SUSE

SEPTEMBER 22, 2022

# Q3-22 Results Presentation

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This document contains alternative performance measures (APMs) which are further specified on page 22.

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# Today's Presenters

Melissa
Di Donato

CEO

Andy
Myers

CFO

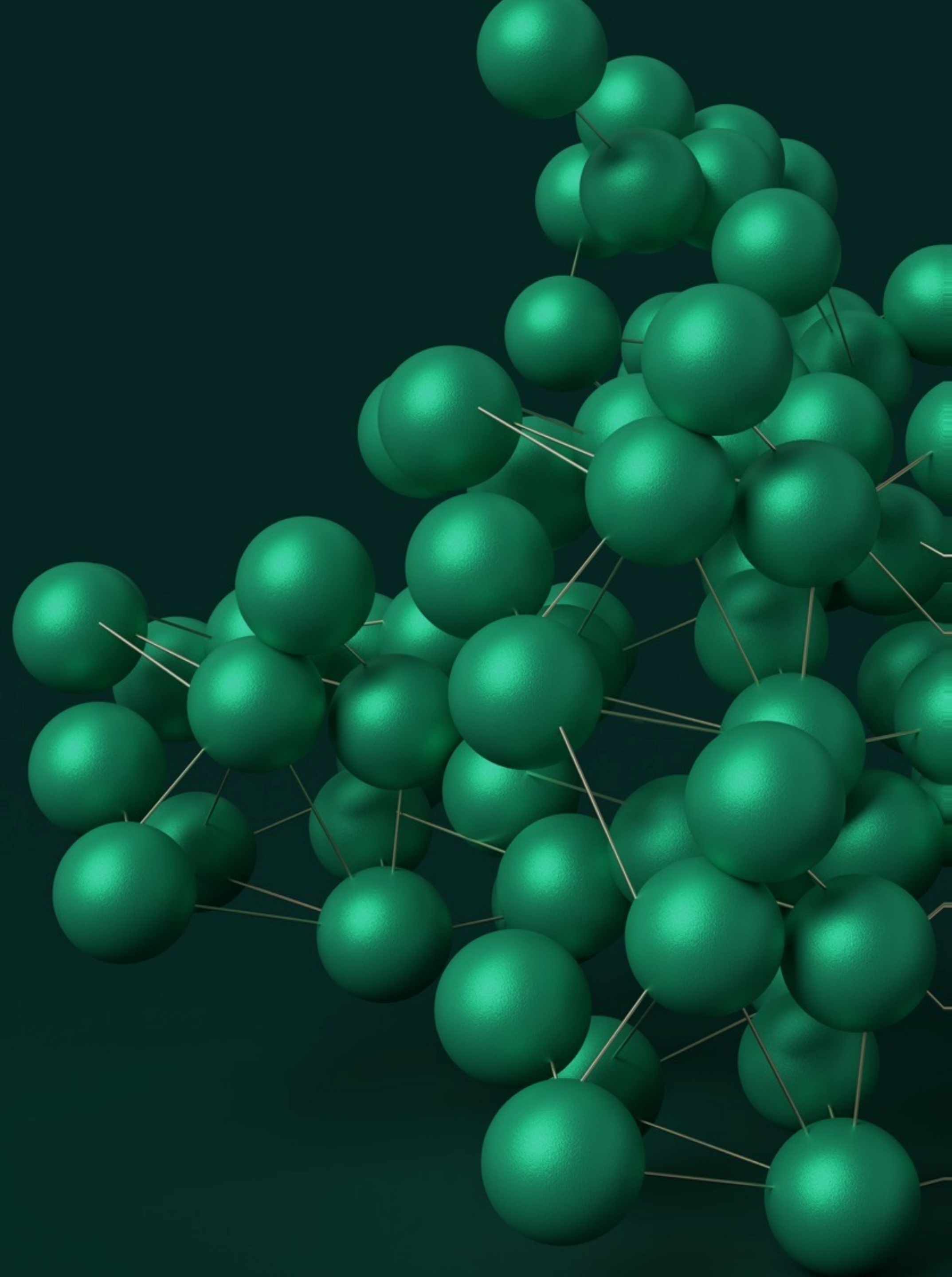
Jonathan
Atack

Investor Relations Director

**AGENDA**

1. Business Update

2. Financial Update



# Business Update

Melissa Di Donato, CEO

# Highly Profitable Business Model With Recurring Earnings

**Mission-critical infrastructure solutions**

**Rapidly growing markets**

**Subscription model**

**Diversified enterprise customer base**

**Multi-year contracts**

**Upfront payments**

**Resilient business model drives long-term sustainable growth with high profitability and high cash conversion**

# Q3-22 Financial Highlights – Delivering High Revenue Growth, Profitability and Cash Conversion

**$171m**
Adjusted Revenue

**13%**
Adjusted Revenue Growth

**-4%**
ACV Growth

**$640m**
Group ARR

**14%**
Group ARR Growth

**108%**
Group NRR

**38%**
Adjusted EBITDA Margin

**$65m**
Adjusted EBITDA

**27%**
Adjusted Cash EBITDA Margin

**$46m**
Adjusted Cash EBITDA

**94%**
Cash Conversion

**$62m**
Adjusted Unlevered Free Cash Flow

SUSE




Note: For definition of APM metrics please refer to page 22.

