OVHcloud H1 2022 Results

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Operator: Hello, and welcome to the OVHcloud H1 Full Year 2022 Results Call. My name is Josh, and I will be your coordinator for today's event. Please note that this conference is being recorded, and for the duration of the call, your lines will be on listen-only. However, you will have the opportunity to ask questions at the end of the call. This can be done by pressing star one on your telephone keypad to register your question. If you require assistance at any point, please press star zero and you will be connected to an operator.

Today's speakers will be Michel Paulin, CEO, and Yann Leca, CFO. I'll hand over to the OVH team to begin. Thank you.

Marisa Baldo: Yes. Good morning, everyone, and welcome to OVHcloud first half results conference call. I'm Marisa Baldo. I'm the Head of Financial Communication at OVHcloud. And to comment our results today, we have Michel Paulin, our CEO, and Yann Leca, our CFO. We will start with the usual business and strategic highlights with Michel. Yann will then take over to comment financial results and outlook. And we will conclude with Michel before opening the floor to Q&A.

Just a quick reminder on the disclaimer on slide two that I invite you to read. And with that thank you again for joining. And I now turn over the call to Michel.

Michel Paulin: Hi. Good morning, everyone. I'm very pleased to be with you this morning. And I'm very, very honoured to have the opportunity to present our H1 results.

The first slide is about that – to demonstrate that OVHcloud continues to deliver its growth acceleration path. On the left, you have the key attributes of the OVHcloud positioning, and on the right we have the KPIs of the semester. First, we have reached a revenue of €382 million, which is up 14.3% reported and 13.3% like-for-like. We have an adjusted EBITDA of €153 million with a 40.1% margin. Our net revenue retention rate is at 112% and our growth CapEx at 41% and the recurring CapEx at 18%.

The next slide shows that we have a continued momentum during this first half, and we have – continuing to have commercial wins with new customers that we have across the globe, which is a way for us to continue to accelerate our growth. The second in the middle is that we believe to have better go-to-market coverage. Everywhere in the world we are strengthening our partnership programmes and I just want to illustrate that with a few numbers.

We have now up to 850 partnerships and double-digit growth with our system integrators, and of course, we have put some big names, where we have a global partnership with them covering most of the continents of the world. But of course, we have also a lot of regional, technical, and sectorial partners today to continue to increase our market coverage.

But also we are betting for the future growth thanks to our partnerships with start-ups. And we have acquired, in the first semester, up to 300 new start-ups in our project, which allow us to be comfortable to continue to accelerate and we're also improving our scale up programmes to attract more and more, fast growing companies in our programmes.

The last, of course, is about innovation. We want to develop innovative solutions, and that's why we have accelerated our PaaS offering. And you see that on the right, all the new services we have introduced very recently. I will illustrate in the next slide how we want to continue to have the way and the capacity to capture a growth opportunity of the PaaS market.

The next slide shows that today we are continuing on our four pillars to accelerate and confirm our growth acceleration trajectory. First, as you know, this is a business mix shift, which is a mechanical acceleration growth due to our different growth rhythm that we have across the different product lines. We maintain a strong growth in public cloud up to 24.4% reported. And we – as you know, private cloud is a very strong asset for OVHcloud. And now we have reached 15.8% growth in H1.

The second is a pillar to accelerate our growth, thanks to the fact that now we are moving to the PaaS, which is up to €50 billion to €60 billion market opportunity. We have introduced 71 services now available to our customers and so we confirm the target of 80 IaaS and PaaS services by the end of our fiscal year 2022.

The third one is international expansion. We are very successful in our digital channel in the US and Asia with respectively 97% like-for-like growth in the US in the digital channel; 57% like-for-like for APAC. And we intend to continue to invest in these continents. We will bring a new data centre, the third one in Singapore. We are going to open in 2022 a new data centre in India in Mumbai. We are planning for 2023 new data centres in America, in Germany, and of course, also in France because we will extend our footprint of data centres in France.

The last, as you know, which is not something that is huge in our plan acceleration growth that's important is the fact that data sovereignty, data protection is really a rising concern in all geographies. There is a lot of, and I will illustrate that, new regulations and also enquiries which are made today in this domain. And we believe that this is potentially, again, a very important element, where OVHcloud is uniquely well-positioned to differentiate themselves and we have a very dynamic commercial pipeline with this data sovereignty concern.

Let's illustrate the move to PaaS with the next two slides. The first slide is to show that today we are rolling out, I mean, according to our plan, the availability of new services across the different PaaS domains once we have decided to invest. Security-as-a-Service, storage and backup, AI and machine learning, containers, Kubernetes and orchestration, Database-as-a-Service, and application platform.

I will not, of course, mention all the innovation we have introduced, but we believe that today we have the engine which allows us to continue to propose to the market new innovative solutions, which are completely consistent with our business model and also our values of openness, reversibility, and transparency.

And if we go to the next slide, we see today the full screenshot of all the services we have. We show that now we are catching up and we have a complete offering that we can propose in the public cloud but also in the private cloud as PaaS solutions for customers. Either they are tech pure play customers or corporates or mid-enterprise market. So this is something that we believe is a strong pillar for the next year growth acceleration process.

