Transcription

SUSE S.A. - Analyst Conference Call Q4 Results 2021

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PRESENTATION

00:04 Operator

Good afternoon. Welcome to the SUSE S.A. conference call hosted by Melissa DiDonato, Chief Executive Officer and Andy Myers, Chief Financial Officer. For your information this conference will be recorded. As a reminder, all participants will be in a listen-only mode. After presentation, there will be an opportunity to ask questions. If any participant has difficulties hearing the conference, please press star key followed by a zero on your telephone for operator assistance. May I now hand the call over to Jonathan Atack at Investor Relations who will lead you through this conference? You may begin.

00:35 Jonathan Atack

Thank you, Operator. Good morning, and welcome to the presentation of SUSE's results for the 2021 financial year. I'm Jonathan Atack, Head of Investor Relations at SUSE. I'll shortly hand you over to our CEO, Melissa DiDonato, and our CFO, Andy Meyers, who are going to take you through a few prepared remarks before we open up the floor to Q&A. Before I do that, can I remind you of the disclaimer on Page 2 of the presentation, which contains important notices on the information provided in the following presentation. Thank you. Melissa, over to you.

01:10 Melissa DiDonato

Thank you, Jonathan. Hello everyone. This is Melissa DiDonato, the CEO of SUSE. I am very pleased to you speak today to share the details about SUSE's first full year as a listed company. When we presented our Q3 results in September, we strengthened our full-year guidance. I'm very pleased to report that we had hit all of our revised targets. Q4 was a strong quarter for SUSE, in delivering our product roadmap and closing on the acquisition of NeuVector. I am very pleased with what the SUSE team has accomplished this year. Having delivered on the initiatives that we committed to, both organically and through M&A. In SUSE, we have a business with good visibility resulting from a strong net retention rate, a suite of open and interoperable products that our customers have learned to depend upon. This, coupled with a strong team, sets us up very well. As we complete our first fiscal year as a listed company, I want to take a moment to reflect on what we have achieved this year. I also want to highlight the foundations that we have built, and which will help drive us and further momentum for growth, develop a better position and even more innovation, with a more open SUSE.

We started and ended our fiscal year 2021 with grain-changing acquisitions. At the beginning of the year, we closed on Rancher. Through this transaction and our seamless integration, we have built a unique platform combining a superb business-critical Linux operating system, with a market-leading Kubernetes management solution. Rancher has given us a leading position in the container management market, growing over 50% per annum. It has unlocked material cross-selling opportunities with our existing operations and enlarged our innovation capabilities. In the final days of our fiscal year, we closed the acquisition of NeuVector, our very first M&A deal as a listed company. NeuVector is a leader in full lifecycle container security. It gives you the ability to deliver even more secure, easy to deploy container management and Kubernetes solutions. As you well know, in May 2021, we listed successfully on the Frankfurt Stock Exchange, making SUSE the largest enterprise software IPO in Europe last year. This has been a tremendous source of pride, but all through the employees, through the acknowledgement of the exceptional work that we have done over the past three decades.

Being listed also brings us some major strategic advantages. We now have a powerful currency to accelerate our M&A plans, as seen and proven with NeuVector. We can more effectively attract and retain the best talent in the industry, as we can more easily align shareholder and employee interests. We hired more than 400 people this year, including very senior professionals, and in what could be seen as a very challenging hiring market. Throughout the year, we remained focused on growth. Taking an example from our fourth quarter, we expanded our edge offering with the release of SUSE Linux

Enterprise Micro 5.1, a lightweight and secure operating system built for containerized and virtualized workloads at the edge. This product makes it easy for organizations of all sizes to build powerful edge solutions. As a truly open business, we remain at the forefront of open source innovation. During our fourth quarter Harvester went into production. Harvester manages both virtual machines and containers. It also enables customers to modernize and transition from traditional to cloud-native applications and infrastructure seamlessly at our customers' own pace. We believe the traditional hyper-converged infrastructure market is ripe for disruption by open source and by SUSE.

Finally, allow me to share a few details about some of the prominent awards that we received in 2021. They include the Decision-Maker Award, Digitization Decision-Maker of the Year, presented by workshop [unintelligible 05:55] at KPMG. First place in the German Brand Awards for Excellence in Brand Strategy and Creation, Brand Design, and a number of others. All are significant honors and reflect our many successes throughout the year, to the end of 2021, in a strong position, with an engaged workforce, a strong capital structure, and an innovative set of products with the right ambition to deliver impact.

Let's spend just a couple of moments on our full-year performance headlines. I will first focus on our full-year performance rather than into the quarterly performance, to highlight how SUSE has performed over the past 12 months. Andy, our CFO, will take you through our usual quarterly updates. As already mentioned, FY21 was a strong year for SUSE. Our group ACV growth reached 26% In FY21, with 18% growth in core and 85% growth in our emerging business. Let's know that this is an acceleration versus the 25% we delivered over the first nine months of the year. We raised $576 million total revenue up from 15% year over year and above the high end of our $554 to 574 million range guidance given earlier. Our ARR reached $560 million, a 17% increase year over year. As you'd expect from SUSE, this growth was delivered while generating a 37% adjusted EBIT margin and 94% cash conversion.

As you will remember, we've identified five key areas to drive up performance relative to the market. As in Q2 and Q3, I am pleased to report that we've made progress in all of these areas. First in commercial excellence, we've achieved Common Criteria EAL4+ certification for our flagship Linux distribution. This certification is only awarded for compliance with the most demanding security requirements for mission-critical infrastructure. What this means is that customers around the world can be certain their SUSE Linux operating system conforms to the highest international standards for computer security within their chosen IT infrastructure. We've also achieved a stable average contract length of 19 months. And this is a material achievement, given the strong growth of SUSE Rancher, which as you know traditionally offered 12-month contracts. This is all a strong testament of our customers' willingness to consolidate their relationships with SUSE.