# Operational Highlights

| | |
|---|---|
| Product Updates | **Delivered significant enhancements to SUSE Rancher, SUSE NeuVector and SUSE Linux Enterprise, which landed well with customers and are supporting our order pipeline** |
| Partnerships | **Built on our work with AWS with a new strategic collaboration, including integrated go-to-market activities across sales and marketing, shared channel enablement and training** |
| People | **Expanded our organization, adding 69 people to our workforce in Q3**<br>Focussed investments on our sales force and container management product development |
| ESG | **Awarded EcoVadis silver medal for our ESG practices**<br>SUSE amongst the top 25% of the rated companies |

# Important Wins In The Quarter

| | Fortune 500 US Sports Apparel Giant | Global Leader in Sensors, Logistics and Manufacturing Automation | Prominent Indian Banking and Payments Institution |
|---|---|---|---|
| Overview | Upsell as SUSE Linux Enterprise expanded its footprint in world-famous sports brand | Upsell for SUSE Rancher at this global leader in sensors, logistics and manufacturing automation | Cross-sell and our first SUSE Liberty win in India, supporting world's largest digital payment infrastructure and supplementing existing SUSE Rancher subscription |
| Products | SUSE Linux Enterprise Server for SAP Applications, SUSE Manager, Live Patching, Gold Premium Engineer, Consulting, eLearning | SUSE Rancher Management Server, Rancher Nodes Priority and Rancher Nodes Standard Support | SUSE Liberty Support Priority Subscription |
| Why SUSE | ✓ SUSE was the incumbent, recommended technology for SAP<br>✓ Strong account relationship with the Microsoft Account Team supporting the customer | ✓ Delivery of a future-proofed next generation platform for customer's environment<br>✓ Flexibility and responsiveness to customer needs, and swift resolution of support tickets<br>✓ Good vendor, partner and customer relationship | ✓ Trust and confidence in the SUSE team, based on the positive experience with SUSE Rancher<br>✓ SUSE's openness and flexibility; avoidance of vendor lock-in<br>✓ Reduced opex costs through streamlined management; savings used to innovate and fuel business modernization |

# The Fundamental Drivers Of Container Market Growth Remain Strong

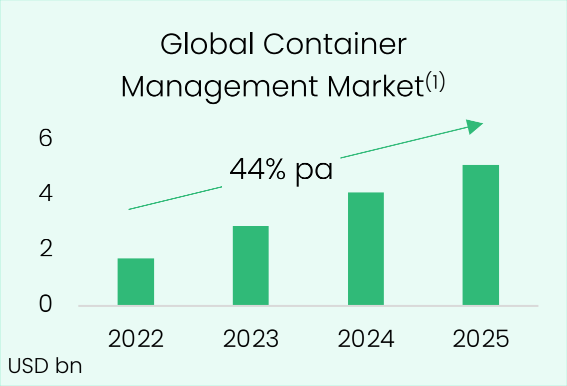
## Global mega-trends

- Data Analytics
- IoT and Edge Computing
- Cloud Transformation
- AI and Machine Learning
- Super-computing

## Market growth

Rising need for multi-cloud support and portability driving container usage and orchestration

Containers are predominantly a Linux technology, with adoption driving paid Linux and vice-versa




## Rancher adoption

Market-leading container management platform with continued strong usage

Around
**4 million**
Rancher downloads per month

Over
**40 thousand**
active unique users per week (c.35% CAGR over 2 years)

**Market-leading product in rapidly growing market**
**Our plans to evolve our business will capitalize on this significant opportunity**





(1) Paid & commercially addressable market. Source: BCG

# Delivering Value From Rancher's Strong Adoption

Macro uncertainty is delaying decision making

Companies more willing to run unsupported for longer

Larger, but less experienced sales force

Broader customer technical requirements

**1** RANCHER

- Introducing throughout Q4 FY22 and Q1 FY23, additional security certifications and capabilities for paying customers
- Leveraging experience from established SUSE Linux model
- Currently beta testing

Stronger security- and compliance-based assurances

Platform for future value-creating innovation

**2**

- Developing a specialized Rancher sales force
- Enhancing routes-to-market with the addition of hyperscaler marketplaces

Strengthened approach to increase pipeline conversion

Better delivery of value proposition

**3**

- Increasing Rancher's capacity for product development and technical sales support
- Enhanced Edge solutions

Market-leading product

Best-in-class technical support

# Financial Update

Andy Myers, CFO

# Financial Results Summary

**Q3-22 Highlights**

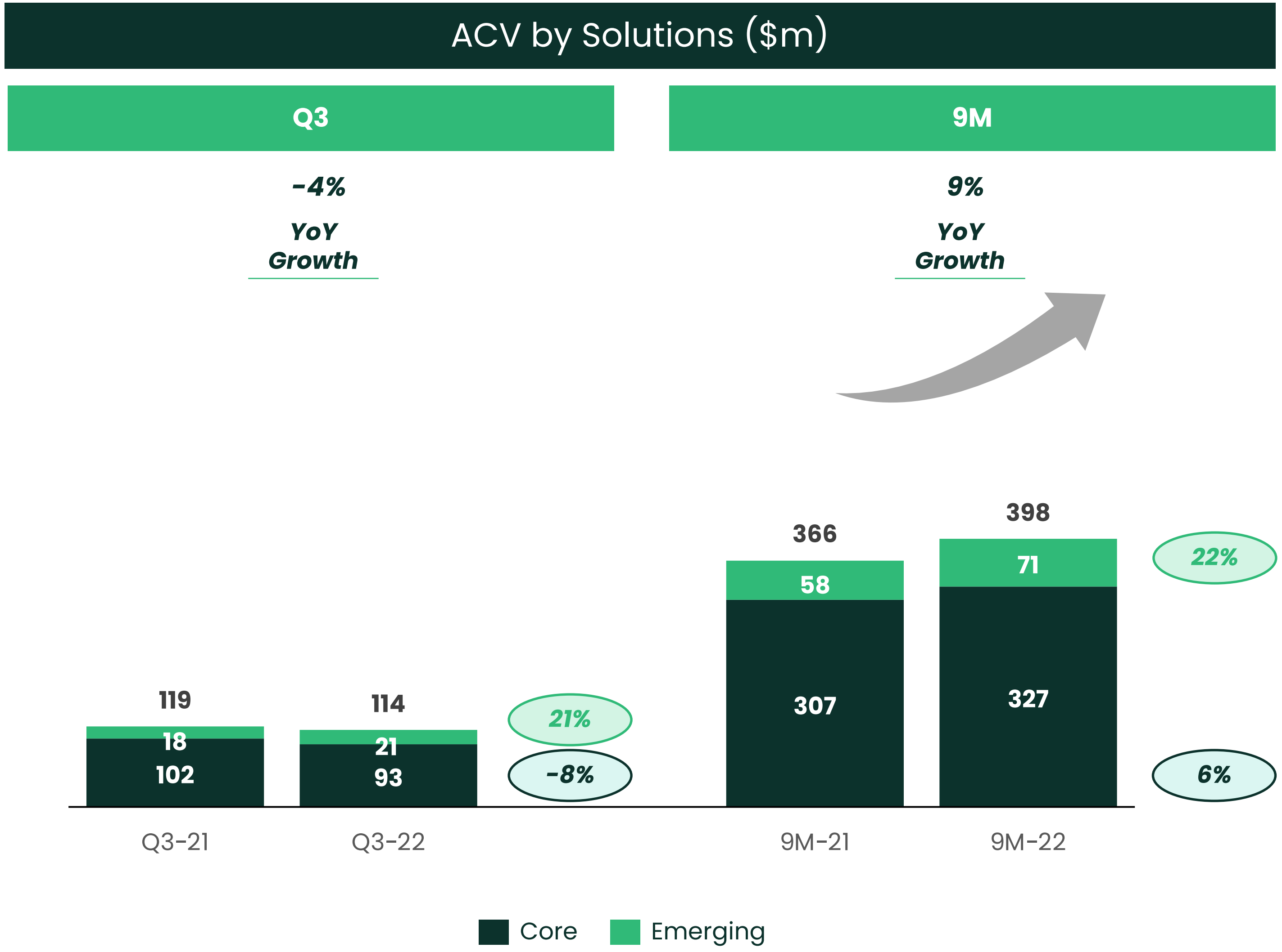
- **ACV $114 million, down 4% (down 1% at constant currency)**
- **Adjusted Revenue up 13% (15% at constant currency)**
- **ARR up 14%**
- **NRR of 108%**
- **Adjusted EBITDA Margin of 38%**
- **Cash Conversion of 94%**

