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OVHcloud Q3 2022 Revenue

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OVHcloud Q3 2022 Results

Operator: Hello, and welcome to the OVHcloud Q3 Fiscal Year 2022 Revenue Call. My name is Courtney, and I'll be your coordinator for today's event. 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 presentation. And this can be done by pressing star one on your telephone keypad to register your question at any time. If at any point you require assistance, please press star zero and you will be connected to an operator. Please note that this conference is being recorded.

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

Benjamin Mennesson: Good morning, everyone. This is Benjamin speaking. I'm Head of Financial Communication at OVHcloud. We are delighted to have you on this call for the presentation of OVHcloud Q3 revenue. We will start as Michel Paulin, CEO, for the strategy and business update, and then Yann Leca, CFO, for the financial performance and outlook. You will have the opportunity to ask your question during Q&A session, after a few words of conclusion from Michel. Once again, thank you for joining.

Michel, the floor is yours.

Michel Paulin: Hi, everybody. I'm Michel Paulin. Very pleased to be with you this morning. I'll start with the first slide about the fact that OVHcloud delivered a strong growth quarter-after-quarter. In Q3 fiscal year '22, we have a revenue of €202 million, which is a 25.9% reported due to the Strasbourg effect and 11.7% like-for-like.

The Public Cloud is still growing very high with 50% and like-for-like 19.4%. Private Cloud, as you know, a very strong asset of OVHcloud, is growing by 32.5% and 14.6% like-for-like. Our net retention return – net revenue retention rate is up to 120% and like-for-like 107%. The slide after show that we continue to have a strong sales and marketing momentum. And we have won very interesting contracts.

I will not outline all of them. I just want to outline a few things. I will come to Marine Nationale after. But Samsung and Cegid, very interesting deals that we have signed with software editing companies. We already had a partnership with TalentSoft, with Cegid. And we extended that to add new software that will be hosted in OVHcloud.

In the middle, I will start with the bottom with the fact that today we are very active with the start-up community, and we may go – talk a little bit about the start-up situation right now. But we are preparing the future of the next generation of computing with the quantum computing. And we are very proud to have made a strategic partnership with Atos which now is hosted in OVHcloud for the emulation and simulators of 128 qubit.

But also we have strong partnership with companies such as Pasqal, C12, Quandela, which are today the leading start-up in the quantum and they have today quantum computing capability. And for us it's something that we will continue to develop operation – virtualisation and automatization of usage of quantum technologies.

On the upper on the middle of the slide, I just want to highlight one, which is Accenture. Last week, we have announced a worldwide partnership with Accenture. Accenture is going to resell OVHcloud solutions in what they call the trusted and fundamental[?] solutions in Europe and

other world. And we do believe this is for us a very potential accelerator of business, thanks to the fact that Accenture has a coverage of the market which is immense.

Last but not least is continued to, as we already mentioned, to build our PaaS solutions. We have introduced the new enterprise level of MongoDB. We have introduced a few months ago the entry level MongoDB solutions. Now we have the enterprise MongoDB solutions. And we have launched now in general availability the Object Storage Standard and the Block Storage High Performance Solutions. And so we hope to have now revenue creation starting now with these products.

And also we have announced the Atempo partnership with the Tape, which will be another block of solutions in the storage arena.

In terms of what are the four pillars of our growth, I mean, acceleration. The first one is, of course, the business shift. We are growing very fast in Public Cloud and Private Cloud. I would love to repeat the figures because you see that we have today a strong growth. We are preparing the future with the move to PaaS.

We have achieved the objective of adding now 80 IaaS and PaaS solutions in public and private – public cloud and private cloud. So we have achieved our objective. And we will continue, of course, to enhance and to enlarge our PaaS solutions, thanks to the three layers strategy, our own R&D, potential acquisition and also continue to have partnership with some key and state-of-the-art solutions.

The third one is, of course, the international expansion. We continue to have a very high growth today in US and APAC. This is the figures about the digital channel growing by 62% like-for-like in the US and by 99% in APAC. And we will continue to invest to boost our growth, thanks to the fact that we opened a new data centre in Singapore very soon, a new data centre in India. And we have also, for next year, projects to open new data centre to accelerate our growth in Americas, in Toronto, and in Germany.

The last point is about the data sovereignty and the hybrid multi-cloud. We just illustrate because sometimes the little bit of secrets around the names we can disclose, but the Marine Nationale has agreed to disclose the name. We have won a contract with the French Marine. And we have today a strong momentum in this domain, everything which is about trust. You see that the regulations is moving very fast, and rather in the right directions to protect the data. And we do believe that OVHcloud is so well positioned to provide compelling and distinctive solutions in this domain.

The last element, of course, is about Digital Market Act and the Digital Act, which are formally approved in July 2022 and will be an application in fall 2022. And we do believe for us, it will be, again, an additional argument to continue to provide data protection and data sovereignty solution.

