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OVHcloud Q1 FY2023 Results

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Operator: Hello, and welcome to OVHcloud Q1 Fiscal Year 2023 Revenue Conference Call. Please note this call 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 question at the end of the call. This can be done by pressing star one on your telephone keypad. If you require assistance at any point, please press star zero and you will be connected to an operator.

I now hand over to you, OVHcloud, to begin today's conference. Thank you.

Benjamin Mennesson: Thank you. So hello, everyone. This is Benjamin speaking. I'm Head of Financial Communications at OVHcloud. Thank you for being with us today on this call for Q1 revenue publication.

I'm with Michel Paulin, our CEO, who will start on the strategy and the business update. And then we will have Edouard Ferran, our Deputy CFO, for the financial performance. And then Michel again for the outlook and closing remarks.

Now – I now hand over to Michel.

Michel Paulin: Hello, everyone. Good morning. This is Michel Paulin. I'm the CEO of OVHcloud. Thank you for being with us today. And before, of course, we start, let me wish you all the best for this new year. I'm very pleased to share with you our Q1 fiscal year 2023 revenue.

Another strong quarter, thanks to the high engagement and commitment of our employees will keep delivering and executing our growth strategy. This first quarter has been a strong start to the year, and we are confirming our targets for 2023. Our Q1 revenue reached €216 million, up by 15.4% as reported, and 11.7% like-for-like.

The net revenue retention rate reached 110%, which is for us a good indicator of the loyalty of our customers and the stickiness of our model. As I said, we are confirming our targets for 2023.

First, a like-for-like revenue growth between 14-16%, with a progressive growth acceleration throughout the year as price increases will flow through. Second, an adjusted EBITDA margin in line with 2022 around 39%. Third, a recurring CapEx between 16% and 20% of our revenues. And last, a growth CapEx between 20% and 32% of our revenues.

After this quick introduction, let me give you some highlights of the quarter. In Q1, as previous quarters, we have been focusing on delivering growth acceleration. During the quarter in a fast-growing cloud market, the demand for trusted and sovereign solutions remain very dynamic. We highlight this trend with a very strong performance of one of our sovereign solution, the SecNumCloud offering. SecNumCloud is the most secure product of a large array of offering and its revenues was multiplied by four in the last six months.

Also, our leadership in sustainable cloud is more and more appealing for our partners and customers. And we are very proud to have recently published in December, a high eligibility on Green Taxonomy close to 90%. Our customer dynamic remains very strong with new clients win and additional workloads for existing clients.

Our Enterprise segment with large corporates is the fastest growing one, with, as you can see on the third box on the right, large new deals signed with AMBition; the innovation lab of Mercedes-Benz; and with the French national expert on nuclear energy, the IRSN, for example.

Last but not least, we keep developing additional PaaS solution to fit customer needs. We have released a new Cold Archive storage offering, a new AI solution and also another container solutions based on Tanzu Kubernetes. All the feedback and commercial performance give us confidence for the success of our PaaS solutions and move to PaaS strategy.

As I said before, OVHcloud operates in a fast-growing market with an expanded five-year CAGR of more than 20%. The cloud market is driven by cloud adoption for all customer segments as it is mission-critical to their operations. Everyone is moving to the cloud. Data usage is booming. And we keep seeing new usage, new habits, new use cases such as multi and hybrid cloud, which are driving global cloud adoption while the cloud offers the financial flexibility to convert CapEx IT cost to OpEx IT cost.

One of the significant milestone in Q1 was the recognition of OVHcloud as one of the top tier cloud player by the market analyst of IDC. We were named as a major player in the latest Marketscape of November '22, which is a significant progress compared to the last thirty-two years ago where we were challengers. We are very proud to be the only European player featured in the study and see our trusted and sustainable cloud positioning recognised as a core competitive advantage by analysts.

All the work we do and have been doing is recognised and valued with this improved ranking. This is showing business momentum whilst all our customers, partners, prospect, carefully read and relying on these studies. And being recognised as a major player reinforces customer confidence and improves our credibility.

As underlined by market analysts, data sovereignty is one of our key competitive advantage, and clearly a strong market momentum. And today, OVHcloud is the partner of choice in European data sovereignty, which we see an increasing and in terms of interest and demand by customers. We see it month-after-month with the success of our sovereign offerings.