***Delivering high revenue growth, profitability and cash conversion***



Note: All figures are expressed in $m unless otherwise specified. For definition of APM metrics please refer to page 22.

# ACV By Solutions – Strong Cloud Growth Continues




**Group ACV growth down 4% (down 1% at constant currency)** in Q3-22

- **Core down 8%, down 5% at constant currency,** reflecting our usual sales cycle, available renewal pool in Q3 2022 and a large retrospective consumption contract in Q3 2021, together with a foreign currency headwind
- **Emerging up 21%, up 25% at constant currency,** reflecting continued strong Rancher renewals partly offset by lower new business

**Highlights by geography**

- **Growth in Asia Pacific, up 20%, and in Latin America, up 21%,** remained strong
- **North America down 6%,** driven primarily by a smaller renewal pool

**Highlights by RTM**

- End User growth of 4% driven by continued strong growth in cloud sales across all CSPs
- IHV/Embedded ACV down 41% driven primarily by a smaller renewal pool in our Embedded route-to-market, hardware shortages and a shift to selling through other routes, primarily through CSPs



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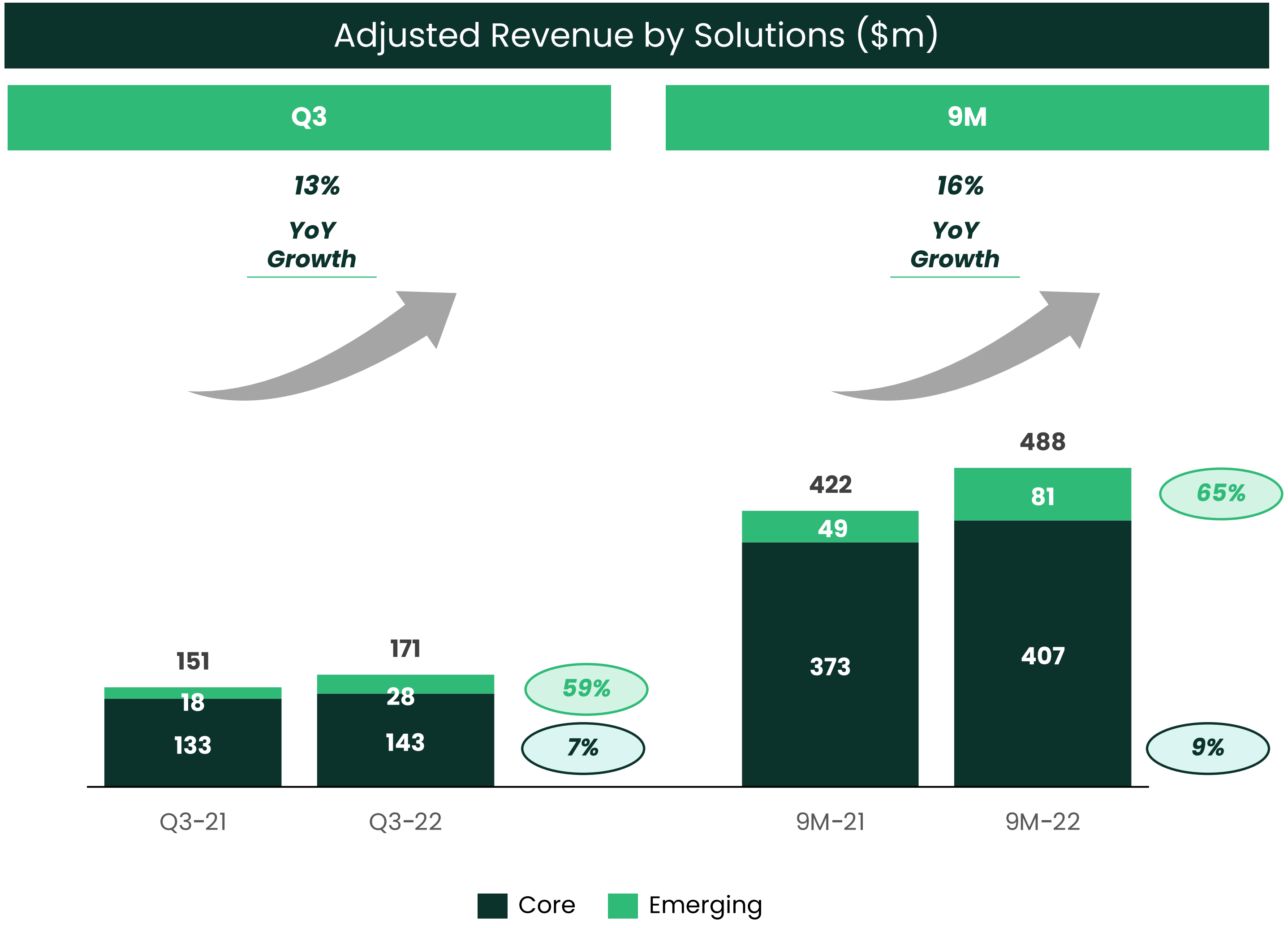
# Adjusted Revenue By Solutions – Robust Growth