Last mention I'd like to do about that is about the new certification, European certification. And we have already SecNumCloud certification and we do believe it will be for us another argument.

Very quickly, you see there the road map of the new solutions we have introduced in – on the market with – we are on track on our road map. And we do believe that the next quarter and the first quarter of 2022 will continue to have enhanced solutions in the PaaS.

The next slide is about international. Just on the map, you see that today we have very good growth in the US and in APAC. We have today the ambition to continue to accelerate this growth, thanks to the investment we are making, either in the sales and marketing with especially the digital channels, which are still and still are very, very active, but also in the investment we've made. I already mentioned the data centres that we are going to introduce and deployed beginning of next year.

Last but not least, and just to repeat what has been said, we believe that OVHcloud is uniquely well positioned for the trusted cloud. And all we see today in the dynamics, which is rising first in Europe, but also very interestingly in Canada, for example, with [inaudible], in India, in Japan, in Korea, we have today a very strong self-dynamics for SecNumCloud solutions, for the French Marine and Marine Nationale is an example. And we believe also that the new regulations which will be introduced and decided for DMA, DSA and Data Act will be key arguments for OVHcloud to differentiate ourselves and to continue to propose trusted and sovereign solutions in Europe but also outside of Europe.

And now, I'd like Yann to mention and to comment the financial results.

Yann Leca: Good morning, everyone. My name is Yann Leca. I'm the CFO of OVHcloud. Happy to be with you today this morning.

So this first chart is about revenue. And as you can see, we reported last year €161 million of revenue. That number needs to be increased by €1 million to report the additional – the acquisitions which we made later. This was the revenue then. Forex impacts, the US dollar grew, so restated for the new US dollar Q3 '22, that's an additional €3 million to make it like-for-like.

And of course €18 million of direct impact of transport, which was at the time in the form of vouchers given of credit notes issued and of absence of revenue. That's €18 million. So the comparable number is €182 million. Therefore, the like-for-like revenue growth is €21 million for this quarter or 11.7%, almost 12%, which is based on €203 million this quarter, because we still have €1 million of Strasbourg direct impact this quarter. As you can see, this impact is fading away, and it will be finished at the end of this fiscal year. So another 2.5 months from now – two months.

An important element is that our net revenue retention rate in Q3 fiscal '22 was 120%, which is also like-for-like 107%, very much in line with previous quarter in the same vicinity, we continue to have excellent stickiness of our customers and to enjoy a good net revenue retention rate.

On the next page, a word about the various product ranges. As Michel indicated on Web Cloud & Other, we have stayed at €44 million, so like-for-like growth of 0%. The relative share now of Web Cloud & Other is down 3 points versus last year at 22%, which is also the result of the fast growth cloud divisions, cloud segments. Public Cloud grew from €28 million to up to €33 million or 19% like-for-like, and Private Cloud from €110 million to €126 million, which is a very good 15% growth. Private Cloud represents 62% of our total mix and 16% for Public Cloud.

Basically, our performance acceleration is very strong in the Corporate segment. And we have also continued very good ARPAC increase in Public Cloud and Private Cloud.

A word about the outlook. We are happy this morning to increase our revenue guidance to a bracket of 16-18% growth, which is up from 15% to 17% previously, reconfirming our adjusted EBITDA margin close to 40%. And in terms of CapEx for this year, recurring CapEx to 16-20%, and gross CapEx from 30-34%, excluding the acquisition of additional IPv4 addresses, which is a topic we addressed last quarter. And we are also happy to confirm the mid-term 2025 targets, which are left unchanged.

I want to add to finish on this guidance that our current trading in this Q4, we're not closing the first month of this last quarter, remains consistent with the annual guidance I have just indicated.

Michel, over to you.

Michel Paulin: So just the key takeaways. We have a strong financial performance. We reach, as I already mentioned, a revenue in this quarter of €202 million, which is a 25.9% reported growth, and a 120% net revenue retention rate. We are deploying our strategic – I mean, growth strategy. We have intensified our commercial momentum.

We are today on track on our PaaS road map to serve and to be able to enter new markets for OVHcloud, and we are accelerating our international footprint. We continue to believe that we – our revenue targets are today above what we already we said in the outlook. So our – I think we have increased our revenue target to 16-18% growth versus last year. We have confirmed targets on the adjusted EBITDA margin and the mid-term objective as today.

Benjamin Mennesson: Hi, Courtney. Benjamin speaking again. Can you maybe proceed with the comments regarding the Q&A what the analysts and attendees should do?

Questions and Answers

Operator: Of course. Q&A will now begin. As a reminder, if you would like to ask a question on today's call, please press star one on your telephone keypad. Please ensure your line is unmuted locally and you will be advised when to ask your question. That was star one on your telephone keypad. And our first question comes in from the line of George Webb calling from Morgan Stanley. Please go ahead.