Next, moving to underserved markets, where we're once again seeing tremendous growth across our regions. I'd like to highlight the outstanding performance that we made and delivered in LatAm and APJ, which reflect our investments in both leadership and in sales capabilities. From the accelerators, we continue to see strong growth with the hyperscalers and our managed service provider partners. In addition, our new pricing discipline and policies that we've talked long about have now started to yield early benefits. On the SUSE Rancher side, our growth trajectory continues. We saw 85% growth in emerging ACV in FY21, up more than 100% in Q4, as we continue to drive cross selling across all geographies, and all product lines. On the edge, SUSE signed a significant edge deal with an EMEA telco giant that utilizes both SUSE Rancher and SUSE Linux Enterprise that can further illustrate how our solutions are addressing the compelling needs that our customers have today.

And as already mentioned, we shipped a very important edge product with SUSE Linux Enterprise Micro 5.1. And we don't stop here. Yesterday, you may have seen, we launched SUSE Liberty Linux. This new service offers and provides customers with a unified support experience for managing their heterogeneous and distributed Linux environments, everything and all the way from SUSE Linux Enterprise, to openSUSE, to CentOS, and even through to Red Hat. While we relentlessly focus on delivering organically, we will continue to actively pursue strategic acquisitions to accelerate our growth inorganically. On the 28th of October of fiscal year '21, we successfully closed the acquisition of NeuVector. Founded in 2015, NeuVector is a leader in full lifecycle container security focused on three core capabilities. First, security automation. This is used for securing mission-critical workloads and data. Next, continuous compliance, which eases the Kubernetes transition to product deployment. And then finally, DevOps transformation, accelerating secured end to end by NeuVector. NeuVector already has a portfolio of premium users and partners, which we will aim to further expand. For SUSE, the acquisition of NeuVector is another critical milestone in the execution of our enterprise container management product strategy, as we extend our reach into high-growth container management markets. With our new container security capabilities, we will accelerate the adoption of container and Kubernetes technologies, particularly focusing on larger customers that have more complex requirements. The acquisition will also unlock significant cross-selling opportunities for us, whilst reinforcing our leadership and our growing presence in the container market.

We are at the beginning of a very exciting journey. After the successful conversion, you may have also read, of NeuVector to open source, this week, we announced it's now available to the open source community on GitHub. This is a noteworthy accomplishment considering we completed this acquisition just three months ago. This development is important to the market and to our customers because it facilitates the creation of an open interoperable standard for security integration for all container management platforms, and not just SUSE Rancher. Our speed to market highlights our commitment to open source, our laser focus on delivering user adoption, and our pursuit of strengthening security for containers and Kubernetes management for enterprises everywhere.

But as I once said, this is just the beginning. In FY22, we will fully integrate and scale the NeuVector offering, but at the same time, we will continue to pursue acquisitions that complement our existing high-growth product offerings. We had another strong quarter, winning customers across all of our product groups, spanning across various industries and across all geographies. Here you can see three examples of Q4 customers, including a global, leading, publicly listed financial services firm based in the US choosing SUSE Rancher over the competitive offering, a top tier EMEA telco who's combining SUSE Rancher with the Micro SUSE manager and our other edge technologies and services, a publicly listed Chinese conglomerate that manufactures semiconductors and tech hardware, where they chose SUSE Linux Enterprise Real Time to maintain high levels of performance. In addition to our open technologies, our customers choose SUSE for our openness, our interoperability, the ease of doing business with our company, and our strong commitment to delivering customer support.

It would not be in my style, as you well know, to not talk about something that's so dear to all of us here at SUSE, and that's our people. And I want to use our FY21 results as an opportunity to spend a little bit more on what we've achieved for our team members over the past 12 months. We welcomed over 400 new SUSE colleagues, and we now have more than 2,100 employees around the globe. Our focus has been on expanding our team in functions that will drive impact for our customers and extending innovation in our product portfolio. In fact, as you'll see, 88% of our investments were in customer-facing and innovation roles. SUSE is also increasing status and attractive attractiveness as a premium employer in the tech industry, having recently hired amazing new executives, a new CCO, Chief Customer Officer, CRO, chief revenue officer, and a CIO from other leading firms, including Salesforce, HP, and Thomson Reuters.

We continue to make the most of the RSU grants, which we have available, thanks to our IPO. We've also introduced a share award scheme, to align performance more effectively with remuneration structures, supporting employees' retention, and employee engagement. Our employee NPS is 30, and one of the highest in the industry. Employees notably highlight transparency and communication, employee autonomy, flexibility and freedom of opinion as key benefits of working for SUSE. We will and I personally will remain focused on growing our teams, but all the while ensuring that we preserve our unique culture, that SUSE attracts and retains the very best talent.

Moving on to a topic that I've been personally focused on, which is ESG. We've made significant progress in our three transformational pillars, climate action, diversity and inclusion, and open source for good. Examples of the initiatives include climate action, where we've launched a new environmental policy, demonstrating our commitment to energy efficiency and greenhouse gas reduction. We are committed to setting science-based targets in FY22. Diversity and inclusion, where we delivered to over 500 female leaders in the tech industry a series of trainings independently and together with external partners. We've also launched our very first cohort of the Women in Tech Early Career Mentorship Program. We aim to have at least 30% of women in leadership positions by 2026. Open source for good, where we've partnered with a number of universities to deliver SLE courses to students learning about open source technologies. We've also launched an initiative in the US to promote education and technology on OpenSUSE, for both children and for parents.

Our employee wellbeing continues to be at the very heart of all that we do at SUSE. In Q4, we launched a series of wellness initiatives aimed at supporting our colleagues and enabling them to give back to their own community. And this is by no means where we stop, as we continue to find new ways every day to support our open ethos and our global employee network. I'm also pleased to share that we have published our very first non-financial disclosure report aligned to GRI standards, as part of our FY21 annual report.