The next slide is about international expansion. You see that on the right that today we have a strong acceleration, especially in the rest of the world, with 37.4% growth reported, and also we are making strong investment to continue to accelerate in all geographies. As I mentioned already, we have planned to open new data centres in North America, where we have today strong growth, and we will continue to do digital and also direct sales, especially in the US and Canada, where we have strong pipeline and strong momentum.

In Asia, we are growing very fast, 37% reported, and we intend to continue to invest by developing two new data centres by the end of 2022, which is data centre in India, which is a strong market with new regulations about data, and for us it will be a strong asset to be able to penetrate more aggressively in this market. And also in Singapore with a third data centre, which will allow to expand and grow even faster in this area.

Moreover, I just want to emphasise the fact that we have very successful digital channel today outside of Europe with very strong momentum, three-digit growth in the US, and 64% growth in Asia, which shows that today we have a strong engine of growth acceleration in these areas. And we do believe that the investment in terms of product innovation and data centre expansion will allow us to accelerate and to continue to grow actively, and, I would say, constantly in this market.

The next slide is about the last pillar, which is an important pillar, even so the plan is not completely dependent on this pillar. This is about the fact that now there is more and more concern about data sovereignty, trusted cloud. It’s a rising concern for customers, governments, public entities. And there, we see that we have adopted a dedicated approach for some critical industries like public sector, healthcare, financial services, aerospace. We also now have dedicated products and services based on certifications like SecNumCloud. We have created what we call the trusted zone services for all European GDPR compliance services. And we are a leading player to create, especially in Europe, everything which is consistent with the European values and also European certification. We are the number one European player. We are a Gaia-X founding member and board member. And you know that today, Gaia-X has just announced that they are going to release the new labels, which will give clear directions about how to be consistent on both interoperability and data sovereignty.

And last but not least, of course, is about the evolving legal frameworks globally, which are showing that our positioning is accurate. The DMA, which will prevent some gatekeeper to impose unfair practices, and clearly this is something we believe is something in favour of OVHcloud. The Quebec Bill called Loi 64, but also we see that there are some new laws in India, in South Korea, in Japan, in Singapore, which are going in the same type of trends. And we have a strong momentum with commercial wins on a growing base, and this is a key figure about our installed base and the public sector. We have 50 financial services, 35 regional cities in France, 30 are state-owned entities as customer. We have more than 25 healthcare big organisations in Europe. And in France, we have more than ten ministries, which are already customers in OVHcloud. So this is something I do believe is showing that our four growth pillars are really, I mean, according to our plan, a way to accelerate our growth.

Moreover, we believe that we are able to continue to support our growth plan, thanks to our human resources strategy. And you know that recruitment is a key element of success to maintain this growth. And we are very, very confident today to show that we're able to develop our workforce to support our growth strategy. Today, we have 2,632 employees, more than 60% tech profiles and we have continued to attract at a high speed with up to 60 to 100 new employees per month. Moreover, we have recurrent and survey, and we know that today we have a strongly engaged employee level with the loyalty rate of 79%. And engagement score of our last employee survey, we do employee surveys every quarter, of 7.4. The absenteeism is less than 4%. And the voluntary departure is pretty low for a tech company, lower than 13.5%. And this is important because we received recognised prizes, which also demonstrate that OVHcloud is a nice place to work. And we know that it is important to continue to emphasise the fact that today OVHcloud is a place to be, and that will help us to continue to grow and accelerate our growth in the future.

The last mention I would like to do before Yann presentation, is about the fact that we continue to invest massively in a sustainable cloud. We have some key performance indicators today which show that today thanks to our integrated vertically model, we have the capability to continue to improve our sustainable cloud.

We have low PUE, low – very, very low WUE, which is the usage of water. We have today very, I would say, high standards of renewable energy, already at 78%. And thanks to the capacity that we have today with our two factories and our vertically integrated model, we are able to refurbish, to reuse components, which is a way also to reduce cost, to increase the capacity by reusing some servers and also to have a low carbon footprint.

That's why we continue to have ambitious mid-term targets with 100% renewable energy by 2025. Carbon neutral operations, including production by 2025, which is really very different than most of our peers. Carbon net zero on the enterprise footprint of – by 2030, and zero waste to landfill. Moreover, we are also able to have strong partnerships like EDF Renouvelables on renewable power purchase agreements ,which are signed this semester with new solar plants in France with 15 years agreement starting in 2025, which will give us 50megawatt capacity. And we will continue to innovate. With new innovations that we will introduce very soon to continue to have this leading capacity in the sustainable cloud. Yann?

Yann Leca: Thank you, Michel, and good morning, everyone. Yann Leca here, CFO. Very happy to be with you this morning to go through our financials, and I invite you to go to page 13.

This page shows that obviously we have a solid growth on the back of confirmed improvement in revenue retention rates. First of all, you have our usual ground showing how we compute like-for-like revenue. We restate last year with two components: perimeter - we had a few acquisitions in the meantime; and also the forex impact as we restate active numbers with today's US dollar rate mainly. As you know, the dollar is now stronger. That brings us to 340 as a base to grow from.