On this chart on the left-hand side of the slide, you highlight the impressive growth of one of the sovereign solutions, the most sophisticated one, the most secure one sold with the markup, our SecNumCloud solution, which revenue has been multiplied by four in the last six months. This solution is one among others, such as HDS, Trusted Zone and, of course, all OVHcloud offerings, which are sovereign by the[?] solution.

SecNumCloud is for customers who have the highest expectation on data security and data sovereignty. Today, the certification is only for one of our product, and we plan to extend it to all our public and bare metal solutions. And we are absolutely convinced this extension will be driving business momentum.

On the next slide, I want to give you a quick update on other key competitive advantage, sustainability. Since the beginning, we have placed sustainability at the heart of our model. We are the leading pioneer in sustainability cloud. And as you can see on the left-hand side of the slide, we are proud to have recently published a very high eligibility on Green Taxonomy regulation and revenue, CapEx and OpEx. This eligibility is a confirmation of our positioning.

In addition to be already best-in-class, we want to lead the way in the industry, and that is why we are committed to ambitious mid-term targets detailed on the right-hand side of the slide, including global net zero on Scope 1 and 2 by 2025 and on the full Scope 1, 2 and 3 by 2030.

This positioning of offering a sustainable cloud is fostering customer demand, especially for large organisation.

Sustainable cloud is a key competitive advantage for our customers and partners. Our sustainability is on the top priority and critical to their performance. For example, IJO, a customer specialised on green IT expertise, underline our capacity to recycle and reuse all components of our servers as a competitive strength of our integrated industrial model.

Hugging Face, an American company in machine learning, highlights the significant improvement they made in terms of carbon footprint when they migrated to OVHcloud.

As you know, we have a successful go-to-market strategy. Enterprise channel now, that represents 54% of our revenue and it is the fastest-growing segment for OVHcloud. We have built dedicated programmes around these enterprise and digital go-to-market. These programmes are driving growth acceleration, and they are more and more successful.

For instance, the Partner Programme is now more than 1,150 partners, of which 300 are called Advanced, the layers highest level of partnership, meaning they have dedicated training, certifications and also commitments. The Startup Programme is also, I mean, very impressive. In Q1, we had more than 210 new startups joining the programme for more than 40 different countries. These startups are coming from a wide range of industries such as logistics, manufacturing, healthcare and agriculture.

We give them dedicated mentoring, and we help them to – them building cloud-native offerings on our OVHcloud ecosystem, PaaS and IaaS solutions. All these successes are driving the strong customer dynamic, and the startup programme will fuel future growth.

We are pleased to share that we still enjoy strong customer dynamics. As you know, we announced a price increase in August last fiscal year. And we started to increase our prices in December 2022, which is in Q2 for us. So we don't have any price effect contribution in Q1, and we expect this progressive price increase to be fully implemented in the coming months. We will fully benefit of it in the second half of the year.

On a full year basis, we expect the price increases to contribute between 2 to 3 points of revenue growth. We are also pleased to report that so far, we do not see any negative impact following the announcement in Q4 2022. And the increase started in December 2022.

Moving to the top-right corner, we are proud to reach 110% like-for-like net revenue retention rate. This highlights the stickiness of our customers. Having such a good level is a confirmation of our customer loyalty, and again, without any effect, price tier.

Our pricing power is strong and intact. Our customers see the value of our solution, and this is the reason why they stay with us in an inflation context. Moreover, we have the best price performance ratio to hyperscalers and this is what we see on the bottom right.

As a reminder, the price increase we have announced will allow us to maintain our fiscal year 2022 adjusted EBITDA margin around 39%, in line with last year.

And this is a good transition to the financial section. Our Deputy CFO, Edouard Ferran, currently acting as interim CFO, will present the financial section.

Edouard has been a key performing member of the finance team for over – more over than three years. And we've been working closely with our new CFO, Stéphanie Besnier, who will

join OVHcloud beginning of March. Stéphanie is currently Deputy CEO of the Agence des Participations de l'Etat, the entity managing the strategic shareholding of the French state with a portfolio of over €120 billion of assets. And in this capacity, she served on the Board of large global corporates, including Safran, ENGIE, Orange and Air France-KLM with more than 20 years of experience in management position, in finance and investment.

Stéphanie will bring significant expertise to help drive the Group development and a growth acceleration strategy. We are really, really happy to have her on board in the team.