**Q3-22 Adjusted Revenue of $171m, up 13% YoY (15% at constant currency),** underpinned by continued strength in cloud revenue

**Annual Recurring Revenue and Net Retention Rate**

- Q3-22 **ARR** of $640m, **up 14% YoY,** demonstrating the continued strength of its subscription business
- Q3-22 **NRR** of **108%,** demonstrating a consistent ability to build on and expand existing customer relationships





Note: All figures are expressed in $m unless otherwise specified. For definition of APM metrics please refer to page 22.

# Operating Costs Evolution– Strong Cost Control

| *($m)* | Q3-22 | Q3-21 | 9M-22 | 9M-21 |
|---|---|---|---|---|
| **Adjusted Revenue** | **171.2** | **151.0** | **487.5** | **421.9** |
| **Cost of Sales** | **(13.3)** | **(11.6)** | **(38.2)** | **(30.2)** |
| *As % of Revenue* | *8%* | *8%* | *8%* | *7%* |
| 1 **Gross Profit** | **157.9** | **139.4** | **449.3** | **391.7** |
| *% Margin* | *92%* | *92%* | *92%* | *93%* |
| 2 **Sales, Marketing & Operations** | **(45.0)** | **(39.0)** | **(134.3)** | **(106.4)** |
| 3 **Research & Development** | **(27.1)** | **(25.4)** | **(81.2)** | **(69.8)** |
| 4 **General & Administrative** | **(20.7)** | **(19.8)** | **(57.8)** | **(51.4)** |
| **Total Operating Costs** | **(92.8)** | **(84.2)** | **(273.3)** | **(227.6)** |
| 5 **Adjusted EBITDA** | **65.1** | **55.2** | **176.0** | **164.1** |
| *% Margin* | *38%* | *37%* | *36%* | *39%* |

1 **Gross Profit Margin:**

- Gross margin maintained at 92%, in line with the prior year

2 **Sales, Marketing & Operations:**

- **15% increase** driven by continued investments in our sales force and marketing which focused on pipeline generation and qualification

3 **Research & Development:**

- **7% increase** driven by investments in engineering and product management, with significant funding directed to our container management products

4 **General & Administrative:**

- **5% increase** driven by headcount investments and an adverse realized foreign exchange movements

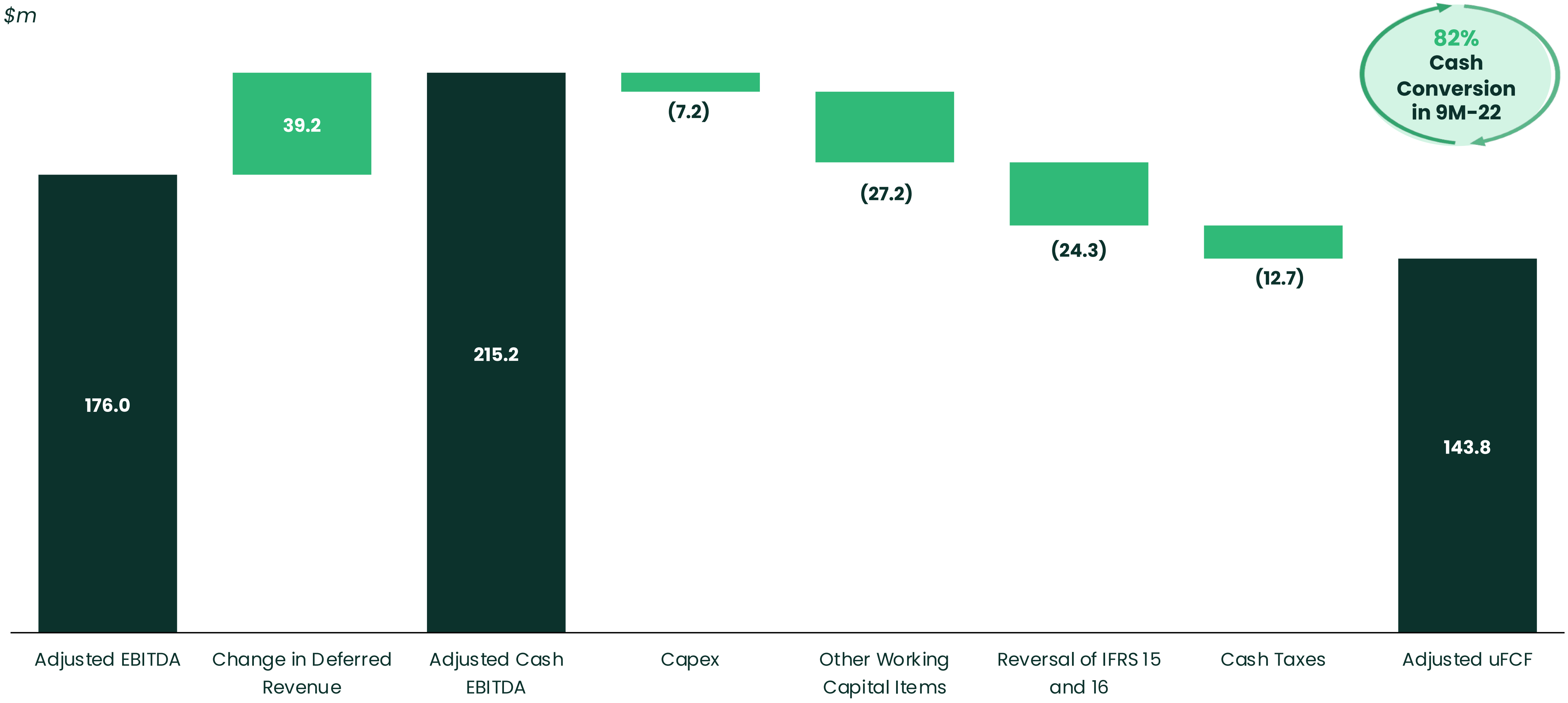
5 **Adjusted EBITDA margin:**

- **1 ppt increase,** with revenue growth further enhanced by strong cost control and a positive impact from foreign exchange movements
- Increased margin despite highly inflationary environment



Note: All figures are expressed in $m unless otherwise specified. For definition of APM metrics please refer to page 22.