And then we restate this year's revenue just for the vouchers, given in the context of Strasbourg, which impacted our revenue by €3 million. As you can see, this is going to be gradually the end of this voucher programme. But this first half year we were impacted by €3 million. So 386 is the restated number.

As a result, the like-for-like comparable revenue growth is €45 million or 13.3% to be compared to a reported growth of 14.3% definitely driven by the growth in US dollar. Our net revenue retention rate in fiscal '22 H1 was 112%. It's in line with the first quarter, and we're actually very happy with this result. It was 103% last year for the entire year, and this shows that our business is getting stickier.

On the next page, I want to show you a breakdown of our revenue and revenue growth by product segments. Our private cloud continues to grow in line with market trends at 15% growoth, reaching €234 million and at 61%, it's one point more than previously. The public cloud is growing at 21%. Actually, this includes public cloud, VPS, and SaaS revenue. The pure public clouds even north of 30% in that number. And public cloud now represents 16% of our mix. As you know, one of the reasons why we're accelerating in growth is that the revenue mix is getting more favourable. As a result, Web Cloud & Other, which grew this half year at 5%, it now represents 23% instead of 25% previously. We enjoy a growth in ARPAC, average revenue per active customer, in all segments and definitely our growth is also propelled by the digital channels in public cloud and private cloud.

Moving now to adjusted EBITDA, which reached this first half year €153 million. Again, this like-for-like graph is the same elements, which I'm not going to repeat. So we grew from €141 million comparable to €156 million this quarter and that's this half year. And that is showing that we are reaching our guidance of approximately 40% adjusted EBITDA margin. We're actually at 40.1%.

Moving to now the more detailed slides regarding our full P&L. The point you need to bear in mind is that our pre-tax income of minus €25 billion was actually burdened by one-time events, which are the IPO. I remind you that the IPO took place mid-October, which is included in this H1 period. And I will go through the detailed impacts, and one M&A impact and the Strasbourg costs.

So more specifically, if you look at the revenue, we have a Strasbourg impact of €3 million, which are the vouchers, which I covered earlier, but also the accelerated depreciation of some service which were damaged in the wake of the incident in Strasbourg in that's another €3 million.

And also we have an insurance premium, which was inflated by €2 million. That's temporarily for €2 million. So that's a total of €8 million on Strasbourg. If you look at the IPO impact, you remember that we have a very successful employee share plan. Today, 98% of our employees are also shareholders of our company. And according to IFRS 2, we recorded a significant charge one-time in order to account for that even though that's a non-cash – mainly a non-cash impact.

And we also continue to unwind the MEP, management equity plan, which was there previously. So that's a total of €21 million of share-based payments, of which €20 million are non-cash but that's required by IFRS 2 standards. We also had an earn out compensation for one of our acquisitions of €4 million, which according to IFRS, have to be recorded in that way.

Then, again, on the IPO, we booked €8 million of fees in non-current operating expenses. So all of those elements cost us €41 million. One positive point, which is also the impact of the IPO, is that the interest expenses have declined from €12 million to €6 million, and that's the effect of much lower interest rates.

If we look at the cash flow, the one point, which is interesting to focus on is the growth CapEx, which, as you could see, represents 41% of revenue this half year, which is higher than the annual guidance of 30-34%. And there are three main reasons for that. First of all, we traditionally have a phase-in, which is geared towards the first half year. We spend more CapEx in the first half year than in the second half year.

The second point is, as you know, there are component shortages in the world. And we did make precautionary purchases of inventory of components, and that's about €20 million. I remind you that components for – used to build our servers, which then become CapEx, are also classified as CapEx in our balance sheet. So this is why they are included here.

And finally, as part of our ordinary course of business, we buy IP addresses and then we had this half year an opportunity to buy more. Those addresses do not lose any value, much to the contrary; and in order to hedge our future quarters, in particular, the year 2023, we made the decision to buy €17 million worth of those addresses while we had initially planned for just €2 million in this half year one.

Those are the reasons, three reasons. So mainly hedging and also phasing while we are in this half year exceeding the full year guidance.

Moving now to the next page and looking at our balance sheet as of 28th February 2022. Further to the IPO, we now have a last 12-month leverage of 1.46 times, which is expectedly very low, and a very good gearing of 1.0 times as net debt and equity are pretty much equal. As a reminder, we enjoy as well the benefits of a successful refinancing of €920 million, where interest rates on an annual basis are divided by 2.5 times.

Moving now to the outlook. First of all, we have to say a word obviously about the Ukraine crisis and the war which is going on. Today, in this deteriorated environment, we have clearly implemented a regular follow-up process of our activities in Russia, Belarus, and Ukraine. And we have a very strict framework, and we obviously comply with current rules and regulations, and we monitor all this on a daily basis.

Now moving to the right side under the direct exposure. In that extended region, Ukraine, Russia, and Belarus, we have no staff, no data centre, no offices. In H1 fiscal '22 revenue, those three countries represent around 1.5% of Group's revenue. So, obviously, we're also, like any other business, have an indirect exposure, but the energy costs are almost fully hedged for fiscal '22 and partly hedged for '23. Clearly, it doesn't do any good to the pre-existing supply chain tensions. But we are able to mitigate that with our vertically integrated model. As you can see, we've also taken some precautionary measures and purchases.