On this first introduction, I'm sure you have all the opportunity to meet her soon. And I propose we now let's move to the financial side.

Edouard Ferran: Thank you, Michel. Good morning, everyone. I'm delighted to be with you today to comment our strong start to the year. We are very proud of our robust performance in Q1 with an acceleration compared to previous quarters. Note that we did not have any price increase effect during this quarter as the first increases are implemented in Q2. So the 11.7% underlying revenue increase in Q1, which is, again, an acceleration against Q4, is all driven by volume.

We have an especially good performance in France, reaching 13.2% like-for-like in acceleration after Q4 FY'22, which was already the strongest of 2022. We reached a rounded[?] growth in all segments with a double-digit growth in both public and private cloud. We keep seeing a good momentum in Europe with a continued double-digit like-for-like growth and a strong growth in public cloud especially.

In the rest of the world, we have a robust performance with a continued successes, especially in the digital channel. Of course, after 18 months of very strong growth, we have a high comparison basis throughout the year in the US. And since last quarter, Russia is starting to weigh more significantly on the region performance. Without Russian activities, we would be growing double digits in our all – in all our regions in Q1.

I would like also to confirm our roadmap of 15 new data centres opening in the next two years. This is confirming our successful expansion strategy with a progressive ramp-up of our data centres once they will be opened.

So on the next slide, as Michel said at the beginning, we reached a revenue of €216 million in the first quarter with a like-for-like growth of plus 11.7% and a reported growth of 15.4%. We have a sustained revenue growth in all segments with 12.8% like-for-like growth in private cloud, 18% in public cloud and 4.6% in Webcloud.

On the next page, we can see that the mix continued to evolve towards more public cloud, which is the most dynamic market. And private cloud with the continued strong growth in this segment, thanks to the success of our go-to-market strategy, as Michel detailed previously.

Public cloud now represents 17% of our revenue, up 1 point versus last year. And private cloud represents 62% of our revenue, up 1 point also. It's interesting to note, as underlined by our high net revenue retention rate of 110% that we have a high loyalty of customers, thanks to our cross-sell strategy and our recurring revenue in private cloud and Webcloud.

Now I will let Michel update you on our outlook for the rest of the year in the mid-term.

Michel Paulin: Thank you very much, Edouard. And as we said at the beginning, we planned a revenue growth acceleration in fiscal year '23 with a like-for-like revenue growth between 14-16%. This growth will be fuelled by an acceleration in public cloud, a continued success go-to-market strategy and the strong demand for sovereign cloud, especially in France and Europe.

We expect H2 to benefit from additional growth drivers, such as PaaS solutions, and of course, with the full effect of the price increases. Despite current pockets of uncertainty, we remain confident in our target of an adjusted EBITDA margin in line with 2022, thanks to our operating leverage and price increase. And this effect will be fully contributing mostly in H2.

Regarding CapEx, we target recurring CapEx between 16-20% and growth CapEx between 28% and 32%. Our mid-term targets are unchanged. And as we said earlier, the mid-term cloud market growth trends are confirmed, which give us confidence to achieve this target. So our revenue growth will accelerate to the mid-20s. Our adjusted EBITDA will reach close to 42%, and our recurring CapEx will be between 14-16%, and our growth CapEx will be between 28-38%.

And before we move to your own question, let me summarise for you the key takeaways of our – from our Q1 revenue publication. First of all, we published a revenue of €216 million, up by 15.4% on a reported basis and by 11.7% on a like-to-like basis.

Our net revenue retention rate reached 110% like-for-like and 114% as reported. We are delivering our growth acceleration. The cloud market is a fast growing. And this is a strong – and there is a strong market demand for data sovereignty, sustainable cloud and innovation. And we are enhancing our PaaS offering with success.

Finally, and again, we confirm all our targets for 2023 and for 2025. On that note, I would like to open the floor to questions.

Questions and Answers

Operator: As a reminder, if you would like to ask a question, please press star one on your telephone keypad. To read your question, please press star two. The first question comes from the line of Toby Ogg calling from JP Morgan. Please go ahead.

Toby Ogg (JP Morgan): Yes. Hi. Good morning, and happy new year. And thank you for taking the question. Just a couple from my side. Just on the guidance, so you've obviously confirmed the full year guide on the revenue for 14-16% like-for-like. You're sort of tracking at the 11.7% level as of Q1. So clearly, a decent amount of acceleration required through the balance of the year despite a potentially more challenging macro. Could you just help us understand why you're confident in that ability to accelerate? And then also just what you built into the guidance for the macro from a volume perspective. Thank you.