# Strong Profitability And Cash Conversion In 9M-22



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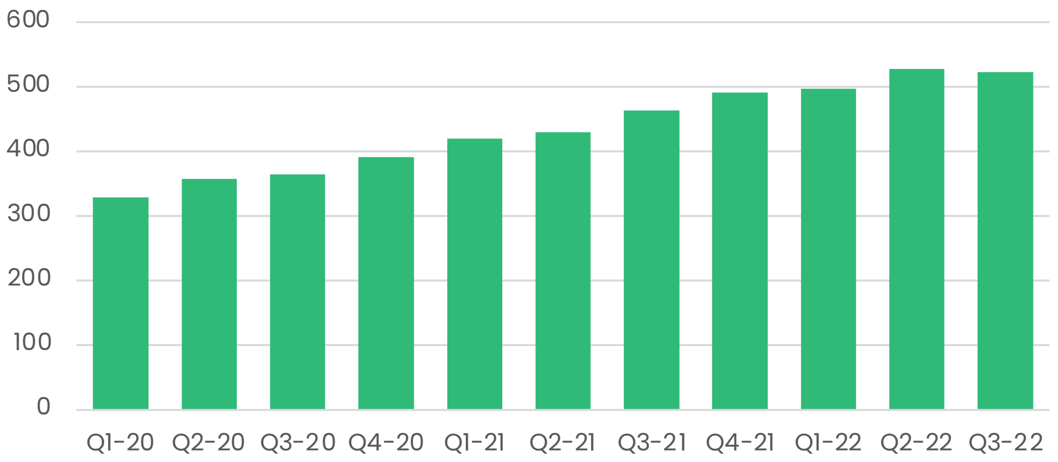
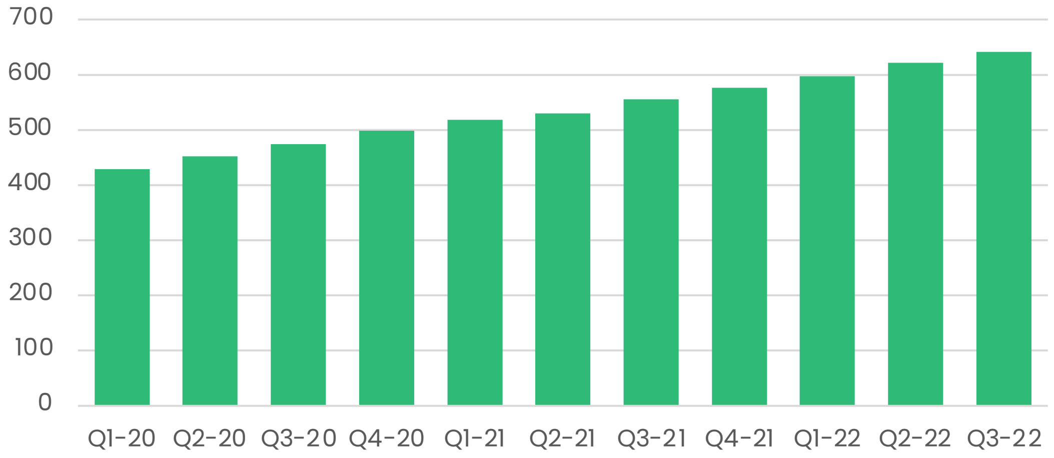
# Consistent Performance in LTM Metrics

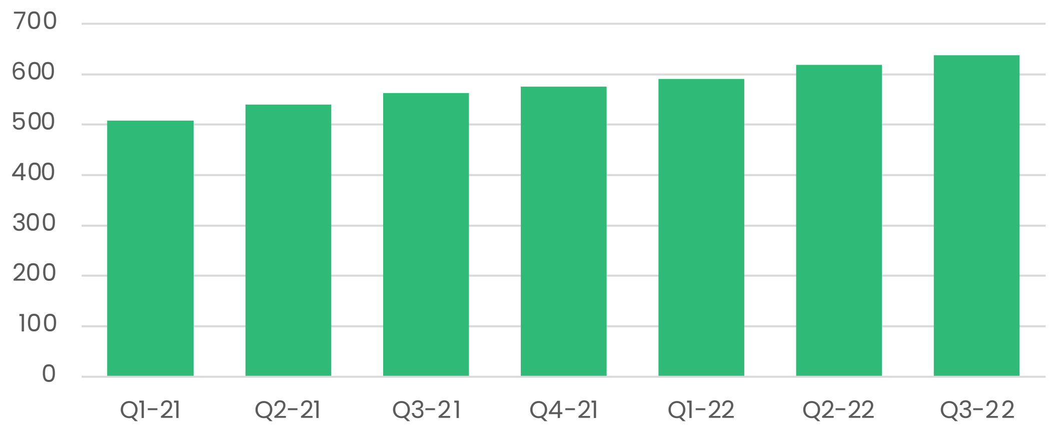
## LTM ACV ($m)



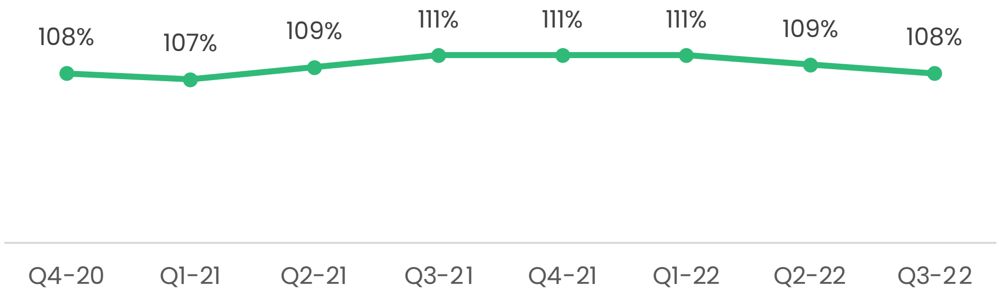

## LTM Revenue ($m)




## ARR ($m)




## NRR








Note: FY20 financial figures only include SUSE Rancher actual contribution on a coterminous basis starting from November 2019.
For definition of APM metrics please refer to page 22.