Now moving to the guidance. And on the basis of the momentum we recorded in H1 and also of what we see in Q3, which is pretty much consistent with fiscal '22 revised guidance, and in spite of the war in Ukraine, we're happy to increase our revenue guidance for the full year to 15-17%, up from the previous guidance, which was the upper half of 10-15%. The mid-term guidance remains unchanged, too. We still – we continue to want to accelerate to mid-20s. Regarding adjusted EBITDA margin, also in spite of the troubled environment we're faced with, we continue, and we maintain an adjusted EBITDA margin guidance of around 40%.

As far as CapEx are concerned, recurring CapEx, we expect to be – to continue to be, for the full year, between 16% and 20% since half year one, which was 18%. As for the growth CapEx, we maintain as well 30-34% for the full year, to the exception of the acquisition of additional IPv4 addresses, which are a hedge which we want to be at the liberty of doing and which we have recorded already in this half year one. And again, for the mid-term guidance, there is no change to our CapEx guidance.

And with this, I would like to hand over to Michel for the key takeaways.

Michel Paulin: Yeah. As a conclusion and in sort of nutshell, the key takeaways are, first, we have a very strong financial performance. I just repeat the key numbers. Revenue of €382 million, growing by €14.3%. A net revenue retention rate at 112% and adjusted EBITDA of €153 million, at 40.1% EBITDA rate.

This is, I mean, the result of a successful growth strategy that will continue to intensify with more sales and marketing investments to have intensified commercial momentum. We believe that thanks to the innovation, and especially on the PaaS, very active PaaS roadmap to serve and to acquire new customers, we will be able to accelerate our growth. And clearly, we are doing additional investment to have a better coverage of the market and to have more international footprint, where we have at the present time very successful growth, especially in Asia and North America.

So if we look at – looking forward, as Yann mentioned, we have decided to increase our fiscal year '22 revenue target despite the international situation and Ukrainian crisis, which will impact us but moderately, and we increased the target up to 15-17% growth versus last year. And we have confirmed the targets on the adjusted EBITDA margin and the mid-term objectives. So we are very confident to continue to fulfil all the plan we have for fiscal year 2022.

And we are now ready to answer any questions if you have any. Thank you very much for your attention.

Questions and Answers

Operator: Thank you very much. If you would like to ask a question on the call today, please press star one on your telephone keypads now please. Please ensure your line is unmuted locally and then you will be introduced into the call. That is star one on your telephone keypads now please. We do have some questions in the queue already. And our first question comes from the line of Varun Rajwanshi from JP Morgan. Please go ahead.

Varun Rajwanshi (JP Morgan): Hi. Good morning. I have three questions. So the first one. There were some press reports in early March based on interviews of firefighters who were involved in the Strasbourg fire incident. I know that the official fire investigation report hasn't been made public yet. But what can you say in response to these press reports that highlight very poor fire safety measures and also point to air cooling as one of the reasons for the damaging impact of the fire?

Second question is on the data sovereignty piece. I know this is not the biggest contributor to your mid-term revenue growth expectation. But is there any way to quantify the impact from Microsoft's alleged anticompetitive practices? And how much of an uplift do you expect from the broader rollout of labels and services based on the Gaia-X framework?

And then lastly, given your current and expected rate of cash burn, how much runway do you have before requiring a fresh influx of capital either via debt or equity financing? And I've noticed that you've reaffirmed your 2025 CapEx guidance. Is there anything that you're actively pursuing to lower your growth CapEx intensity over the next two or three years? Thank you.

Michel Paulin: I will answer the first two, and I will let Yann for the third. About the final report, I mean, there is nothing new. It was – I think it has been disclosed, but in fact it – the report which has been really done on beginning of last year, in the first semester of last year. The point where – two major things. First one air cooling. And the second point is about what we do. And I think we have already expressed today that we have a plan to increase the resilience, which we call the hyper resilience plan for the next year of our all our data centres.

The – and about the air cooling, we are today improving, for all our data centres, the different elements to increase the resiliency of our infrastructures. And this is something that we're investing in. And for example, the next new data centre that we're going to open in Strasbourg, what we call SBG5, will be consistent with these recommendations, which are about containerisation, about fire detection, fire extinguishing and all the types of elements that we are introducing. And there is nothing really new in the firemen report.

The second is mainly about what we mentioned about the backup of the data and what we have announced that starting by France, we will include in all our services free backup in data centre, which is a bunker data centre, which will allow the customers to have access to the snapshots and the backup of all our services starting at the end of 2022. So this is the implementation we have put in place to be able to guarantee the hyper resilience of all our customers.

About your second question about the data sovereignty. As you said, this is not our main driver of growth acceleration for the next few years. Even so, we do believe that OVHcloud has a unique positioning in the hyperscalers scene against most of the US or Chinese players today that cannot replicate some of our major attributes, which are that we have zero exposure to extraterritorial laws, for example, that also our solutions are open, reversible. That we do not compete with our customers. We are not in the gaming. We're not in the streaming industry. We are not in these areas. We are not in the software. We are not in the SaaS domain.