Michel Paulin: Okay. The first point, I want to say that we believe today that the cloud market demand and the cloud market is still growing very fast. So what we see that the cloud demand continues to be strong is really driven by the fact that there is a digitalisation of the economy and the society. And everyone is moving to the cloud. Data usage is booming. And so we expect this trend to continue over the long run.

And despite the – I mean, external and the inflation and the economic background, we really do believe that the cloud market will continue to grow very fast. And based on that, OVHcloud has strong competitive advantage to maintain this capacity to grow. And that's the reason why we see very successful, as we said, sovereign, sustainable innovation that we do in the past. And also thanks to the fact that we will – we are in the process to increase our pricing, that's why we are confident to maintain our guidance on the revenue growth up to 14-16% for the full year.

Toby Ogg: That's great. And then maybe just one more on the private cloud side of the business. Just sort of keen to understand the dynamics there, sort of Q1 versus kind of Q4 sort of exit rates. I appreciate there was a bit of a tougher comp there in the US, and I know that Russia had an impact as well. How long would you expect Russia to continue to be a headwind there? And should we expect that sort of tougher base to fall away as we move into Q2 and the remainder of the year? Thank you.

Michel Paulin: So you think that we have a strong position in the private cloud with a strong growth. We believe that today, there is a strong interest for some customers for very innovative private cloud solutions, which is today what we provide, especially due to the fact that security, sovereignty, data protection requires a high level of certification, especially in the European market. And OVHcloud is really the most innovative and the first provider to provide all this level of certification across Europe. We are the only one to have all the certifications.

So that's why we are very confident that the private cloud will continue to have a strong momentum, and we'll continue to have today a very good reservoir of growth and acceleration of growth for OVHcloud. And we will continue to innovate in this area because we have a really strong, I mean, pipeline of opportunities in the private cloud.

Concerning Russia, we mentioned that, of course, it's, I mean, not very significant at the Group level due to the fact that, today, it's less than 2% for Russia, Belarus and Ukraine. However, it affects the rest of the world, which is for Russia represents a little bit more. So we anticipate that despite this slowdown that we see due to the Russian crisis, we will continue to grow and accelerate growth in the rest of the world outside of this element of Russia. And of course, we believe that in the second half of the year, the impact would be marginal due to the fact that all the impact would be – I mean, will remain for the first half.

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

Ben Castillo-Bernaus (Exane BNP Paribas): Good morning. Yeah, thanks for taking my questions. Just two, if I may. Firstly, just coming back on the public cloud segment. Can you just talk a bit more in detail about the demand environment? We look at AWS, growth slowed there from around 40% down to high 20s through the nine months of 2022, and it's expected to be more like mid-20s this year. Microsoft also talked about customers optimising their consumption on Azure. So I guess, what are you seeing that's perhaps different to that, that enables you to accelerate your public cloud growth this year versus the hyperscalers seemingly talking about the opposite?

And then can I just touch on the sovereign cloud opportunity? You said to extend the second cloud certifications to more products. Like my question is, what does that process entail? Is there a cost or development implication there that you need to obtain those? Thank you.

Michel Paulin: Okay. About the first point, today, if you read the analysis of the growth of the market on the public cloud worldwide, it's between 20% and 25%. And this is what we see and we confirm that today there is a strong demand for the largest market, which is the public cloud and it's still growing very fast. So I will not comment what AWS and Microsoft are mentioning, but we still see a very strong demand for public cloud.

The second point, I think, we are very different in terms of positioning, especially in the price performance in this macro environment compared to these hyperscalers. And thanks to the fact that we have a very strong price performance positioning against them. I think we are much more secure to continue to address and to continue to grow. And this is for us an opportunity to demonstrate, especially when the customer want to make more cost control to demonstrate that OVHcloud has a really strong innovative and – but also price performance solutions that can fit some of our, I would say, desire to control more better than cost.

The second point, which is important for us, of course, is the move to PaaS strategy that we have initiated last year, which is to enhance our product portfolio to open new use cases opportunity to OVHcloud. And since we have been able to introduce new usages in data, in high performing and complex storage but also in Kubernetes, what we call containerisation, we see that new opportunities and new doors are open for OVHcloud, which give us the strong confidence that we'll continue to grow at a high pace and accelerate our growth on the Public cloud.