As we move into FY22, we have three well defined and complementary product families: business-critical Enterprise Linux operating systems in the SUSE Linux Enterprise product family, enterprise container management around the SUSE Rancher product group, further enhanced by NeuVector, and edge built on the very best of Linux and containers, including new products that we've only just recently launched. We are a leader in a huge market, with a TAM of approximately $18 billion today, with an estimated growth to nearly $34 billion by 2024. This overall growth is fueled by the trends we're seeing in the market today, such as legacy operating systems being replaced by Linux, growing IT workloads based on the global digitization that's taking place, IT landscapes transforming toward cloud-native architectures in which containers are becoming the new norm, and then finally, multi-cloud strategies, where customers want to benefit from the cloud. They want to benefit while staying independent of specific cloud offerings and vendors, so they can write applications once and then run them everywhere.

Our highly differentiated product portfolio plus our global reach helped SUSE to capitalize on these trends. All of our product families are built around shared principles, which fundamentally set us apart from our competitors. We're open and we're interoperable. We do not restrict our customers’ choices, and we want them to benefit from the strength of a global developer community. We support mission-critical workloads, where we only deliver the highest level of security standards, which are enterprise-grade and fit for mission-critical IT infrastructure workloads. We support all deployment methodologies and strategies, but we're optimized for cloud-native use cases, as well as edge, multi, and hybrid cloud environments. We deliver the highest quality of support in the industry, regardless of customer deployment choices or their required scale. SUSE will continue to invest and to build upon these competitive advantages to further accelerate our growth.

SUSE has created and continues to develop a comprehensive infrastructure stack for the datacenter, hybrid cloud, and the edge. As customers adopt the latest technologies, their requirements for digital transformation grow and change accordingly. For example, they may expect more sophisticated monitoring and reporting capabilities across various industries and even use cases. First, as you can see at the base of the stack in blue on the slide, we have been successful with our foundational solutions to the Linux Enterprise, to the Rancher, K3s, SLE, Micro and Longhorn. Next in the green in the middle of the stack, we have our rising stars in Harvester and NeuVector, which we will continue to invest and grow. Finally, at the top, we captured in orange the elements where we're moving and expanding our leadership within the cloud-native infrastructure staff. To meet new and emerging customer needs, we're incubating projects in areas such as developer services and monitoring. Our inorganic and organic growth strategies have given us a range of innovative new technologies that we're incubating. Some of those are Epinio – we've talked about that before – a sophisticated platform that runs on Kubernetes and takes your application from code to deployment in one step, Rancher Desktop, putting Kubernetes at the desktop, and offering an AI ML-driven anomaly detection for Kubernetes. We are well on the path of building the industry's most comprehensive cloud-native infrastructure stack in fulfillment of our purpose, which is to help our customers innovate everywhere with open source. With that, Andy, I'll hand it over to you. And if you can, please walk us through the details of our financial performance.

23:15 Andy Myers

Thanks, Melissa, and good afternoon to you all. We delivered a strong Q4, allowing us to exceed our revised FY21 guidance on both revenue and cash EBITDA. Our quarterly ACV growth sustained our current momentum, at 28% in the quarter, ahead of our 26% we achieved overall for FY21. Our ARR year-on-year growth stood at 17% for FY21, which demonstrates the underlying strength and growth of our subscription business. And we've continued to deliver high margins and cash generation, allowing us to maintain our leverage at 2.6 times FY21 adjusted cash EBITDA, even after spending $101 million in cash to fund the acquisition of NeuVector. Our FY22 guidance is consistent with what we said at the IPO, demonstrating our continued confidence in the significant acceleration potential of SUSE. From a preparation basis, I want to make sure everyone's clear on the following. All those are prepared on a pro forma basis, reflecting 12 months consolidation of Rancher in FY20 And FY21. And for clarification, NeuVector was acquired in the last few days of FY21. However, there is no impact on the alternative performance metrics other than net debt.

Now let's look at how we performed against our guidance in FY21. As we have shared with you, we delivered a strong Q4, and we exceeded our revised FY21 guidance across revenue and adjusted cash EBITDA. We reached $576 million total revenue, above 15% year on year, and above the high end of our $554 to $574 million guidance. This growth was delivered whilst generating $278 million in adjusted cash EBITDA, a 48% margin, and above the high end of our $246 to $266 million guidance. And we hit all of the metrics.

I'll now take you through our KPIs, starting with ACV. Today, Q4 was a good quarter for SUSE. We not only struck some great new deals, but we also extended our reach in more sectors than ever before. We are growing our public sector footprint in all territories, where we're accelerating the digitization of services to customers in the changing world at work, with a new European government customer using both Linux and containers to do this. In the energy and utility sector, we are seeing customers use open source to drive sustainability, with another of the world's largest natural gas companies choosing to use SUSE to drive sustainability, transformation, and growth. And the insurance and banking sectors continue to be two strong sectors for SUSE, where we are seeing success everywhere, particularly in Europe and Greater China in Q4. All of this contributed to another strong quarter, delivering on our commitment for significant higher growth in H2. Group ACV grew by 28% in Q4 and 26% year to date, consistent with our medium-term outlook. Core ACV was up 17%, driven by renewals and upselling, and fully consistent with our medium-term guidance. Emerging had a strong Q4, 102% mainly driven by the cross selling of Rancher solutions across the broader SUSE customer base. We saw a good growth across all geographies. EMEA saw strong growth in emerging for the quarter, including our first Harvester deal to one of our major customers in the automotive sector, which was signed ahead of the completion of the product. North America grew 23% of a strong comparator number, with good performance from Rancher Government Services, our federal business. China showed some softness, but still delivered new contracts in the quarter and a growth of 22% for the year. Looking at our routes to market, we saw 11% growth in Q4 for IHV thanks to strong demand for embedded solutions. And in end user, cloud continued to show consistent strong growth. All in all, we are pleased with Q4 ACV performance, which will provide a sound basis for revenue growth in FY22.