George Webb (Morgan Stanley): Good morning, Michel and Yann. I'll kick off with a couple of questions on revenues and top line. Firstly, just going back to the demand environment. You've obviously cited some weakness in the broader macro, which I think we can all see. But your overall business growth so far has been pretty resilient. Can you talk through what you're expecting to see as you move through Q4 and beyond? And are you expecting to see any pockets of weakness so far, for example, around the kind of tech and software part of your customer base?

And then secondly, on the Web Cloud business. The reasons in the report seems to be fairly high level around why that business has slowed around improving market offerings and telephony connectivity. Can you go into a bit more detail on what the headwinds you're facing there are? And what some of the measures are you're taking to accelerate the growth? Thank you.

Michel Paulin: Okay. About the macro, just to give a little bit perspective. It's clear that we are very confident in our strategy, and that's why we have decided to rise our, I mean, revenue growth guidance for the next quarter. At the same time, we must admit that we start to see some conservative [inaudible] customers. I will divide it with the macro side, what we see among our customers.

The first one, the corporates and large customers. Today, we do not see yet any slowdown in demand or traffic. However, we have the perception that their tones, their feeling, their sentiments are showing a little bit of concern and sometimes anxiety. However, and this is second segment, which is important for OVHcloud, is everything which is about the tech, the start-up, the SaaS, and there it's really a little bit of a wait and see attitude on some domains. And we see that there demand is flattening, and sometimes decreasing.

For instance, in the blockchain, crypto, all these type of technologies, we see clearly that there are more than anxiety. But they have a slowdown on demand. And some start-ups are also concerned about the potential funding in the coming months. And therefore, they are reducing their projects, and sometimes their spending. So we already have seen, in the digital traffic, that there is a slowing down for – I mean, since a few – for a few weeks.

Especially, it's clear in the domain of the VPS, in the Public Cloud, virtual. So it's definitely clearly mainly in the entry level services and solutions, where we see today a slowdown in the traffic and in the – and in demand.

Another demand about the macro, I just want to mention the Ukrainian and Russian. As you know, we are not very, very exposed. It does represent 1.5% of our revenues. However, we are impacted, and we have impact. I don't think it's really materialised. But we see clearly that Russian and Ukrainian, which was a fast-growing segment for our international growth is affected. And now we have a reduction, not I mean substantial, but steadily every month we see that there is less and less activity and some Russian customers or Ukrainian customers, I mean, are not maintaining their revenues.

On the other points, I will let Yann to discuss about inflation and maybe cost about the macro. But to mention your question about the Web Cloud. You know in the Web Cloud, we have two types of products. The first one is everything which is about telecom activity. So it's connectivity and telephony, so consumption of the phones, voice, data. And the rest is more web hosting, so domain and web hosting activity.

Today, we have a decrease, which is something we anticipated because we do not invest in the infrastructure and the model in the telecommunication. However, we have seen an acceleration in the decrease and an acceleration on the – with less usage of, I mean, telephony on our install base. This is one factor.

On the second factor, as I mentioned, we have seen a slowdown in the acquisition for domain and Web Cloud. I think there are a few factors for that. The first one, there is slow down due to the market. So we see that worldwide the market is slowing down in the number of new domains, for example, which are created, especially in Europe, because we are mainly Europe-driven from the Web Cloud.

And also, because we've seen that after the COVID, a lot of new small SMEs, companies have put digital activities. And we clearly see now that there is less demand that we had in the last

two years. We have decided to put in place a few actions to correct that. The first one is definitely to review our marketing approach on the domain to maintain the capacity to have more traffic and more conversion. And we will introduce new offers on the web hosting before the end of the year to propose innovation and capacity to boost our acquisition level.

It's a very fragmented but very dynamic or competitive market, especially in Europe, with many local actors doing very, very things. So we have tuned now a marketing approach country by country and sector by sector, SMEs, individuals, independents, to try to really fit very well to the market. And as there is a slowdown on the market to be able anyway to continue to capture the good market share and to actually – I mean, increase our market share on this decreasing market.

Maybe about the macro, about inflation and cost, Yann?

Yann Leca: Yes, of course. So, as we all know, we're now in an inflationary environment. The first one that comes to mind is energy. And there is no doubt that energy costs are significantly higher today than they used to be for disruptive reasons as well as long-term trend reasons. As far as we are concerned, the year 2022 is almost entirely hedged. We have a little bit of increase where we are not hedged. But that will remain contained.

As far as 2023 is uncertain, we are right now in the middle of our budgets for next year, there will be an increase. It will be less significant than for our competitors, because we basically consume less energy, thanks to our award-winning model. But there will be an increase, because hedging does also not mean immunity against such increases. So there is also no doubt that we are going to be increasing our prices. This has been announced. Our entire competition is increasing its prices.