And we believe that all – week after week, there are new elements, which show that it's a rising concern for customers. And also that there are more and more certifications and labelisation. And I mentioned and you mentioned the Gaia-X labels, and they have introduced new labels. There are three labels we're going to be introduced. And the example of the third level of label which will be introduced by Gaia-X as a recommendation for the purchasing department is that to obtain the third level of label, you need to guarantee to be immune to extraterritorial laws, which exclude some players, but not OVHcloud.

So really do believe that today the momentum is accelerating. I just want also to mention what's going on in India, where there are new laws that are, for example, preventing from exporting data. And we believe that this is a strong, I would say, movement and sort of wave which will expand in many regions. So that's why we are very confident that OVHcloud today has very strong – and I mean you cannot replicate, unreplicable advantages against most of the players on the market. And this is why we are very confident. This is – we are really following the trends of these regulations.

The third point, Yann?

Yann Leca: Yes. Indeed, there were two subpoints. First of all, question about how funded we are. And I just want to be very clear about the fact that the current financial setup and bank facilities allow us to fund the current growth and its acceleration throughout 2025 and beyond, and while remaining within our financial policy, which is below a three times leverage.

There was a second point about the cap- – I suspect the CapEx intensity. And I just want to remind you that we guide at those levels with the assumption that our growth is going to accelerate to the mid-20s year-on-year in 2025. And for that, we need additional CapEx. And that's why we have a significant growth CapEx.

In the following years, if the growth becomes more steady state growth, stable growth, or if there is, for external reasons, a lower growth, then it's very important to bear in mind that we have the ability to almost immediately lower our CapEx, which makes us a very defensive model actually.

Most of our – more than half of our CapEx are service which we build one after the next and we can tune that from one week to the next. And as a result, the flexibility of our model makes us very nimble in terms of adjusting our CapEx to the growth that we want to address.

So, in the longer term, of course, with lower growth numbers and stable growth levels, then we will start generating cash.

Varun Rajwanshi: So Yann, just to clarify. So in the near-term, there is no plan to accelerate the use of colocation services?

Yann Leca: No, we remain within our model. I have one mitigation point on that. Usually when we address a new country, which is the case of India, for instance, we usually use an intermediate model, which is shell and core, which is out of conservatism because we don't put all our eggs immediately in a new country. That was the case, for instance, in Singapore. It's likely that in Asia, later on, we will move to complete – to a model which is consistent with our global model, but there is no particular plan to change our existing model.

Varun Rajwanshi: Understood. Thank you.

Operator: Thank you very much. Our next question comes from the line of Toby Ogg from Credit Suisse. Please go ahead.

Toby Ogg (Credit Suisse): Yeah. Hi. Good morning. Thank you for taking the questions. Two from my side, please. So, firstly, I just wanted to touch on the public cloud segments specifically. As it does seem to have been sort of decelerating a little bit just in the first half of the year. I know you called out VPS here as a specific reason for the softer growth. But could you just expand on that and explain why that piece has been slowing down? And then also comment on whether or not the pure public cloud element has been accelerating? And perhaps just a breakdown of the mix there between the two would be helpful.

And then secondly, I just wanted to come back to your customer base and the behaviour over the past couple of months. Specifically, it does seem, based on your comments, that current trading is on a similar trajectory to your full year guidance suggesting that there hasn't really been any disruption from the broader political – geopolitical issues and concerns around the recession. What are you hearing from your customers around their appetite to continue with their IT spending plans, given that macro uncertainty? And do you see any risk on the private cloud side specifically, just given that that's a little bit more mission-critical in larger deployments, which as we saw in COVID, for example, can get pushed out? Yeah, any detail there would be great. Thank you.

Michel Paulin: Okay. About your two questions, we do not disclose the the split for the VPS and the public clouds. And we just mentioned qualitatively that, yes, we've seen a slightly decrease the VPS. But we believe that, thanks to the fact that all the innovations we're introducing, especially in the PaaS, several PaaS are in the public cloud, not all of them but a big part of the new innovations we have implemented in the public cloud. We feel really confident to maintain and to accelerate growth in the public cloud.

About the overall concern, especially in the corporate market, due to the international, I would say, tensions, and also the economical situation, especially about inflation. And your question about the concerns and appetite. It's clear that we see today that they are, of course, sort of, I would say, interrogation of the customers about what would be next and some customers are really re-evaluating their investment, their transformation, etc.

And for us, it's clearly something which we need to analyse in details. However, what we see is that most of the time, part of the answer to be able to adapt the organisations and the companies is the capability to transform and to have more lean, flexible, agile organisation, especially in the digital world. That's why we believe and that we are able to help them to do so. And for the moment, and you've seen that in our guidance, we didn't see that it's a major threat or major, I would say, slowdown potential for the next month.

However, of course, we are always very cautious, very vigilant, very present, because it might occur, and this is something that we are really working very hard.