As you know, ACV is a lead indicator for revenue, so let's look at that now. Total revenue in the quarter was up 15% to $154 million. Core was up 9% versus a tough year-on-year comparison. The growth was driven by both the cloud route to market, together with a good balance of renewals and upsell. Emerging saw 84% growth in Q4, with revenue reaching a record level of $21 million. This growth continues to reflect SUSE Rancher’s progress with our cross-selling initiatives, and delivered 68% growth for the year. I would also note that SUSE did not benefit from FX tailwinds this quarter. Group ARR reached $560 million in Q4, up 17% year on year, demonstrating the strength and growth of our subscription business. NRR was 108% for SUSE x Rancher and a market leading 145% for Rancher. This reflects our customers’ willingness to increase their business with SUSE. Our strong revenue performance has allowed us to continue our investment in growth and can be seen on the next slide.

We continue to have a resilient and high gross margin. It was stable versus Q3 ’21 reflecting investments in customer care, where we've increased the number of customer success managers supporting our customers and spend on third-party costs supporting the growth in Rancher Government Services. SUSE continues to invest in R&D, with a 20% increase in headcount over the year, driving innovation across Linux, containers, and edge. We have also sponsored a number of select open source initiatives, to drive the continued engagement of the open source community. In marketing, we have increased our investment in pipeline generation, and within sales, increased headcount in sales development reps across our solutions, to increase our conversion rates from our growing pipeline. All in all, most changes in the cost base relate to higher headcount in sales and marketing, and research and development, compounded by some salary inflation, and partial return of travel expenses. Adjusted EBITDA margin stood at 31% this quarter and 37% full-year. This is a material improvement versus last year as Rancher- [audio cuts off]

31:06 Operator

We have a little problem with the connection. We will go to a quick pause and then get back to the call. Thank you for your patience.

31:17 Melissa DiDonato

Thank you, Operator, I think we're having problems with Andy's line, so allow me to continue. We're on the slide that's entitled Operating Costs. So, as Andy talked about, we continue to have a resilient and high gross margin. It was stable versus Q3 '21, reflecting investments in customer care, as Andy's already mentioned. And we've increased the number of customer success managers supporting our customers and – as Andy mentioned already – third-party costs also in supporting growth with Rancher Government Services. SUSE continues to invest in R&D, as I've also talked about, as well as Andy mentioning, with a 20% increase in headcount over the year, driving innovation costs across Linux, containers, and edge. We've also sponsored a number of select open source initiatives to drive the continued engagement, which is so important for us, within our open source community. In marketing, we've increased our investment in pipeline generation, and our solutions specifically focusing on sales, increased headcount of sales development reps across the entire product suite. We've also ensured, all in all, that most changes in the cost base relate to higher headcount in sales and marketing, R&D, and some are compounded by some salary inflation, and partial return, as Andy mentioned, of the travel expenses.

Let me just summarize on this slide: the adjusted EBITDA margin stood at 31% this quarter and 37% full-year. This is a material improvement versus last year, as Rancher gained scale and benefits from cost synergies. Weaker margin in Q4 versus the rest of the year reflects a typical seasonality of our business, with a higher commercial activity in the last quarter driving higher sales and marketing expenses. The next slide focuses on our high levels of profitability.

33:08 Andy Myers

Melissa, can you hear me? Apologies about that, a bit of a technical issue.

33:16 Melissa DiDonato

Can you pick up on the slide entitled High Levels of Profitability and talk through our attractive adjusted EBITDA? I'll leave it with you.

33:23 Andy Myers

Thank you. Apologies for that technical issue. SUSE's attractive adjusted EBITDA and adjusted cash EBITDA margins are a testament to the economies of scale underlying our business model. Our adjusted cash EBITDA margin was 34% in Q4, and 48% in FY21. The Q4 '21 change in deferred revenue inflow of $3.7 million and the FY21 change of $66 million comes from the growth of our business and demonstrates our success in signing multi-year contracts, as customers look to extend the length of their relationships with SUSE. In addition to the growth of deferred revenue, we have seen an additional $65 million increase year on year in contracted revenues, not yet invoiced and paid. These are referred to as remaining performance obligations in our accounts. This, together with the deferred revenue increase gives us a strong base for

FY22 revenue growth. All in all, we came up significantly ahead of our initial range out of adjusted cash EBITDA of $246 to $266 million, delivering $278 million. Please know we have amended the definition of our adjusted PBT. We are now applying a more conservative approach, as we are now capturing the amortization of purchase, and internally developed software and systems which are used for our day-to-day operations. Let's now move on to show how our profits have been converted into cash.

As you can see, we have continued to deliver high conversion rate of 94% for the year. Our cash flow has been powered by the success of our teams in selling multi-year agreements, allowing us to maintain our average contract length and generate positive $66 million deferred revenue movement. We have continued to see low tax payments, low CapEx, and the expected working capital outflow resulting from the growth of our business, namely, a high [client debt?] balance at the end of the year. Our high level of profit and cash conversion continues to delever our business and our balance sheet, as you see on the next page.

On net debt at the end of the year was $721 million, or 2.6 times adjusted cash EBITDA. The deleveraging reflected the proceeds from our IPO and our strong cash generation, partially offset by the acquisition of Rancher and NeuVector. At 2.6 times adjusted cash EBITDA, our leverage was stable versus Q3 '21, despite the $101 million cash payment for the acquisition of NeuVector. Excluding this transaction, our leverage would have been even lower, at 2.2 times. I would note, after the year end, we have increased our revolving credit facility from $81 million to $170 million. This will provide us with additional headroom, flexibility, and firepower for future M&A. We remain committed to maintaining our levels below 3.5 times adjusted cash EBITDA in the medium term.