We have started to announce it to the market, and we will continue to talk to the market about it. Everyone expects it. And it's what we're going to do. And we do have the sufficient pricing power to pass on at least the increase of our costs to the market. What's going to happen basically, if you allow me, in this image[?], is we're going to rise with the tide. We don't expect that our price performance ratio will be affected relative to competition. And that price performance ratio is excellent. So we do not expect the deterioration of our competitive position.

Maybe a word on the other expenses. We also expect the other expenses due to the overall inflationary environment to increase more than in previous years, starting with personnel expenses, where we have a mixed level of war talents on the one hand, which is pushing obviously salaries upwards. And at the same time where we expect some talents to be released by the world of start-ups, which Michel was alluding to earlier. And therefore, we believe there can be a little bit of balance, but we do expect that on balance there will be a higher increase than in previous years.

George Webb: Got it. Thank you very much.

Operator: The next question comes in from the line of Toby Ogg calling from Credit Suisse. Please go ahead.

Toby Ogg (Credit Suisse): Yeah. Hi. Good morning. Just one question from my side. Just on the Public Cloud growth. Looks like it decelerated a little bit again in the quarter. Could you just sort of help us understand exactly what the drivers of that are? When you would expect

that to reaccelerate, and what would give you that immediate confidence that that part of the business can accelerate? Thank you.

Michel Paulin: Yeah, as I mentioned in the previous question, in the Public Cloud, we have, which is everything about what we can compute and a VPS, Virtual Private Servers. What we see is that the entry level of the Public Cloud, which means small computer, as usage, which called instances. We definitely see today decrease in demand. It's mainly digital. So we are talking about small ARPU and small SMEs players. But we see that and we didn't anticipate that, I mean, a few months ago.

Clearly, it's a slowdown on demand on the SMEs market. We are still very confident today that our public cloud will remain a strong pillar of growth and growth acceleration to the future for three reasons. The first one is because we are enhancing the number of services that we propose. And it give us new opportunities to be able to monetise Database-as-a-Service, Security-as-a-Service, Storage-as-a-Service, high-performing GPU, artificial intelligence and machine learning. So it's an extension for us to be able to address new markets and for us new opportunity.

The second reason is that we are targeting more and more with the Public Cloud on the mid-size, the partnerships and the large corporations. And today, we do not see a slowdown as, even there is a little bit of anxiety, we didn't see today a slowdown in demand. And we do believe that, thanks to the first factor of acknowledging our solutions, we would be able to continue to accelerate in the segments.

The third one is that we see also on our install base, what we call the move to PaaS strategy of people who were in the dedicated servers, private cloud. And now due to the fact that the people cost, the lack of resources in engineering, in the data scientist, they want to complement their offering with managed services such as PaaS. And for us, it's an opportunity to have a cross-sell, and therefore an upsell on our install base. So that's why we are very confident to be able to maintain a strong growth in Public Cloud.

Toby Ogg: Thank you very much.

Michel Paulin: In fact, as I said, the VPS slowdown that we see and will be certainly something that we'll have for the next few quarters.

Operator: The next question comes in from the line of Varun Rajwanshi calling from JP Morgan. Please go ahead.

Varun Rajwanshi (JP Morgan): Hi. Good morning. I have a couple of questions. Firstly, just a clarification on your earlier answer. What is your revenue exposure to customers exposed to the crypto end market?

And then secondly, Yann, thanks for your comments on the overall pricing environment, inflation, etc. Maybe a comment on, how much flexibility do you have in terms of your cost base? Should the demand environment continue to be unfavourable for the next six to 12 months? And I also noticed that your tone in terms of your EBITDA margin guidance for the full year did change slightly. You're expecting EBITDA margin to be close to 40% instead of approx 40%. So do you expect to fall short of that 40% number? So maybe you can clarify that point.

And then lastly, progress with your enterprise customers. You call this out as a driver for your performance this quarter. Can you elaborate a bit on this? Are you seeing lower churn in this segment? Also, can you talk about the pace of new enterprise customer acquisition? Thanks.

Michel Paulin: Okay. To answer to your first point about the revenue exposure to cryptocurrency. In fact, we do not do mining of cryptocurrencies in OVHcloud. It's not allowed in – and we are not today exposed to most of the crypto money sector because we do not allow. As you certainly know, it's not good for – mining is not good for the longevity of the servers. So what we see is more about the crypto technologies that is using for things like NFL and NFT, also on this type of encryptions that can be used to do so. And that really we see a slowdown.

Today, we are not actually exposed. It's very marginal, but it was clearly – I mean, a potential growth factor in the future, because we've seen a lot of investments start-up, but also solutions which had been developed in the IaaS, PaaS. So we are not exposed. But we see it will certainly slowdown in this domain, what might be the potential for OVHcloud. So this is about the crypto.