About the SecNumCloud investment about a new – and we announced that we will improve and continue the product portfolio, SecNumCloud certification. And I just want to remind you that SecNumCloud might become the certification for Europe for the new ENISA certification layer, highest level. Of course, it's an investment in the sense that to grant – to get the certification, it's an investment.

However, I just want to mention that by design, OVHcloud has really intrinsic sovereign solutions already. And for us, it's not a big investment to move and to upgrade. It's only the process of certification, which is a new investment. But certification will not increase drastically the investment we need to do. It's only that the process takes nearly one year. That's the cost of the one-year delay of the certification, which is, by the way, a confirmation that we are the first to move in the SecNumCloud.

We see a very strong momentum in SecNumCloud, and it's not easy to catch up. And if you compare today what the hyperscalers have announced with Thales, with Google or with Microsoft, with Orange, they didn't have the offering yet. And we know that it gives us a very strong windows of opportunity to capture the sovereign cloud where France is leading in Europe, but now is really expanding in Germany, in Italy, in Spain and more recently in Nordics.

Ben Castillo-Bernaus: Understood. That's very clear. Thank you.

Operator: The next question comes from the line of Gianmarco Bonacina calling from Equita. Please go ahead.

Gianmarco Bonacina (Equita): Yes, good morning. Two questions for me. The first one regarding the price effect you will have in 2023. I read on a blog on your website in late August that you mentioned that on existing services, you were going to increase prices by approximately 10% starting in November for public cloud and in December for private cloud. I

heard before, you mentioned you expect 2-3% price effect in the coming quarters. So I just want to understand the difference between this two communication. Is this because the first communication was just from some selected services because given the energy prices, they are falling now, you decided to implement lower price increases? So if you can clarify what kind of price effect we should effectively have on the Group in the coming quarters?

And then secondly on the balance sheet issue. I know that you recently had a new funding. If you can comment a little bit on the cost of funding, and more broadly, if you have an M&A pipeline, if this includes just a small bolt-on or also larger targets? Thank you.

Michel Paulin: Yeah. On the first question, and I will let Edouard to answer to the second one. The first question about the price increase. In the blog, we mentioned that some of our products will – prices will increase by up to 10%. In fact, the range of the prices increase spread between 7% and 10% on the existing install base. But on the same thing, you need to, I mean, understand that we cannot implement the pricing increase to all the installed base. Why? Because first, we have some customers we have committed offering for one, two, three years. And we exclude them, of course, because they are committed.

And the third also is that we have sometimes, with especially the corporate market, we have contracts with pricing revision criteria, which are based on different criteria, which are much more based on some, I would say, industry level of criteria. So that's why we never said that the total install base pricing will be by 10%.

The second also order of magnitude of perimeter is that some of the products will not increase, especially in the domains of – in the domain of the domain, for example, in the connectivity there because there was no reason why and also the competitive landscape will not allow us to increase massively the project. That's the reason why if we do the calculation that we believe that the full impact of these – I mean the price increase will be between 2% and 3% for the base.

Edouard Ferran: So regarding M&A, as we said many times, M&A is part of our strategic plan. So we will not rule out small bolt-on acquisition. But we also made an opportunistic basis to complement our offering or expand our geographical footprint. But this is not included in our guidance.

Today, we are focused on our organic growth and our operational efficiency. Regarding the financing we got, we now have M&A kind of higher power. As you know, our strategic plan is fully financed until 2026, and we were granted an additional €200 million by the European Bank of Investment, which was opportunistic. And thanks to this additional funding, we have more flexibility in terms of M&A, if needed.

Gianmarco Bonacina: Thank you.

Operator: The following question comes from the line of Tytus Żurawski calling from Goldman Sachs. Please go ahead.

Tytus Żurawski (Goldman Sachs): Good morning. Congratulations on a good set of results and thanks for taking my question. My question is on the composition of growth. You recorded 12% growth in the quarter with 110% NRR. Would you suggest strong growth and upsell to existing customers? Could you give us some more colour on the new customer acquisition and

how you expect the mix between contribution from existing and new customers to evolve going forward? Thanks.