As we conclude our first year, and now have the benefit of FY20 And FY21 data, I want to spend a moment to reiterate some of the characteristics of our business model. On an LTM basis, our ACV growth shows a steady and sustainable trajectory. As we have seen in FY21, there can be volatility between quarterly growth, driven by the following factors. Individual law contract contracts falling into a given quarter and renewal pools from multi-year contracts are not necessarily spread out evenly or consistently over quarters. And in the case of multi-year deals, they will feature in ACV in the year of signing and renewal, but not for years in between. This was evident with the lower relative ACV growth in Q2 FY21 and the weighting of growth to H2 FY21, driven by the available renewal pool. As we accelerate the rollout of our strategy, over time, the volatility will mechanically decline, thanks to the lower relative contribution from each individual contract. With this in mind, we will now move on to our guidance.

As you can see, SUSE has continued on its trajectory of accelerated and profitable growth in FY21, exceeding our revised FY21 guidance across all metrics. This is a testament to SUSE's differentiated position in attractive end markets, whose growth is supported by strong fundamental trends such as digitalization, adoption of open source, and the moving of workloads into the cloud. Combine this backdrop with strong execution and a uniquely attractive positioning. We as a team look forward to FY22 with a high level of confidence and excitement, and are happy to confirm that our guidance is in line with what we outlined at our IPO.

Looking at FY22, we want to simplify our guidance metrics and focus on ones that are most important to you. Our guidance is as follows: core ACV growth in the mid to high teens, emerging ACV growth in excess of 60%, total revenue growth in the mid to high teens, adjusted EBITDA margin in the mid '30s, partially held back by the consolidation of NeuVector and investments to scale and integrate the business, adjusted free cash flow conversion stable to slightly ahead of the FY21 levels. For Q1, for the reasons highlighted on the previous slide, we expect to see, for core ACV, flat to limited growth for Q1 due to number of multi-year contracts signed in Q1 '21 not returning in the renewable for Q1 '22. Core growth will then accelerate through the year to deliver the guidance for the year. For emerging ACV, Q1 growth lower than the average guided for the year, due again to the size of the available renewable pool. For revenue, mid-teens for Q1, accelerating through the year to deliver full year guidance. Beyond FY22, our medium-term outlook is in line with what we announced at the time of the IPO. And I would draw your attention to the fact that we expect our revenue growth to further accelerate to around 20%. SUSE has had a very good year. Our financial performance is ahead of both guidance and expectations, and delivering strong ACV growth, revenue generation, and cash generation. With this, I'll now hand you back to Melissa to close it.

41:07 Melissa DiDonato

Thank you, Andy. In closing this session, I'd like to leave you with some final remarks before we open it up for questions. We are keeping the promises that we made during our IPO. We are staying focused and continuing to deliver for our customers. We are doing in fact exactly what we said we would do. We're taking market share in our expanding TAM. We're powering mission-critical workloads. We are strengthening our multi-channel go-to-market platform for customers and industries of all sizes. We're exhibiting growth and profitability at scale, and showcasing SUSE as a proven platform for growth investments. And we're achieving all of this, at the same time, while fostering a highly engaged, incentivized, and passionate workforce. With that, this concludes today's presentation. Thank you very much for everyone who's attending. I'd like to now turn it over to the operator, so we can start the Q&A. And if I may, Andy, if you can, please keep your line on mute whilst not answering questions. We were getting a lot of feedback from that line, if that's okay. Operator, I'll get back to you.

Q&A

42:28 Operator

Thank you. We will now begin our question-and-answer session. If you have a question for our speakers, please dial 01 on your telephone keypad to enter the queue. Once your name has been announced, you can ask a question. If you find your question is answered before it is your turn to speak, you can dial 02 to cancel your question. If you're using a speakerphone, please lift your headset before making your selection. One moment, please, for the first question.

The first question is coming in from Adam Wood at Morgan Stanley. Your line is now open.

43:00 Adam Wood (Morgan Stanley)

Hi. Good afternoon, everyone. Thanks for taking the question. Congratulations on a very strong first year as a public company. I've got two, please. Maybe just, first of all, around the workforce and the implications of that to the margin guidance you've given. Could you talk a little bit more--? You've talked about the challenges of attracting and retaining talent. Could you maybe talk a little bit about, do you feel you've hired enough through the second half of this year, in particular Q4, to support the growth into ’22? And maybe give us a little bit of an idea about what you're assuming around wage inflation and your ability to hire to support both the growth and the margin assumptions you've made for next year.

And then secondly, maybe, I guess this is a little bit more around Rancher. You were seeing companies like HashiCorp IPO recently, companies that have plans to burn pretty significant amounts of cash to drive growth. Could you talk a little bit about the competitive landscape in that market and whether running the profitable businesses that you do gives you enough ability to invest and compete in the market against companies that are obviously willing to run quite different business models? Thank you.

44:03 Melissa DiDonato

Sure, Adam. Let me start by talking about people. Thank you for the questions. I'm going to let Andy dive in in a couple of areas specifically relating to inflation and costs of hire. But let me talk to you a little bit about the employees. As you well know, since our IPO, we have a strong people agenda – we've always had. With an open source company, so much of the heart of this business revolves around people. So we knew that the strong people agenda and the drive to strong employee satisfaction was really important for us as a business, but important for our culture, and a significant part of our success. We've hired enough, yes. We've hired very aggressively. In fact, last time we spoke, Adam, I think we talked to you about the importance of hiring, so much so that we move from an external outsource recruiting model to bring recruiting in-house. And as we made that transition as a public company, we knew that hiring the right people in the right places at the right time was going to be critical for our success as a growth business. A great example is when we sought to further complement our existing leadership team with some senior hires with the depth of experience, capabilities, international outlook. They will be really needed to help drive and our growth going into next year. So we've been able to successfully hire and attract some of the best people in the business.