I will let Yann about the cost.

Yann Leca: Yes, Varun. Regarding –

Michel Paulin: With the guidance.

Yann Leca: Yeah. And first of all, Varun, regarding your question about the variable part of our costs. We estimate that about a third of our total cost base is entirely variable to revenue. So that's a significant chunk. Now above the rest, it's fixed, but it has been increasing a lot in the past few years on – in the wake of growth, and we definitely have an ability, even though it is from the book not defined as variable to adjusted. And in particular, to adjust the growth.

And I mentioned earlier that we're in the middle of budget preparation. And we obviously have several options considered, depending on how the growth continued to be sustained. So even though our guidance remains the same, it's very natural as the management – responsible management of this company that will consider alternative options if the current economic and geopolitical environment continues to deteriorate, or there's a sudden deterioration.

So we can obviously adjust our – the growth of our personnel base, for instance, personnel expenses, which, as you know, is about half of our total cost base. And we can also make various other adjustments depending on the circumstances. And I'm talking over and above the variable parts of our cost base, which is, as I said, 20%.

Now to respond to your observation of the very slight change we've made. You can take this as a reflection of the extraordinary times and extraordinary uncertainty – uncertain times we are going through. I also believe that it's only prudent on our behalf. And as you know, we like to take or exceed expectations and to stick to what we said. So this is only a reflection of what is going on outside.

Last point regarding churn. We enjoy, as I said, a very low churn, very good stickiness of our customers.

In terms of acquisition, there is no doubt that in the digital segment, which Michel covered earlier, we see a little bit of a slowdown in demand. So numerically, the acquisitions are in the digital segment not as high as they used to be. But on the other hand, we perform extremely

well in the corporate segment. Each corporate is equal to a multiple of digital obviously. So that is delivering us on balance, continued growth, as you could see.

Varun Rajwanshi: Thanks, Michel, Yann.

Operator: The next question comes in from the line of Amit Harchandani calling from Citigroup. Please go ahead.

Amit Harchandani (Citigroup): Thank you. Good morning, Michel. Good morning, Yann. And thanks for letting me ask the questions. Two, if I may. My first question goes to your thinking around clearly the rising risks of recession. You've talked about a demand slowing down. Can you give us a sense for how has OVH dealt with recessions or recession-like situations in the past? How do you go about navigating through adjusting your CapEx, dealing with your suppliers, customers? I guess what I'm trying to get a sense for is what could be the potential options on the table, and how quickly could you action them this time, based on what you have done in the past? That would be helpful.

And secondly, if I may, you talked about the regulatory backdrop and sovereignty and some of the tailwinds there. Clearly, a lot of debate going on out there in terms of closer collaboration between Europe and the US on the back of the recent conflict. Some parts of the community talking about even a dilution of data rules, which would allow US and Europe to collaborate closer. Could you give us a sense for how do you see the data sovereignty backdrop today? And do you still anticipate that to be same tailwind, an even stronger tailwind, or less of a tailwind? So would be keen to know your thoughts on that. Thank you.

Michel Paulin: I think about the first question, OVHcloud. I do, thanks to this vertically integrated model, as the capacity to have a fast quick decision making and implementing making to adapt this CapEx to demand. And this is something that, thanks to the fact that also we have decided on purpose to have enough stuck the first semester of 2022, to be able to produce what we think was necessary for the next few months due to the supply issue.

We believe today that we have the capacity, if there is more macro bad news coming to adapt our strategy, to be able to continue to have a really in line between our revenues, our profitability and our CapEx level. So this is something that we have this change to have really a very, very strong flexibility in our production model.

And we are now stuck with long-term supply in terms of full servers. We just have, I mean, today, the capacity to cover, I mean, either growth, but also to adapt our cost structure and our CapEx structure. And we believe that we have shown that two times in history, the first one, unfortunately, during this particular event, but also during the COVID, where we have seen a surge in demand, especially in the small and medium for digitisation of the operations, and we were able to respond very quickly to this demand two years ago.

So I think we are very confident still about our resilient model; if the bad news increase and if we are talking more about recession, then only slowdown. So this is something that give us really a strong confidence about our model.

The second question was about –

Yann Leca: Maybe a word before we move to the second question. Two points. First of all, from a macro standpoint, just a reminder that we're talking about the cloud industry, which is on the secular significant growth. So we do expect to continue to grow, and we do expect the

market to continue to grow. But admittedly, there can be – under extraordinary circumstances there can be variations. And as Michel explained, we have a CapEx as you grow model.

And just one point to elaborate on that, in the unlikely event that growth would go down to zero, we would then be able to live on our existing part of servers with only our 16-20% recurring CapEx, which we can also minimise to a certain extent, and that would leave us with a significant positive cash flow production. So we believe that from a CapEx standpoint, we're well hedged.