Michel Paulin: Yes, we do not disclose in detail what is the effect of new customers and installed base effect. I just want to give – can give you some qualitative elements to illustrate today what is the dynamic of what we have, because as you know, we have two big markets we address. One is the digital market, which is mainly for small tech and small SMEs. We do directly through e-commerce type of approach. And the second one is much more enterprise and corporate.

What we see today is that we are gaining customers in the both side. So this is a good dynamism in terms of – of course, the fastest segment is the enterprise, where our strategy by partnership with system editors and software editors and also a direct approach on some customers is delivering good growth, and we have won very new, interesting, I would say, new customers, thanks to this approach with the direct and indirect approach.

And we are confident today that the fact that we introduced new offering, especially in the PaaS, will open even new windows of opportunity to accelerate our growth. So this is really a strong topic.

On the second, which is the digital side, we still believe that, today, this is a strong way of acquiring, especially in the emerging market, the rest of the world, where we have today a footprint, which allow us to address this market through entry level and, I will say, low priced level products. And this is today what we do. We have completely fostered our capacity to address this segment. And today, we are gaining most of the private type of bare metals, and also public and especially on the PaaS, new customers. And we have a strong dynamic of customer acquisition with, of course, an ARPAC, which is different on all of them. We are a bigger ARPAC for the enterprise, and we have much smaller ARPAC.

The second strong dynamism what we see is that our capacity to upsell and cross sell, and that's what we are doing with nurturing action that we do on our installed base. And thanks to this capacity to propose new services to our customers, and especially in the public cloud, where we see today constantly new customers and also an increase on the ARPAC because they are using more and more services. So this is why we are convinced that, today, we will continue to have an organic growth, thanks to this juggle[?] driver, which is the fact that we acquire new customers and also that also we increased the revenue by – per customer.

And you've seen that the retention rate, which is 110%, proves that today, we have a very strong high level of retention and high level of loyalty plus the capacity to upsell and cross-sell on each of our customer base.

Tytus Żurawski: That's helpful. Thanks for that.

Operator: The next question comes from the line of Emmanuel Matot from ODDO. Please go ahead.

Emmanuel Matot (ODDO BHF): Yes. Good morning, gentlemen. Emmanuel Matot speaking from ODDO. First, how do you explain that France accelerated during the last quarter at plus 13% and that the rest of Europe still at 11% organic?

Second, what is the situation at this time for OVH here in the US? Do you see a slowdown of sales growth? If yes, is it related only to the basis of comparison? What could represent the US in terms of percentage of sales growth of sales in your fiscal year '25 road map?

And my last question is about the seasonality for your adjusted EBITDA margin between H1 and H2. Could we have more granularity? Could it be more significant than the 2 points we had last year between the two semesters, knowing that this year, of course, it would be in the other direction, meaning H2 higher than H1? Thank you very much.

Michel Paulin: Okay. France, we see a strong momentum in France. I think it's – there are two explanations. The first one is that we see clearly that the sovereign solutions is becoming a key element today on the corporate and enterprise market. There is strong interest, and the pipeline is very, very strong. But also, there is – or today, projects, which are driven by these criteria. That's the reason why, for example, we've seen that HDS, the Trusted Zone, which is a new offering we entered, the SecNumCloud are growing extremely well.

And in the domain of health, public sector, banking, we see a strong momentum, which explain partially but I mean substantially the acceleration of growth we see in France. And this is why we are absolutely convinced that, today, sovereignty is a key argument where OVHcloud today is the champion in Europe.

In Europe, today, this argument is still lagging a little bit. It's starting in Italy. It's starting in Germany. But we don't have the same intensity, but it's really something which is really promising for OVHcloud. And we've seen – I don't know if you've seen that Germany have decided, for example, not to accept hyperscalers tools now anymore in the public sector. So we see today that there is also a sort of acceleration of sovereignty. That's why we believe that, today, we are in the front of a new wave of opportunity for OVHcloud, especially on sovereignty.

Moreover, you see that today, one of the key aspects of our strategy is partnership. And that's why we are devoting a lot of effort, a lot of investments to increase the number of partners that we have in Europe, which is today not at the same level as that we have in France. But we are convinced that the investment we are making to improve this capacity in terms of number and quality of partner will allow us to accelerate our growth.

So these two factors are the fact that sovereignty is coming – is booming in France but is accelerating in Europe, plus the fact that we put in place a similar type of strategy that we have done and which is successful in France will allow us to access our growth in Europe.