So how do we feel about the people and the workforce agenda? I mean, nothing's changed from the perspective that we are in a war for talent. But I'm happy to say that we've seen some real acceptance of being a sought-after place to work and brand recognition that's really transformed SUSE in the global tech landscape. And I think, on your point with a lot of these smaller businesses burning money, and not really profitable, we're one of the very few high-growth, recurring revenue, highly profitable, cash-generative businesses headquartered in Europe. And that, in and of itself, is quite attractive for most folks. They want to be part of a winning team. So that's also been helpful, despite the challenging market conditions, that we continue to hire the right people. Our culture, our industry profile, the brand, the availability now of the share incentives have really been a key part of how we're winning brain recruiting, as I mentioned. Andy, did you want to say anything about inflation costs around hiring before I move on to the competitive landscape?

46:39 Andy Myers

Yeah, sure. Thanks, Melissa. Adam, in terms of your reference to the delivering growth with the headcount required, yes, we have accelerated our headcount in the back end of the year, and we're continuing to accelerate that in the first quarter. And we'll do beyond that. So yes, we're comfortable we've got the right number of people to deliver the growth that we're guiding. And with regard to the inflation point, yes, I think we reflected an inflation increase within our guidance. And we're happy that that's the right amount to get the job done.

47:21 Melissa DiDonato

Okay, cool. So let me talk, Adam, a bit about the different business lines, the competitive landscape. In the emerging market, as you mentioned, it's characterized-- there's stiff competition, good, strong competition for enterprise container management leadership, but there's lots of continuing innovation, specifically around Kubernetes. It's critical that we continue to execute on our innovation agenda, including the work that we're doing with Harvester, Epinio. In staying ahead of the competition, we will maintain our technology leadership position, with our current and our future customers from the Kubernetes side.

As it pertains specifically to HashiCorp and how they're competing in that landscape, HashiCorp and a lot of the others, quite frankly, that are not profitable, but growing and competing, they have not had significant impact on our market or our growth rate, from either a technology or a solution standpoint. In fact, some of the most of them are largely complementary or focusing on other areas than what we do. They don't have a strong enterprise-grade container management solution set. And their strongest business, quite frankly, from the ones you've mentioned, in our view, is infrastructure as a code. And that's not the area for us. It's not the key focus for SUSE. Their solutions, as the ones you've mentioned, are enhancing open source cloud-native ecosystems. And they definitely assist in the trend to open source cloud-native technologies, which benefits all of us, including the Rancher specific benefits. But HashiCorp’s businesses, they're not delivering direct strong enterprise container management solutions that compete against us. They're strong with Terraform, which is, like I said, infrastructure as a code, where their competition's not really SUSE. It's much more Ansible and Pulumi, and that sort of thing, which is not really where the SUSE Rancher business focus for growth is.

I think, secondarily, they're enhancing, like I say, the open source ecosystem, but it's not really a market. If we look at the financials, the great news for us is, as HashiCorp continues to participate in the industry that we're in and the overall adoption trend of open source cloud-native technologies at the expense of their shareholders, it's good news for our shareholders because we continue to be profitable. I don't think that we will be at a disadvantage if they can move faster than we have, because of the types of customers and the workloads that we service. So no, I'm not really worried there. I think we've they're really helping us in really getting some notoriety, and visibility, and adoption in the open source cloud-native technology side.

50:16 Adam Wood

I appreciate that detail. That’s really helpful. Thank you, Melissa.

50:19 Melissa DiDonato

You're welcome, Adam. Nice to talk to you.

50:24 Operator

The next question is coming from Stacy Pollard at J.P. Morgan. Your line is now open.

50:30 Stacy Pollard (JP Morgan)

Thanks for taking the questions. Just looking at the market environment around containerization and Kubernetes, you've talked about some of the competition, but what about your market share? How is that evolving? Do you get a sense of consolidation, because you also talk about innovation at the same time? And do you think NeuVector is going to move the needle for you in terms of market share? And then I have to ask, because you've dangled it out there in your intro, is there more M&A to be done? You talked about accelerating M&A plans.

Second question, do you mind talking us through the components of the EBITDA margin? Now at almost 37% in 2021, you did beat estimates. I know you mentioned Rancher scale, and some other things, but then you're guiding back towards the mid ’30s for 2022. Now, I know there's some headwinds from NeuVector, but maybe can you talk us through the other factors that are impacting that?

51:28 Melissa DiDonato

Okay, I tried to take many notes. Stacy, nice to hear from you. The first one is around the market environment. So how does the competition continue to evolve, consolidation, what's going on generally in the market? And I'll talk a little bit about the market, cloud, hyperscalers. That definitely plays a big role, doesn't it? And then the next question was around M&A , because we always like to be a bit provocative with you, Stacy. And then the final one is on EBITDA margin, which Andy will answer.

So let me talk about where we stand with regard to the market itself. We've seen and observed some very strong global trends, which have accelerated in the early phase of the pandemic, but now continue with a much higher activity level. So in the market, as we look at the competition in our market share, first, what we're seeing is the IT workloads are growing. They're constantly growing. And they're growing because of the ever further adoption of new software applications and the broader usage of existing ones. So this is beginning to feel the growth to the cloud. Now, with the move to the cloud, customers are transforming their IT landscapes much more towards cloud-native architectures. And when you move towards cloud-native architectures, you're going to have to see containers, which are becoming now the new norm, right? They're becoming the center and the heart of that overused term, the digital transformation, and what we see as they move to the cloud.