From an operating expense standpoint, I believe this was covered previously. You asked what was OVHcloud's behaviour in previous recessionary environment. I'm afraid the company is a bit too young to have lived at that scale a recession. However, I must confess that the management team, and that includes Michel and myself, are not as young as OVHcloud. And therefore have gone through, and I might add successfully as the entire ComEx through several recessions already. Michel?

Michel Paulin: Yeah, your last question was about data protection and what's going on with regulation. You mentioned – yes, there is a draft of agreement between the European Commission and the American government about data export. I think it's unlikely that it will happen for different reasons.

The first one is because there is a legal issue that today, and it has been reiterated many times, that there is a compatibility, I will say drastic incompatibility between the CLOUD Act and the GDPR. And unless there is no changes either on the US side on the CLOUD Act, either on the European side with GDPR, I don't see how we can, I will say, put mitigation between these two incompatible laws. So the draft of the, I mean, agreement, which has been signed or installed by them came to Europe has already been, I mean, I will say, challenged by the data protection bodies in Europe.

The third point I want to mention is that we see that on the contrary that there is a reinforcement of the data protection, and it's coming from the US. And you have certainly seen what is going on with TikTok in the US. While the US wants – they want to create a new legislations, where you – it will be impossible to export data out of the US, especially in China. So in fact, they are asking to – they are going to implement laws that they do not fulfil in Europe.

So I think on the contrary, there is certainly, I would say, a reinforcement. You're certainly aware also what's going on in Canada with the [inaudible], which are rather reinforcement of these type of things. So I doubt today that they will have a stop. I will also give a proof that for me there is – and that bigger firm are trying to find a way to bypass is that they are making a lot of marketing to show that no they can bypass the data protection by doing alliances with Orange, with Thales, because I do believe the legislation, the regulations, the certifications will be tougher and tougher, again, these type of practices of data exporting or potential data exporting.

Amit Harchandani: Thank you, Michel and Yann. Very helpful.

Operator: Thank you. Just as a reminder, before we move to the next question, that if you would like to ask a question on today's call to please press star one on your telephone keypad.

And the next question comes in from the line of Lukas Voith[?] calling from Goldman Sachs. Please go ahead.

Lukas: Hi, Michel, Yann. Congratulations on the quarter. Two questions for me. First one would be on the churn evolution. You said of the vouchers from the fire running off. So could you comment how has churn progressed? And second one on your total revenue. Could you give us roughly, in percentage points, the exposure of revenue to more stable government spending to sort of larger enterprises? And then what would be linked to law early stage finance start-ups?

Yann Leca: Thank you. On your first question, the churn vouchers, so I'm trying to think the best way to answer this – maybe if we go back to a year ago, a bit more than a year ago, we have made simulations of how churn would turn out. And I must say that now almost 15 months later, we are clearly significantly above our most optimistic projection, which we had then made.

We have not suffered any particular churn at the end of this period, which we can attribute to Strasbourg, which would have had an important impact on the ongoing revenue today. Of course, it has affected somewhat the revenue growth in France, in particular, especially in a smaller segment. Michel mentioned VPS earlier, but we cannot see any more or any particular or significant churn impact of Strasbourg.

Michel Paulin: On your second question about the start-up exposure. Today, we are not very exposed to the start-up sector, because this is a sector that we decided to address a few years ago with a programme called start-up programme. And today, it's not where we have the strongest today position in our product portfolio. So we do not see a heavy risk. Even so we are convinced that the funding issues, the – also global outlook of the economy, the start-up will be affected.

We mentioned the blockchain technology. But we see that in other domains also, there's certainly less appetite. And for us, it's clearly something that we are very vigilant to select the right targets, to be able to continue and to be sure that start-ups are well funded, and not to propose services. As you know, we are also very prudent about the voucher, and the [inaudible] which are given for free by most of our competitors.

This is another practice that we have heavily in OVHcloud. So we believe that we are rather well protected and rather – and we will stay very vigilant on that. I think the – on the other customer segments, as I said, I think we are a little bit more concerned by the SMEs, which are – which were in the process to be digitalised. And especially in the web cloud with domain names, things like this, we see a slowdown.

In the small tech companies, not start-up but small tech companies, we see a little bit of anxiety also, as I said, software editors, and so we are – they're very vigilant. And we've seen that the small web agencies, small tech companies are really reviewing their outlook in the future.

For the other markets, which are the larger mid-sized software editors, tech companies and everything with the corporates, today we do not see slowdown. As we already mentioned, we address the corporate market mainly through partners. So we work with Accenture which a new one. So it's a new announcement, but also with Capgemini, Sopra, Inetum, Atos as partner. And for the moment, as we disclosed, we have rather good results, good momentum.

Even so we believe that the – of course large organisations are really thinking about what will be the consequences of the global economy on their own activities.