Concerning US, we do not disclose the exact numbers of the US. What we see today is that US is our second largest country and it's the most – the highest level of growth like-for-like of all our countries across the globe. We have today a strong position with strong positioning, mainly based on digital. So we do not address the corporate level yet because we believe it's too soon that may be a pocket of opportunities one-time, but we keep today a strong focus to be able to propose innovative cost price performance solutions.

And we have found our market, especially in the tech market. And today, we have, I mean, a very strong growth. It's clear that the fact now that the dollar is down as – on the reported, a different dynamic, but we are today confident that our positioning are offering.

The last point I want to mention about the fact that we are – why we are confident in the US is that we are expanding today the complete portfolio of solutions that we had in France and in

Europe to the US. So if I take one example, we are going to now introduce the new pads, storage object and block storage and the file storage in the US. We've started last month, and we will continue this month, which again, will give us new opportunity to acquire new customers. And we acquired new customers in the US, but also to increase the revenue per customer with our cross – I mean, an upsell type of programme that we put in place.

The last point about the seasonality of the EBITDA. The seasonality of EBITDA will be mainly driven by the effect of the price increase. As we said, we have started mainly in December to increase the pricing. It will continue until April. So the full impact of the price increase will be in H2. And this is why we believe today, we would be able to maintain the right – with a strong – strict control of cost, of course, maintain the same level of EBITDA full year with, of course, a full impact on the second half.

Emmanuel Matot: Thank you for this answer.

Operator: The next question comes from the line of George Webb calling from Morgan Stanley. Please go ahead.

George Webb (Morgan Stanley): Hi. Morning, Michel, team, and happy new year to you as well. I want to come back, first of all – I got a few questions. I want to come back, first of all, on one of the questions that was raised earlier, but tied into the mid-term guide. So in the mid-term, you're still expecting to get mid-20s percent growth. If I think about that contribution from new versus existing customers on an intra-year basis, if we look at Q1 again, 110% like-for-like NRR, 11.7% organic revenue growth. So a 2-point delta from new customers. 2022, the delta was more like 4 points.

If we look out to 2025 and we can make an assumption here, but the answer is the MRO is 110% or 115%. In either case, you need a 10 or 15-point delta for new customers, which would be a very significant rate of growth over where you're currently standing. So wondering how comfortable you are with that assumption? Or should we be expecting – actually by the time you're at mid-20s growth, the NRRs are much closer to 20% than 10% or 15%. That's the first question.

And secondly, just on – I'm sorry if I missed it. Just on the SecNumCloud revenue. Are you able to size what the run rate is of that revenue grouping at the end of November? And then lastly, just on the Webcloud and other business, you mentioned good Black Friday sell-through there. Are you able to quantify how much of an impact that had on Webcloud growth in the quarter, please? Thank you.

Michel Paulin: Yeah. Above the mid-term 20% and up growth, we believe there are different factors. And it's – as Edouard mentioned, we have – and we always said that the four pillars of our growth will be based on, first, the fact that we have a mechanical acceleration of the growth due to the blended. And I mean you do suddenly the best, better than me. That is the first point.

The second point clearly is the move to PaaS, we believe, will be significant and especially starting in the beginning of – the second half of 2023, and of course, for the next years will be a significant driver because the – for us, it's a new opportunity. It's really upside growth capacity.

The third point is the fact that we are opening new geographies and new data centres, which for us is a strong way if we are going to open India, for example. And today, we have already some – a lot of good Indian business, but not local with a new evolution of the Indian regulations, which impose that some of the data staying in India. And due to the fact that we would have a data centre in India, this is for us a new opportunity of growth acceleration.

So if you take these three factors, we believe that, intrinsically independently of the regulations point, we will have capacity to increase and improve our growth rate.

The last point, of course, is about regulations in terms of sustainability. Sustainability is a point, but more sovereignty. We see everywhere in the world a key concern about sovereignty of data. In the US – I will start with China, which is number one, but also in Asia, in Korea, in Japan, in Singapore, in India, and of course, in Europe. And there, we are absolutely convinced that this is becoming a more and more important point of differentiator of OVHcloud due to the fact that we are not impacted by extraterritorial laws.