About the private cloud, I think, surprisingly, due to the cybersecurity issue and the tension you see in the fact that cybersecurity is becoming more and more and more the concern to the company, it's important to see that private cloud, independently of some mission-critical things, are also seen as a more secure solution than public cloud which are mutualised. And you’ve certainly seen that there were some announcement made by some hyperscalers about the fact there were some doors or failures in their security scheme in some public cloud solutions.

So this is why we believe that private cloud is not at all at risk for the moment and you see that we have strong momentum in the first half of 2022, thanks to the fact that private cloud, in some domains, and especially when it’s about cybersecurity, is certainly the most appropriate solution that you can propose in a very uncertain period and we know that cybersecurity is already and will become even more important for all the organisation, both public organisations and private organisations.

So, I think, on the contrary, we believe that the focus on the private cloud will be maintained due to the uncertainty mainly on those security.

Toby Ogg: Great. Thank you.

Operator: Thank you very much. Our next question comes from the line of Amit from Citi Group. Please go ahead.

Amit Harchandani (Citigroup): Thank you. Good morning, all. Amit Harchandani from Citi. Three questions, if I may. My first question goes back to your PaaS strategy, which is clearly a key driver for long-term growth acceleration. Could you give us a sense for how much PaaS revenues are likely to contribute in fiscal 2022? And if it is likely to be immaterial, then how should we think of the pathway towards what seems like potentially €25 million to €30 million in revenues on ballpark estimates by 2025? If you could give us a sense for what are the services which would start contributing and how should we, as the financial community, evaluate your progress and track it along this PaaS acceleration? So that would be my first question.

My second question goes to the topic of inflation. You've talked about energy costs being hedged for 2022, partially hedged for ‘23. But clearly, once your hedges roll-off, there might potentially be pressures in your cost base around inflation. How do you plan to mitigate that? Do you have levers such as pricing power at your disposal? So curious to understand how are you thinking about addressing the topic of inflation over the medium term?

And lastly, if I may, you talked about the IP addresses and you talked about the opportunity there. Does that mean we should expect the growth CapEx in 2023 to be below the average run rate because some of it has been pulled forward into 2022? Thank you.

Michel Paulin: Hi. First of all, the PaaS strategy about the question about 2022. We always have said that the impact of the PaaS strategy will have very marginal impact on our results. Because as you've seen, we are launching every month new services, and therefore, the impact, which is incremental revenue has really very, very marginal impact for this year. However, we believe that it will be an acceleration model for the next years. And that's the reason why we continue to invest and innovate a lot in this domain.

You ask us what are the key – we do not split the revenue per PaaS of course. What are the key elements of gross revenue acceleration of the PaaS? I just want to express why we invest massively in the PaaS. The first one is because some customers are requesting it, and this is a customer demand. The second point is that PaaS is an entry point in customer solutions, which allow also to expand, of course, PaaS revenue, but also IaaS revenue. And the example, for example, to illustrate is the case of high-performance storage, where the capability to provide PaaS, so it's in a way to organise the high-performance storage, object storage, file storage that we have introduced, is a way to get IaaS storage capacity.

The way to add additional services on top is a way to have more and more petabytes of data, which is increasing. So our strategy is to strengthen and to reinforce our solutions portfolio to be able to, at the same time, include – increase, of course, your revenue of the PaaS, but also to accelerate the IaaS, which is underneath because when you have PaaS, you need to have compute, you need to have storage, you need to have network.

About inflation, maybe I will let Yann to illustrate the point.

Yann Leca: Yeah, it's obviously a great question. And there's no doubt that in the long-term as our hedges disappear gradually, we will have an inflation of our costs, like all other businesses, and like I suspect all of us. It's not only energy, but it's going to also to be wages. We also know that components are increasing. And that was the question of our policy in terms of price.

We believe we're in a very good position, actually, because first of all, if you compare our pricing to those of the larger hyperscalers, we have a very significant price advantage today. And for us to increase prices, which we believe the entire industry will anyway, it does not pose any problems in terms of getting us closer. We will still be at a very significant price advantage, even increasing our prices for the foreseeable future.

And as it relates to more local competitors, what we are seeing is that they have already started to increase our prices fast. And we believe that we should, in this respect, lag rather than lead. And one of the reasons why they are increasing earlier is that they do not have the financials and they do know have the hedging policies or the sophistication in order to hedge as much as we do, and as a result, they are much more and much earlier exposed to price – to cost inflation than we are. So on both ends, we believe that we can manage this in a very proper way and to our advantage.

Your third question regarding IP addresses, your remark is valid. What we have purchased this year is not going to be purchased next year. Now the €17 million, which we purchased in H1 if we leave it at that, represents, on an annual basis, 2.5% of annual revenue, which means that we should continue to fall within the 30-34% bracket, which is a 4-point bracket next year. So that is not sufficient for us to change our guidance.

Amit Harchandani: Very helpful. Thank you.

Operator: Thank you very much. Our next question comes from the line of Ben Castillo from BNP Paribas. Please go ahead.

Ben Castillo-Bernaus (BNP Paribas): Good morning. Thanks very much for taking my question. Comment firstly, if you could, on your vertically integrated model and the supply chain impact you're saying for components. What are you seeing maybe through the first three months of this year over Q4 of last year? And perhaps when your expectations would be for those supply chains to perhaps normalise?