# FY22 Guidance

| | | FY22 Guidance Prior to FX Impact | | | Medium Term Guidance |
|---|---|---|---|---|---|
| | | Previous | Revised | Estimated Full Year FX Impact[1] | |
| Annual Contract Value | **Core** | Mid-teens growth | c. 10% growth | c. (4) ppt | Mid-to-high teens growth |
| Annual Contract Value | **Emerging** | c. 50% growth | c. 20% growth | c. (3) ppt | In excess of 50% growth |
| **Total Adjusted Revenue** | | Mid-to-high teens growth | No change | c. (2) ppt | Growth around 20% |
| **Adjusted EBITDA margin** | | Around mid-thirties percent | No change | c. +2 ppt | Gradual increase towards 40% |
| **Adjusted uFCF Conversion** | | Stable-to-slight increase from FY21 levels | Over 80% | Slight negative | Stable-to-slight increase from FY21 levels |



Note: All figures are expressed in $m unless otherwise specified. For definition of APM metrics please refer to page 22.
(1) Based on actual Q3 YTD impact and end of Q3 rates projected through Q4

# Highly Profitable Business Model With Recurring Earnings

**Mission-critical infrastructure solutions**

**Rapidly growing markets**

**Subscription model**

**Diversified enterprise customer base**

**Multi-year contracts**

**Upfront payments**

**Resilient business model drives long-term sustainable growth with high profitability and high cash conversion**

# Q&A

# Appendix

# Alternative Performance Measures (APMs)

This document contains certain alternative performance measures (collectively, "APMs") including ACV, ARR, NRR, , Adjusted Revenue, Adjusted EBITDA, Adjusted EBITDA Margin Adjusted Cash EBITDA, Adjusted Cash EBITDA margin, Adjusted uFCF, Cash Conversion, and Net Debt and Leverage that are not required by, or presented in accordance with, IFRS, Luxembourg GAAP or any other generally accepted accounting principles. Certain of these measures are derived from the IFRS accounts of the Company and others are derived from management reporting or the accounting or controlling systems of the Group.

SUSE presents APMs because they are used by management in monitoring, evaluating and managing its business, and management believes these measures provide an enhanced understanding of SUSE's underlying results and related trends. The definitions of the APMs may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should, therefore, not be considered in isolation or as a substitute for analysis of SUSE's operating results as reported under IFRS or Luxembourg GAAP. APMs such as ACV, ARR, NRR, Adjusted Revenue, Adjusted EBITDA, Adjusted EBITDA Margin, Adjusted Cash EBITDA, Adjusted Cash EBITDA Margin, Adjusted uFCF, Cash Conversion, RPO and Net Debt and Leverage are not measurements of SUSE's performance or liquidity under IFRS, Luxembourg GAAP or German GAAP and should not be considered as alternatives to results for the period or any other performance measures derived in accordance with IFRS, Luxembourg GAAP, German GAAP or any other generally accepted accounting principles or as alternatives to cash flow from operating, investing or financing activities.

SUSE has defined each of the following APMs as follows:

"Annual Contract Value" or "ACV": ACV represents the first 12 months monetary value of a contract. If total contract duration is less than 12 months, 100% of invoicing is included in ACV;

"Annual Recurring Revenue" or "ARR": ARR represents the sum of the monthly contractual value for subscriptions and recurring elements of contracts in a given period, multiplied by 12. ARR is calculated three months in arrears, given backdated royalties relating to IHV and Cloud, and hence reflects the customer base as of three months prior;

"Net Retention Rate" or "NRR": expressed as a percentage, NRR indicates the proportion of ARR that has been retained over the prior 12-month period, which is inclusive of up-sell, cross-sell, down-sell, churn and pricing. It excludes ARR from net new logo end-user customers. The NRR is calculated three months in arrears, aligned to the calculation of ARR;

"Adjusted Revenue": Revenue as reported in the statutory accounts of the Group, adjusted for fair value adjustments;

"Adjusted Gross Profit": this APM represents Adjusted Revenue less operating costs adjusted for non-recurring items;

"Adjusted Gross Profit Margin" expressed as a percentage, this APM represents Adjusted Gross Profit divided by Adjusted Revenue

"Adjusted EBITDA": this APM represents earnings before net finance costs, share of loss of associate and tax, adjusted for depreciation and amortization, share-based payments, fair value adjustment to deferred revenue, statutory separately reported items, specific non-recurring items and net unrealized foreign exchange (gains)/losses;

"Adjusted EBITDA margin": expressed as a percentage, this APM represents Adjusted EBITDA divided by Adjusted Revenue

"Adjusted Cash EBITDA": this APM represents Adjusted EBITDA plus changes in contract liabilities in the related period and excludes the impact of contract liabilities – deferred revenue haircut;

"Adjusted Cash EBITDA Margin": expressed as a percentage, this APM represents Adjusted Cash EBITDA divided by Adjusted Revenue;

"Adjusted Profit before Tax" is Adjusted EBITDA (post IFRS 15 and 16), less D&A (excluding intangible amortisation for Customer relationships, intellectual property and non-complete agreements) less net financial expense

"Adjusted Profit after Tax" is Adjusted Profit before Tax less notional tax

"Adjusted Earnings Per Share" represents Adjusted Profit after Tax less notional tax divided by the weighted average number of shares during the period

"Adjusted Unlevered Free Cash Flow" or "Adjusted uFCF": this APM represents Adjusted Cash EBITDA less capital expenditure related cash outflow, working capital movements (excluding deferred revenue, which is factored into Adjusted Cash EBITDA, and non-recurring items), cash taxes and the reversal of non-cash accounting adjustments relating to IFRS 15 and IFRS 16;