And this trend does not just apply to the applications running in the cloud, but it also pertains to the market at large when you're talking about running applications, be it on prem, or even with more intelligent, smarter devices at the edge. So overall, with the market adoption, and the way that it's changing, the cloud customers, they're becoming much more educated. And with that, they start to develop what's really important here in driving mega trends around multi-cloud strategies, and where they aim to benefit from the cloud, but yet staying independent of the specific cloud offering. So, like I said in my talk, they want to be able to write applications once and run them anywhere. And that's because the strategic independence is going to be key. And that's a very big market trend that we've seen early pandemic, mid pandemic. And now when I hope that one day we'll call post pandemic – who knows when that is, but – the strategic independence to allow the agility for Global 2000 enterprises, and frankly, customers of all sizes to be able to properly benefit. And that's where we win. We don't have a dominant market share, per se, with our specific container solution. But where we do dominate is around a couple of key workloads: one, around any kind of use around multi-cloud, because of the strategy I've just walked you through, but also with the independence of being able to be agile. Now, the other side of the coin is that we're seeing a lot of benefit in the SAP network where the rise and the movement to the cloud is accelerating, again, echoing what I've just talked through around the cloud strategies. And this trend also benefits, where we've got the vast majority of market share in the high ’80s around the S/4HANA workloads. You combine that with the IT workloads that are growing and the movement to the cloud, the multi-cloud strategy from a market environment perspective, we're not seeing a consolidation to single vendors. We're seeing the best of breed rising and winning for SUSE So that's been very good for us.

Moving forward to your next question around M&A, nothing's really changed, right? I mean we haven't changed strategies since I first met you way back in-- well, I mean, this time last year, I suppose. We remain open and available. And we understand the importance of not just internal innovation and the spend on the internal innovation to remain relevant, and in fact, lead from the forefront, but we also remain open to M&A. And adding the success of NeuVector, yes, we do think it's going to be game changing for us. NeuVector and moving it to open source does a couple of things that enhances the SUSE adoption-led strategy for open source projects. It follows the Rancher model, where the mission is to get useful open source software in the hands of as many organizations as possible. But the big thing here is that we'll be the first organization to build an interoperable, horizontal cross-industry, open security technology as an open source, available across any core distribution, whether it's SUSE Rancher Red Hat, Tanzu, anything. So we'll have a security component and technology that we'll put across any container, regardless of where it's originated and how it's been built, and how it's even been optimized. So that enables us to, in fact, take wallet share from the customers, as it pertains to spend. So that's definitely been a big reason of the success of what we view to be that that interoperable, open security technology to sit on top of any Kubernetes distribution.

Now, more pointed, I want to make sure I answer your question. What are we going to do next? I don't have an answer quite yet on M&A specifically on what we're going to buy or where we're going to go. But what we do say is that I think we've proven with Rancher and the integration of Rancher, we've proven with NeuVector, the open source of NeuVector, the integration of NeuVector, that we are continuously ready to consider tuck-in transactions and more significant accretive M&A that creates synergies and opportunity for our business. And the word accretive is really important. We will always continuously evaluate selected expansion opportunities, specifically in emerging technologies, because we want to drive expansion to our TAM, but we also want to complement our core product offering. So that's the direct answer on M&A, a little bit more about NeuVector, the benefit it gives our customers.

Andy, can I hand it over to you to spend a moment about EBITDA margin, please?

57:41 Andy Myers

Yeah, sure. Hi, Stacy. There are two large and one small elements to this, in terms of our 37% margin achievement in '21. Like you saw, we beat on revenue. So we got some benefits. We've got a beat on revenue with our high margin. And then we had a mid-single digit improvement or benefit from realized FX in the Q4, which we didn't anticipate. So those are the two positives, the primary ones that have driven the higher margin. And we also got a little bit of savings from reduced travel, lower than we expected because COVID continued to bite. And also because of that, as well, a little bit low expenditure around third-party marketing events. So those were the components of the beat. But when you actually then look at, as you've already said, when you look at 2022, we've quoted mid-30s, and that obviously includes the impact of probably 1% of NeuVector on that margin.

58:59 Operator

The next question is coming from Frederic Boulan at Bank of America. Your line is now open.

59:05 Frederic Boulan (Bank of America)

Hey, good afternoon, Melissa and Andy. Happy New Year and congrats on those numbers. A couple of questions on my side. Firstly, in edge, you flagged a significant deal with a European telco. Can you share a little bit the strategy here?

What's next? Do you need M&A to reach sufficient scale in that vertical, or it's more an organic development? So any progress you can you can share with us.

And then secondly, around your upselling potential in your base, any color you can provide us on the penetration of products for accounts, how this has developed, and in particular, how the upsell of the Rancher product into the SUSE Linux base is doing? Many thanks.

59:58 Melissa DiDonato

Sure. Hi, there. Happy New Year to you as well. The European telco was a big one as it pertains to the edge. I mean, to answer your question more specifically, do we need M&A to accelerate the journey to the edge? No, not quite yet. We're innovating faster than anyone else. In fact, it's been a big part of our growth strategy going forward. But with K3s, we've been able to adopt and move really quick. And we remain very optimistic on our core edge business. In fact, like we said, that big telco deal, whilst it's in its early phase, the expected future revenue included in overall guidance is strong. And we're going to see a lot of growth in the edge business.

There's still opportunity to grow. We won that telco because of the edge products and our experience in leading there. They picked us because of our openness, the interoperability, and ultimately giving the customer the ability to build the IT infrastructure at the edge, where they wanted it. It comprised both SUSE elements, but the important part here of why we won was because it also was incorporating non-SUSE element. That interoperability across all the systems was what was really important. Our premium support was another reason, taking the technology trying to simplify it and integrate it, taking care of both the operating system, the Kubernetes environment, across SUSE and non-SUSE elements. They were really big, strong wins because of the innovation that we've delivered for a number of years, specifically dedicated to telco at the edge. And the devices are getting smarter. Devices are getting more intelligent, and they are driving innovation. So no, I think with K3s, SLE Micro 5.1, the big win we had in Q4 in telco in Europe, the leadership position that we've had, as well as what we've done also, as we talked about, in the quarter before on automotive has driven a very strong position for SUSE edge. So no, I don't think that we necessarily have to acquire for that business. Remind me, I was taking notes on edge, so forgive me – the second question?