Second question, just talking on pricing. Can you just remind me of what price increases either you have put through to-date or intend to this calendar year? And then thirdly if you could just provide an update on MongoDB and Anthos offerings? That'll be helpful. Thank you very much.

Michel Paulin: Okay.

Marisa Baldo: Sorry, Ben, we couldn't hear your first point. Could you please repeat it? Thank you.

Ben Castillo-Bernaus: Yeah, of course. So first question was on what you're seeing on the supply chain disruption for components. So how has that changed this – start of this year versus the end of 2021? And perhaps what your expectations are for supply chain for the rest of this year? Thanks.

Michel Paulin: Well, it’s clear that today the components and the supply chain is, I would say, disturbed. And every month there is a new, I would say, bad surprise overall. And you know that also there are some uncertainty about the COVID situation in China creating some locking situation in the Southeast Asia.

So for the moment, we have always said that we believe that the supply issues will continue for at least a few semesters. And that's why we are very vigilant, and we tried to hedge ourselves. And you've seen that in the first semester, we have decided to hedge ourselves by creating some stock of some components because we know that as soon as we have the components, and we have the capability to have access to it, we buy it because we know that there is unpredictability of the supply chain.

However, we believe it will not affect our 2022 results and our ‘22 roadmap, because thanks first to the fact that we have strong partnership with key players in the supply chain, we're able to continue to have that. The second is that, thanks also to the fact that we have our own industry model, we are most of the time able to switch to new components when we see there are some shortage, because we have our own R&D and we have therefore the capability to find alternative solutions when we have cable, motherboards, drives, discs, or CPU shortages.

So this is something where we believe. However, I think it's certainly an area and point of concern, and we don't see that it will – we don't believe it will be back to normal at the end of this year. It will continue next year.

About the pricing, we mentioned that publicly that we have raised two pricings already due to the Verisign and to Microsoft 365 increase, and we believe that this has a little bit correlated to inflation will continue. You've certainly seen also that Google and AWS have made some pricing changes, and most of them are pricing increase. So there is some tension on the pricing there. And of course tactically and strategically, we will readjust our pricing strategy to be able to, at the same time, continue to acquire new customers in the right rhythm to be completely competitive and we have competitiveness in terms of pricing, but also to maintain, as we said, the right level of margin to be able to continue to have the right level of EBITDA.

MongoDB. I cannot disclose the data of MongoDB. The only thing I can mention is that we are going to introduce the last edition of MongoDB for MongoDB enterprise level. And therefore, it means that we will have, with MongoDB, the full, comprehensive product and solutions offering before the end of May, which will allow us to continue to gain new customers, either in the digital market that we are going to launch massively after this launch or in the enterprise market, because this is a piece that was still missing in our offering and this is for us a new opportunity I think.

The last point I would like to mention is that we are doing comarketing with MongoDB and we are participating to many events with MongoDB, to improve and increase the knowledge by the market and the customers that today we are, among the others, one of the alternative to provide Database-as-a-Service based on MongoDB solutions in the cloud arena.

Operator: Thank you very much. Our next question comes from the line of George Webb from Morgan Stanley. Please go ahead.

George Webb (Morgan Stanley): Morning, Michel, and Yann. A couple of questions, please. So firstly, just on the composition of growth, I guess, in the first half 13.3% like-for-like. Like-for-like net retention was 111% suggests I guess a relatively low level of new customer acquisition within the growth mix. Was that in line with your expectations? And how should we expect the contribution from new customers versus upsell to existing customers to trend from here?

And then secondly on data sovereignty. I guess, we've all seen that the recent comments from the EU and US about potential creation of a new replacement for the Privacy Shield over the coming months. And I guess we'll have to see what the legal texts are – of that really looks like. But have you had any reflections early on about what that could mean for you? Thank you.

Yann Leca: Yes. Good morning. I'm going to take the first question. The net revenue retention rate was very much within our expectations. As everything in our strategy takes us to an increased stickiness, whether it be because we have more and more partners, we have very good inroads into the corporate world, as well as public sector. And we also offer for our basic offerings, very successfully committed – long-term commitments of one to two years. So that's completely expected.

We also continue to grow with our customers. Our customers grow themselves and we grow with them. And that's one of the drivers for the increase in ARPACs, in our average revenue per active customer.

And, finally, the cross-selling is also going very well between web cloud and bare metal private cloud and also into public cloud. So the model is working well, and our numbers are definitely within our expectations.

Michel Paulin: Yeah. About the sovereignty and especially about these agreements, which have been signed with Europe – between the European Commission and the US government. I have only one word. It’s bis repetita or I would say, ter repetita. Why? Because it's exactly what happened a few years ago when they announced the Privacy Shield, and it has been cancelled by the European Court of Justice.

Why I say that, is because first you've certainly seen that the data protection entity – European data protection entity has said that they want you have the detail about the agreement, because they believe today it's difficult to believe that they can have a legal agreement on the effects. Because our analysis is that to have a compliance of exporting data to the US with completely conformity with the European regulations, the US law has to be modified. And it's really what has been mentioned in the last Privacy Shield ban of the European law.