"Cash Conversion": expressed as a percentage, this APM represents Adjusted uFCF divided by Adjusted EBITDA;

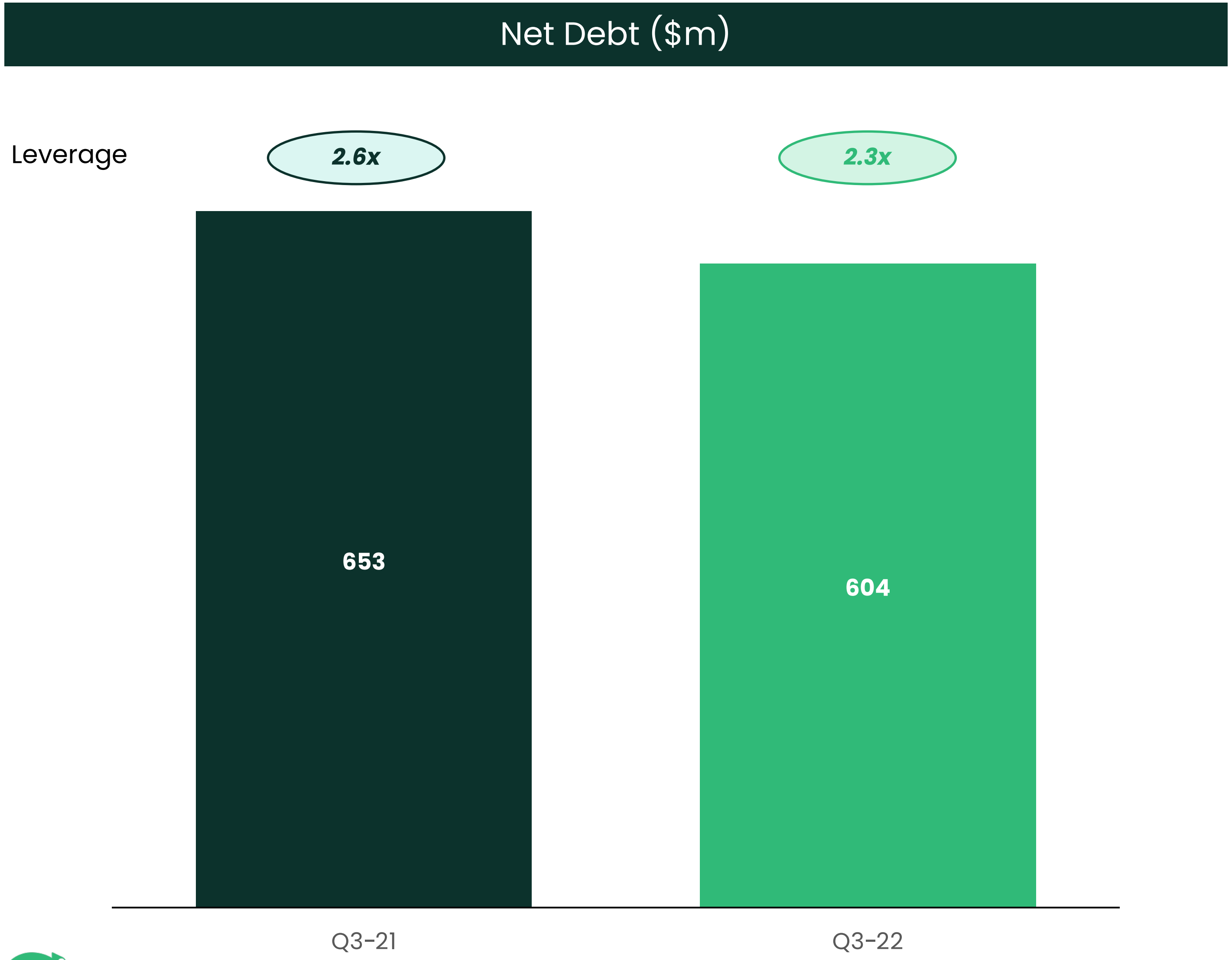
"Constant Currency": Constant Currency for ACV and costs, is calculated by re-stating the prior year period results to reflect exchange rates prevailing during the reported period. Constant currency for Adjusted revenue, is calculated by re-stating the in-period revenue generated in the prior period from the prior period ACV to reflect exchange rates prevailing during the reported period. No such restatement is needed for revenues in prior periods unwinding from deferred revenue, as these revenues are locked into US denominated values when the associated ACV was generated;

"Contractual Liabilities and Remaining Performance Obligations" or "RPO": RPO represents the unrecognized proportion of remaining performance obligations towards subscribers (e.g., the amount of revenue that has been invoiced, but not yet recognized as revenue) plus amounts for which binding irrevocable commitments have been received but have yet to be invoiced. Deferred Revenue is another term used for Contractual Liabilities;

"Net Debt": This APM represents the sum of current and non-current interest bearing borrowings (net of un-amortized capitalized arrangement fees, gains or losses on loan modifications), current and non-current lease liabilities, less cash and cash equivalents; and

"Leverage" - Expressed as a multiple, Leverage is Net Debt divided by Adjusted Cash EBITDA

# Continued De-Leveraging




**$604m Net Debt** at Q3-22, a reduction of $50m versus the prior quarter, driven by our strong cash flow

Leverage ratio of 2.3x, flat versus the prior quarter and well within our commitment to keep leverage below 3.5x





Note: All figures are expressed in $m unless otherwise specified. For definition of APM metrics please refer to page 22.