So we are there, again, I mean, prudent but rather, I will say, we believe that we have a strong strategy due to the fact that, thanks to the capacity with a partner to go for moreover the corporate segment. We will continue to be able to grow, thanks to that, that these businesses has much more resilient most of the time than the small and very small businesses.

Yann Leca: And maybe just one little point, where there is no exposure to cryptocurrencies. So we've always been very prudent on that front.

Speaker: Got it. Thank you.

Operator: The next question comes in from the line of Ben Castillo calling from BNP Paribas. Please go ahead.

Ben Castillo Bernaus (Exane BNP Paribas): Good morning. Yeah. Thanks very much for taking my questions. Two for me. If I just look forward to 2023, I know you're not giving a formal guide on that today, but just taking into account the macro risks that you flagged as well as your race to this year's guidance. Can you just talk about your confidence level for revenue growth, taking those factors into account into 2023? And if you look at, say, where market expectations are for roughly 16% growth next year? That'll be helpful.

Second comment was on we've seen a Google Cloud opening their France cloud region today. Capgemini and Orange announcing that Bleu will be going to customers by the end of this year. So the question is, do you believe these sort of hyperscale sovereign cloud offerings will become increasingly competitive? And what's the impact to you? Or is it a case of this fast growing market should benefit all participants? Thank you.

Michel Paulin: I will start with the last question about the recent announcement made by Bleu and by Thales. First, for me, it was disappointing in the sense for the market, not for us. It was an encouraging announcement in a sense that everything – nothing will be ready before 2024 and mid-2024. So the reality of these offerings will be only available on the market in, I mean, at the end of mid-2024. So for us, there is really a window of opportunity to be able to catch now, because our solutions are ready and they are fully serving.

So for us it's surprisingly I say it is good for us. And this is why we believe we have still a strong differentiator and we are able to differentiate ourselves now, because our solutions are ready. We have the certifications and with the winnings we have today and the strong momentum we have today with the SecNumCloud offer shows that it creates a little bit of, I will say, waiting or a little bit of scepticism or so everything is done to try to slow down the market. But for us, we believe that as soon as we continue to execute our plan to propose sovereign solutions, we will be able to capture a part of the market.

The second is that there is more and more doubt about the fact that the solutions are technology sovereign for Europe. And there is a rising concern – I was in Italy in this – in beginning of this week. I was also visiting different countries during the last few weeks, even European Commission. I said that these proposals are reselling 100% of the best time[?] offering and there is very marginal value added bring by Thales or by Orange. So I think there is also a question mark about the business model, does it makes sense and does that bring value for Orange or for Thales? This is something I will – that is questionable.

And second, overall, from a geopolitical standpoint, the R&D, the value added, which is brought by Europe in this model is very small, if not zero. And so some people are concerned that in fact, this is not the answer; this is only a way for the hyperscaler to try to bypass regulations and to pretend as a masquerade that they're also ready[?].

About the first point, which is we do not give outlook for next year yet. Of course, we are in the process to review all our advantages. And I just want to give a few elements of what we are trying. First one, of course, is to really understand what is the macro region by region, because we see that Europe, Asia and North America have different slight dynamics today in the demand.

The second is what is inflation which will have impact on our cost, but also on the pricing, competitive pricing and our pricing. That's why we are today preparing some scenarios. And we announced the principle that we will increase the prices to be able to adapt to maintain our profitability, and to maintain what we announced in our previous outlook.

So today, this is the type of scenario. It's clear that the environment is moving very fast right now, and the energy cost, inflation, recession or not, interest rates on creating strong uncertainties. But we are very – working very hard. And we do believe that we have strong pillars to be able to adapt, very strict – with a very high level of flexibility, our capacity to increase pricing, to modify if we have to do our go-to-market strategy in the different regions we are, and thanks to the fact that we have today three major regions we're able to adapt our go-to-market to where we do believe we can catch more opportunities; and also thanks to our vertically integrated model, to adapt our cost structure and our CapEx structure to be ready for any type of scenarios.

Ben Castillo Bernaus: Appreciate the colour. Thank you.

Operator: Thank you. The final question comes in from the line of Derric Marcon calling from Société Générale. Please go ahead.

Derric Marcon (Société Générale): Yes. Good morning, guys. Thank you for taking my questions. I've got three, if you allow me. The first one is about price increase. Michel, you just talk about that in your previous answer. But can you quantify the price increase that you would like to see happen next year or at least give us a range of what could be envisageable based on the different scenarios that you have?

My second question is, does the concern or uncertainty of certain categories of customer or the weakness of demand that you see respect customer call into question the scenario of linear acceleration? I know that you will not give the guidance today for next year. That's obvious. But at the time of the IPO, the plan was for linear acceleration for year after year. So is it still possible to see that.