And the last Supreme Court judgement seems not to go in this direction. Max Schrems who has already attacked the Privacy Shield I and Privacy Shield II, has already announced that as soon as he has details, it will immediately, of course, verify if it's a compliance.

So for us, this is an announcement, but the implementation is very, very speculative, due to the fact that to do so, you need to have a US law change, which is really very difficult to believe.

George Webb: That’s very clear. Thank you.

Operator: Thank you very much. The next question will be from Gianmarco Bonacina from Equita. Please go ahead.

Gianmarco Bonacina (Equita): Yes. Very good morning. Couple of question for me. One on the top line, one on the cost. On the top line, so you are indicating midpoint 16% revenue growth, which means in the second half, you will be moving up from 14% to 18%. So is this means the result of the comp from previous year second half? Or this is something we should expect also going into the new fiscal year as run rate as you further accelerate, given the new product introduction?

A second question on the cost. You show in one of the slides that you are hiring at the pace of 60 to 100 new employee per month. If you can – which I guess it was related on a yearly basis on adding about one-third of new stuff. How should we think about this going forward I mean in the next fiscal year? Do you expect the incidence of new hiring and total staff to decline, or to remain at this level? And if you have also, let's say, a breakdown by category in terms of maybe marketing versus manufacturing and the likes? Thank you.

Yann Leca: Hi. Yann here. I will take those questions. So our revised guidance of 15% to 17%, as well as our previous guidance, by the way, does include the base effect on H2, on the lower revenue in fiscal ‘21 in the wake of the Strasbourg incident. So that means that we're going to have a very high reported growth rate in H2, which you cannot expect to continue at the same percentage into fiscal ‘23.

Now, definitely you can also expect that in fiscal ’23, we will continue to accelerate our like-for-like growth and we will come back to this when the time comes with a yearly guidance for next year.

You had a question regarding the employees. We do hire between 60 and 100 people a month. That is correct. We also have churn. So we lose 30 to 40 people every month as well, which is relatively low compared to the industry. But that means as well that our net employee base is growing – it is not growing obviously by 60 to 100 employees per month. And you can see that our headcount is, at the end of February, 2,632, which represents year-on-year approximately a growth in headcount of 11%.

We do expect to continue to hire at that pace. One of the ways we're going to win this battle and be better than competition and continue to grow is hiring all the right talent, and that's very important. And definitely, this is something we emphasise. We put energy on. We have a fantastic HR team and attracting new talent. And you could see, we're rewarded by the market by prizes. So that's very important.

We did not disclose the detailed breakdown, but as you can expect, we mostly hire tech people which – who are very important within our move to PaaS strategy. As you know, a large part of that move to PaaS is delivered through our own engineers. So that's a critical resource. We also have partnerships and acquisitions, but we definitely hire a significant number of new tech people. And the majority of the rest is into sales and marketing because that fuels our international expansion, and the hiring talent is very important there as well, globally, as well as talents for partnerships geared towards the public sector.

Gianmarco Bonacina: Sorry, if I may, just a very quick follow-up. So when I look at your personnel expenses in the first semester, so clearly, they've grown significantly more than the 11% of stuff you were mentioning. I guess, there is may be some one-off item. But – so do you expect basically the personnel costs to be significantly higher versus the number of employees also in the forthcoming quarters? Thank you.

Yann Leca: So the number you are looking at includes the impact of the one-time share-based payments, because IFRS require us to put this into personnel expenses. And if you have a like-for-like comparison, the personnel expenses grow at a slightly higher pace as our headcount for basically two reasons. One is that our mix of personnel is getting richer, so to speak. When you hire – we hire – we tend to hire more high-end talents and qualified people. And obviously, in the tech industry, that's more paid than people, for instance, to assemble servers. Or bookkeepers. So that's one reason.

The other reason what you can expect in the future is we will likely have salary inflation, like everybody, because inflation is back. So that's no new news I suspect to you. And for critical resources, we will definitely dedicate resources in the right times. Again, this speaks back to an earlier question regarding our pricing policy and pricing power, which I've answered.

Operator: Thank you. Thank you very much. And I'll turn you back over to the speakers.

Marisa Baldo: As I said to many of you, we have some of you on the phone this morning with Benjamin. We are fully available, myself and Benjamin to follow-up on your questions today and help you as much as possible. And I turn over the concluding remarks to Michel.

Michel Paulin: So I will just repeat what we just have said with Yann. Thank you very much for your attention. Thank you very much for your questions. I really hope that the answers were compelling and clear enough to show you that today we have a plan. And today, we are deploying this plan according to the initial perspective. And on the contrary – I mean, even so we have increased and raised the guidance, which show that the confidence we have today for – I mean, have a complete success of this plan for this fiscal year.

So thank you again for the attention. And we are very committed to continue to maintain this long-term accelerating growth strategies that we have put in place.

Yann Leca: Thank you very much, everyone. Have a great day.

Operator: Thank you very much for joining today's call. You may now disconnect your handsets.

[END OF TRANSCRIPT]