And I was – I had a recent call with Gartner. We mentioned that now they see that as one of the topic, highest topic of market trends for the cloud. And for us, this is really something which is – give us a strong confidence that OVHcloud is there the champion of the sovereignty everywhere in the world. And this is why we long term believe it will improve our capacity to accelerate growth.

We do not disclose, of course, SecNumCloud numbers. This is, I mean, too sensitive. However, we have – we know that we are in the UGAP number one. UGAP is the central data. It's the marketplace for the public sector. And we know that we are number one today in the UGAP in the cloud market. So this is just to give a flavour that, today, this is really a good driver. And the results of France have demonstrated that this is really proven in our figures that, today, this element is really fostering our growth.

Webcloud. Clearly, the Webcloud market is more mature than the public and private cloud market. It's – but it's still a marginal part of our business. And we are gradually moving towards more private and public cloud, which are growing much faster than this market.

Regarding Q1 performance, we have had a strong Black Friday performance. And we know that Black Friday is the right period to boost revenues and acquisitions in these type of solutions. And the November 2023 Black Friday has been extremely good for OVHcloud. And we also have recently launched new offerings in the fibre in the – also the connectivity in the telephony.

And we are now fostering with new marketing operations to try to maintain a high level of growth. And going forward, after this post-COVID phase of normalisation, we have no doubt that the market will return to a sort of normal pace on a mid-single-digit growth. And that's why also we will introduce new Webcloud in solutions very soon to be able to propose innovative solutions to maintain a good level of growth on this subsegment.

George Webb: Understood. Thank you.

Operator: We have again Gianmarco Bonacina from Equita for another question. Please go ahead.

Gianmarco Bonacina: Thank you. Just a follow-up question on the effect of Russia, in general, the impact of the war in Russia, which will annualise clearly from February, March. So are you currently suffering from some lower sales, I don't know, a few 1-2%, which will have, let's say,

base effect in the second half? And so it should accelerate the growth just because the base is now different? So if you can clarify this point, how much is currently in your business, the impact of, let's say, lower activity in – or no activity in Russia?

And the second one, given you said you expect an important contribution from PaaS. If you can quantify at least for the second half how much the – just PaaS should contribute in terms of, let's say, I don't know, a range of sales – incremental sales or growth? Thank you.

Edouard Ferran: So regarding Russia, so it's quite clear that it's a small percentage of the Group's overall revenue. And it's now less than 1.5% in – of our revenue in 2022, and it's becoming even smaller now. Of course, for the region, it's quite significant. But for the Group, it's very, very significant.

So we think that the normalisation of the situation will be – will happen probably in the second half of the year. But it's, of course, very – quite unpredictable considering the geopolitics of the situation right now.

For the PaaS, I'll let –

Michel Paulin: We do not disclose the details of all the PaaS. But it's clear that, today, to achieve our 14-16% like-for-like growth, PaaS will be a strong contributor. And we see already a strong momentum as we introduce new offering, especially today in two domains that we introduced six months ago. The first one is the managed Kubernetes type of solutions where we have a strong momentum today. And as I said, we are introducing that worldwide now, and it was available in France and after in Europe, and now we have that in all the data centres, which we believe will be an element to accelerate our growth.

The second is Database-as-a-Service that we've introduced six months ago and which will allow and already have gained good momentum with good customer acquisition. And as you know, the PaaS is really a demand model. So most of the customers start small. But what is interesting is that they consume more and more month after month, day after day. That's why we believe it's a strong driver for growth acceleration that we commit for this year.

Operator: We currently have no questions coming through. So as a final reminder, if you would like to ask a question, please press star one now. There are no further questions. So I will hand you back to your host to conclude today's conference.

Michel Paulin: Okay. Thank you very much for your questions. Always interesting and pertinent questions. Before we close the call, I was very happy to share with you today our first quarter review, which is a very strong start to the year, and it gives us the confidence for the rest of the year. We are on our growing market with strong fundamentals, and we are proud to be the partner of choice in European data sovereignty, data protection and for a sustainable cloud.

We are also delighted to announce today the appointment of Stéphanie Besnier as the new CFO. And we are very glad to welcome her at OVHcloud. She will join the team with Edouard, which is fully committed and fully engaged to pursue our profitable growth strategy.

And so thank you again for your attention, and have a very, very good day.

Operator: Thank you for joining today's call. You may now disconnect. Host, please stay connected and await further instructions.

[END OF TRANSCRIPT]