Answer: What we have seen so far is that the US have been a bit ahead of Europe, however some of the proof-of-concepts, earlier mentioned, are really taken place in Europe now. With global operators having a strong footprint in the US but definitely conducting high-tech investment and high-tech proof-of-concepts within Europe, because of first of all the smaller sized networks, but also the matureness of tech and the deployments.

Question: What are your reflections on the second quarter?

Answer: All in all, I'm very satisfied with our performance in the quarter, both the financial outcome as well as the interesting strategic initiatives we have started. I am especially happy to see that our investments over the past years into the communication service provider vertical now starts to pay off.

Question: I have a question again about the 5G and CSP, should we interpret that you will have 20+ clients that will start rolling out their network in the next few months? Like the one you described in the report?

Answer: That would be ideal, but the more complex answer is, of course not necessarily. Keep in mind that of the many mobile operators that have embarked on using or started PoC-ing Clavister technology, some of them will go live and become commercial, some of them will delay or postpone

their investments and some of them might choose to not go ahead at all. What the exact outcome will be is too early to see.

Question: John, how do you model the opportunity with arm heading into the next year in best case scenario? Or are we rather taken 2021 before this could be 10% or so of your overall revenue?

Answer: To provide some light on that, I would like to reflect a bit on how we conduct the business. Where we spend the majority of our resources our time and effort, is into our traditional or transactional-based sales which is really generating the growth quarter by quarter as we have seen now. On top of that we have identified a number of growth initiatives. They are strategic initiatives and have by their nature a possibility to create additional very strong growth for Clavister, on top of our traditional sales, but by nature they are in early days much more unpredictable. We know from historical initiatives, such as CSP, that it takes time. Lead times are not to be underestimated. When we come closer to actual deals within those segments we will be happy to elaborate a bit more on that.

Question: Is this based on a price per box or rather usage of device in the field?

Answers: It is different depending on the use case. We can adopt our business model to the one that fits the customer and partner in this case, it is really up to the use-case. We have the opportunity to charge per license, per device, per capacity or per site.

Question: Are there other like Arm and Tieto like irons in the fire in the second half year? Or do you feel that you need to focus much on those cooperation's that you already have announced in order to make sure that they work?

Answers: There are many opportunities and many partners like the ones we just mentioned. A challenge for a company like Clavister, with limited resources and limited bandwidth, is to focus, not to try to spread ourselves too thin and ending up with nothing. So in the short term, of course we need to nurture the partnerships we now have embarked on, making sure we monetize on them and in parallel keep a close eye on opportunities that are related to them, that can be added to our portfolio.

Question: Japan continue to show negative growth. What are your thoughts there?

Answer: As we have communicated earlier, we have a very strong dependency on just a couple of customers, although large ones, in Japan. With our customer NTT-BP, we are strengthening our partnership all the time. The amount and types of infrastructure projects they run is very impressive, and what is really interesting is that we have become a very natural component in all those projects. Over the past months, we have been running initiatives to increase our customer and reseller base, and during the second quarter we were able to sign and on-board new distributor and reseller partners.

Question: Your gross profits increased by an impressive 42% in the quarter. Can you please give some background to this strong increase?

Answer: The gross profit was improved, of course due to the increased revenues, but also due to a favourable product mix in the quarter. We had a larger share of pure software license sales, for instance in our communication service provider vertical, and in our Identity and Access Management product portfolio. We have also seen a larger share of more high-end products in general, which helps drive our margins.