And the last question it's about your journey in the PaaS industry based on what you have seen with the available products already in the market? Have you identified any upside potential compared to the plan you had a year ago? Thank you.

Michel Paulin: No, I will not, of course, disclose any number about the pricing increase. We already have [inaudible] has tweeted and we have made blog and we have already informed some customers that we will be selected type of pricing to – at the same time, maintain price, performance, competitiveness, but at the same time to adapt a pricing strategy to maintain the

high profitability. And this is, I would say, a very sophisticated balance between the price increase and also gross acceleration.

So I will not quantify that. I can say because it's public that we have announced that we will increase the price of IP, for example, addresses that we are going to increase also some domain names because some costs have moved or some licences also will be increased; because some cases we have, for example, costs associated, and therefore, we reflect to our customer base the increase of the licences.

And in the other domains, we decided to increase because we do believe for long term vision like IP addresses, due to the fact that the cost of the IP addresses are really sky bumping and growing like very, very fast. So however, this is a different type of scenario we're working in. And we do believe today that it will help us to maintain the capacity to accelerate our growth accordingly to what are in with our initial plan.

Your second question was about – yeah, weakness of demand. I don't know to continue to, because I already have mentioned a lot of elements about what I said. I think, again, what is important to – for us is to really continue to work to tune our go-to-market strategy, our product strategy is that we will enhance or we reshuffle to be able to continue to promote in the right geographies, in the right segments, because there are still areas where we have a strong growth.

And so this is really a question of flexibility. And we do believe that we have the capacity and the flexibility really to readdress the market by country, by region, by sub segment, because what I mentioned is that today, it's affecting mainly the small and medium type of customers, where we see a slowdown after the COVID crisis. But that's why we believe that, thanks to our agility and our model, thanks to also a strong digital channel, we will be able to reassess what is the best way to continue to capture growth in – by products, by segments and by solutions.

About the PaaS, as we mentioned, we have now closed the first phase of PaaS development. We have 80 solutions. We will continue because we have already announced that we want to reach up to 120 services in the next few semesters because it's important. Today, we see a strong dynamic in the Database-as-a-Service and Kubernetes domain, where today we have introduced this offering very recently.

But we see that today we have a strong momentum either in customer acquisition and more important in customer usage, because we are Platform-as-a-Service, which is in fact platform as a demand in the sense that you grow with the customer. They don't buy immediately. They just grow small and after you issue you – I mean help them well, you grow with them.

So today, these two domains we see, I mean, very interesting, I would say, perspective. We have launched recently the high performance storage. So it's more recent. You've seen that we've launched that in the last weeks in fact. We are going to announce the offering with – the complimentary offering. We are going to scrutinise in details which will be the results in the next few weeks because we believe again that we have a very compelling offering with very high performance pricing. And I mean – and moreover due to the fact that the major competitors are using egress fees, locking strategy, our solution is open, reversible, very pricing, I would say, effective.

And in this period where the cost will become even more important, we believe it's a very good argument. And so Storage-as-a-Service – high performance Storage-as-a-Service may be, despite the overall, I will say, not very exciting macro perspective, it might be for us an opportunity, because there, some of our customers are concerned by the price increase and also cost increase for them in the storage, where you have petabytes of data. And therefore, for us, it may be a very interesting opportunity. And now we have the full portfolio to address this market as the most performance and the most priced performance offering today for objects, blog and archive storage.

Yann Leca: And I might add, Derric, on the more general note that in times when companies are going to or have started scrutinising our – their costs, you could expect it to be natural for them to challenge the very high spend they have with some of our competitors and to reconsider the amounts they're spending and to move to companies, cloud suppliers, cloud being absolutely necessary spend for them, to move to suppliers who have the best price performance ratio in the industry, which means that OVHcloud is in an enhanced competitive position in difficult times.

Michel Paulin: I think we are at the period of the conclusion. I will not repeat the key takeaways. I just want to reiterate that we are confident today that we have a strong strategy, and we have a capacity to execute. And despite the outlook of the economy, we believe that OVHcloud has the capacity due to this vertically integrated model, due to the agility of its management team to be able to address this, I mean, quickly and fastly all the potential changes that might occur in the next few weeks, months, external, I would say, economical, geopolitical.

And we believe today that we have strong foundations to be able to adapt and to continue to pursue and accelerate our growth, thanks to a very strong innovation and solutions portfolio, thanks to a vertically model, which allow us to have a high level of resiliency and adaptability in terms of cost and in terms of demand. And also thanks to our capacity, because we are present in three regions to adapt our go to market to where we can find the highest level of growth for the company.

So despite sometimes not easy environment, we believe that OVH has strong strength to continue to accelerate growth.

Operator: Thank you. That does conclude today's conference. Thank you for joining. And you may now disconnect your handsets. Speakers, please remain connected and await further instruction.

[END OF TRANSCRIPT]