# Impact Of Exchange Rates

**Impact of foreign exchange rate changes on 9M-22 YoY growth (constant currency (CCY FX) versus Actual FX growth)**

| | 9M-22 |
|---|---|
| ACV Core | (4) ppt |
| ACV Emerging | (3) ppt |
| Total ACV | (3) ppt |
| Adjusted Revenue | (1) ppt |
| Adjusted EBITDA | 3 ppt |

**Key financial metrics by currency**

| 9M-22 | USD | EUR | GBP | Other |
|---|---|---|---|---|
| Total ACV | 65% | 25% | 2% | 8% |
| Adjusted Revenue | 91% | 6% | 0% | 3% |
| Operating Expenses | 47% | 25% | 11% | 17% |

# Key Financial Metrics By Quarter

| *($m)* | Q1-21 | Q2-21 | Q3-21 | Q4-21 | FY-21 | Q1-22 | Q2-22 | Q3-22 |
|---|---|---|---|---|---|---|---|---|
| **Total ACV** | **137.6** | **109.0** | **119.0** | **125.0** | **490.6** | **143.8** | **139.4** | **114.4** |
| o/w Core | 111.3 | 94.6 | 101.5 | 98.7 | 406.1 | 119.9 | 113.6 | 93.2 |
| o/w Emerging | 26.3 | 14.4 | 17.5 | 26.3 | 84.5 | 23.9 | 25.8 | 21.2 |
| **Adjusted Revenue** | **134.1** | **136.8** | **151.0** | **154.0** | **575.9** | **155.0** | **161.3** | **171.2** |
| o/w Core | 118.6 | 121.4 | 133.2 | 133.4 | 506.6 | 130.2 | 133.9 | 142.9 |
| o/w Emerging | 15.5 | 15.4 | 17.8 | 20.6 | 69.3 | 24.8 | 27.4 | 28.3 |
| **Adjusted EBITDA** | **60.7** | **48.2** | **55.2** | **48.0** | **212.1** | **52.3** | **58.6** | **65.1** |
| *% Margin* | *45%* | *35%* | *37%* | *31%* | *37%* | *34%* | *36%* | *38%* |
| Change in Deferred Revenue | 46.4 | 6.2 | 9.8 | 3.7 | 66.1 | 40.8 | 17.3 | (18.9) |
| **Adjusted Cash EBITDA** | **107.1** | **54.4** | **65.0** | **51.7** | **278.2** | **93.1** | **75.9** | **46.2** |
| *% Margin* | *80%* | *40%* | *43%* | *34%* | *48%* | *60%* | *47%* | *27%* |





Note: For definition of APM metrics please refer to page 22.
Q1-21 and FY-21 figures have been made pro forma for the acquisition of SUSE Rancher, as if consolidated from 1 November 2019.

# Adjusted Revenue Reconciliation

| *($m)* | Q3-22 | Q3-21 | 9M-22 | 9M-21 |
|---|---|---|---|---|
| **Statutory Revenue** | **170.1** | **148.0** | **483.4** | **407.7** |
| Plus: Contract Liability Haircut Amortised | 1.1 | 3.0 | 4.1 | 10.5 |
| Plus: Pro Forma Rancher Contribution[1] | - | - | - | 3.7 |
| **Adjusted Revenue** | **171.2** | **151.0** | **487.5** | **421.9** |



Note: Note: For definition of APM metrics please refer to page 22.
(1) Adding 1 month of SUSE Rancher for Q1-21.

# Adjusted EBITDA Reconciliation

| *($m)* | Q3-22 | Q3-21 | 9M-22 | 9M-21 |
|---|---|---|---|---|
| **Operating Profit/Loss** | **3.0** | **(30.5)** | **(8.4)** | **(181.3)** |
| Minus: Amortisation and Depreciation | 37.7 | 40.3 | 116.2 | 119.1 |
| Minus: Separately Reported Items | - | 4.9 | - | 14.1 |
| Minus: Contract Liability Haircut Amortised | 1.1 | 3.0 | 4.1 | 10.5 |
| Minus: Non-recurring Items | 5.3 | 5.0 | 14.4 | 18.3 |
| Minus: Share Based Payments[(1)] | 15.2 | 18.3 | 37.8 | 166.1 |
| Minus: Share Based Payments - Employer Taxes | - | 1.2 | 0.9 | 7.0 |
| Plus: Foreign Exchange (unrealised) | 2.8 | 13.0 | 11.0 | 12.1 |
| **Adjusted EBITDA (Statutory Basis, Excluding Rancher Pro Forma Contribution)** | **65.1** | **55.2** | **176.0** | **165.9** |
| Minus: Adjustment for Actual Rancher Contribution[(2)] | - | - | - | (1.8) |
| **Adjusted EBITDA** | **65.1** | **55.2** | **176.0** | **164.1** |



Note: For definition of APM metrics please refer to page 22.
(1) Q1-21 increase in share based compensation driven by pre-IPO option program.
(2) Adding 1 month of SUSE Rancher for Q1-21

# Adjusted PBT Bridge

| *($m)* | Q3-22 | Q3-21 | 9M-22 | 9M-21 |
|---|---|---|---|---|
| **Adjusted Revenue** | **171.2** | **151.0** | **487.5** | **421.9** |
| **Adjusted EBITDA** | **65.1** | **55.2** | **176.0** | **164.1** |
| Minus: Depreciation & Amortisation | (5.0) | (4.8) | (16.3) | (14.9) |
| Minus: Net Finance Costs | (9.1) | (8.1) | (30.7) | (38.1) |
| **Adjusted PBT** | **51.0** | **42.3** | **129.0** | **111.1** |
| *% Margin* | *30%* | *28%* | *26%* | *26%* |



Note: For definition of APM metrics please refer to page 22.

# Adjusted Unlevered FCF Bridge

| *($m)* | Q3-22 | Q3-21 | 9M-22 | 9M-21 |
|---|---|---|---|---|
| **Adjusted Cash EBITDA** | **46.2** | **65.0** | **215.2** | **226.5** |
| Minus: Gross Capex | (2.5) | (1.3) | (7.2) | (2.1) |
| Plus: Change in Core Working Capital | 27.2 | (14.2) | (27.2) | (41.8) |
| Minus: IFRS 15 | (5.3) | (8.3) | (18.6) | (25.6) |
| Minus: IFRS 16 | (1.9) | (1.8) | (5.7) | (5.4) |
| Minus: Cash Taxes | (2.2) | (0.4) | (12.7) | (4.4) |
| Rancher pro-forma uFCF | - | - | - | (1.8) |
| **Adjusted uFCF** | **61.5** | **39.0** | **143.8** | **145.4** |



Note: For definition of APM metrics please refer to page 22.

# Thank You