1:02:25 Frederic Boulan

The second question was around the upsell, in general. I'm interested within the Linux product suite, and also the upsells of Rancher within that.

1:02:39 Melissa DiDonato

Yeah. So the reason why NeuVector was a good solution for us is because we found so much success in being able to upsell Rancher to SUSE customers, and quite frankly, vice versa. We're not giving the actual percentage of the business that was considered specifically upsell, but our pipeline has strengthened. You can see from the results of the year, but also specifically in Q4, that the emerging business has grown ahead of where we had originally anticipated, and that's very heavily weighted toward the fact that our upsell opportunities have been particularly strong. We feel that our M&A and integration strategy have proven extremely fruitful specifically for this reason. It's not just that the people are integrating, and the culture fit well, and that we're open source, and in the case of NeuVector, we're making them open source, but the fact that we've got it nailed on how to integrate businesses, extend our reach into the walls of our customers, while adding significant value that drives the strength in our upselling model. And that's why, as we look forward, organically and inorganically, the model works for us as an innovative platform for growth, not just to net new, which is obviously a key focus, but being able to offer a full lifecycle solution set across the infrastructure software to drive differentiation and customer benefit. So yeah, we've done very well since the Rancher acquisition. With any further opportunity with

NeuVector and any further organic and inorganic innovation, the lead will for sure be around the integrated go-to-market structure to upsell.

1:04:23 Operator

The next question is coming from Gautam Pillai at Goldman Sachs. Your line is now open.

1:04:30 Gautam Pillai (Goldman Sachs)

Great, thanks for taking my questions. On NeuVector, obviously the competitive landscape has expanded a bit with cybersecurity vendors coming into your space as well as acquisition, and you are investing in the go to market as you adapt your portfolio. Can you provide some details on how these investments will help you win in a slightly different competition landscape [unintelligible]? That's the first question.

Secondly, on net renewal rates, especially on the emerging business, these remain quite high. Are there any one-off large customer deals which were posted in 2021? Or do you think these elevated levels are sustainable?

And finally, on M&A, it seems like you continue to operate with a very active M&A pipeline. From an integration standpoint, can you please talk us through your playbook, if you end up integrating multiple deals at the same time? Thank you.

1:05:39 Melissa DiDonato

That was a truckful of questions. Okay. Let's talk about NeuVector first. I'll talk about NeuVector, and then I'll hand it to Andy to talk about the details around the investments, retention rates, renewals in 2021, how they compare to 2022. And then I'll close the question on the M&A and the integration playbook, which we're quite proud of.

So first, on NeuVector, you asked about what sets us apart as it pertains to NeuVector in the marketplace. Let me talk a little bit about the competitive landscape and the emerging market itself. What we've found is we will be, with NeuVector, the first solution to market across any in the security market that is built on open source technology, that has been made open source, the first one in, and the one that is really interoperable, to be able to maintain the security of containers on any distribution. And that is really important, because it's very rare that you'll find any single enterprise customer going deep with one single vendor. We all know that today. We all know the changing times and the urgency around flexibility and adaptability. And in doing so, it creates very much a heterogeneous technology environment. And in doing so, NeuVector with SUSE will be the only open source interoperable security solution that can cover the importance of being across any distro around Kubernetes.

Now, HashiCorp, because that was mentioned specifically, I already talked a little bit about them to Adam in the beginning. So I won't belabor the point, if you will. But what I will say is that their technology that competes directly with our container solution is not built on Kubernetes. It's built on a legacy version of a container set. So it's not one that we are particularly concerned about. Kubernetes has risen as the industry standard for containers. And that's not what HashiCorp has been built on. And that's why we think, with NeuVector, being able to manage the distros across any core technologies is really what's gonna set us apart with our focus on that DevSecOps component of our customers' business.

While I've got you, let me just hit the M&A and then I'll give it to Andy. I think, you do it once and you can proclaim to be the expert; you do it twice, I think you're much more the designated expert. And maybe eventually the third time, everyone will give us the award of the integration expert. I don't know, let's see. I don't know what happens in our future. But what I will say is that, through these two acquisitions, we have proven that our integration playbook works. We feel that we're best set up to be able to service our customers and be able to integrate the technologies faster, because we have a designated playbook that we go to market with. And it goes all the way from product integration, as you've seen from the recent announcement of open source. We do not just take a product, but integrate it into the product portfolio, because of the integrated platform that we're using as a base for scale. The way that we can integrate our products is second to none in the industry. We don't operate it independent components and pieces, but rather as an integrated technology platform for growth. We've done it twice, and we've done it very well. As you know, we look back on the Rancher integration, everything from the technology that I just mentioned in the platform all the way through even our IT systems and our people happened within the first four months of the integration and the close of our deal. Same with NeuVector. Within three months of announcing the acquisition of NeuVector, we've been fully integrated, and even announced the open source version of all of their technology, which is definitely leading in the market.

And the playbook goes back to the heart and soul of who SUSE is. By being open, by having our people be integrated in and our technology interoperable, it allows that playbook to be a technology platform, but a people platform too. We're integrating with companies that want to be culturally integrated, involved. And for all those reasons our NPS score is 30, one of the best in the industry. And the reason why we've scored so high is because of the values that this company distributes and has embedded as part of our integration playbook. So, to answer your question directly, yeah, I am confidently optimistic that, if there were any M&A, that we would deploy exactly the same playbook across all key segments, internal technologies, and IT, the innovation itself on the core technologies that we buy and sell to our customers, as well as across our people that we can integrate well and fast, as we've done and proven the last two times. Andy, can I hand over to you to talk about retention rates, renewals, the discrepancies between ’21 and ’22, and perhaps give further insights on that?

1:10:53 Andy Myers

Yeah, sure. Thanks, Melissa. Hi, Gautam. Just, if I take the two net retention rates, first of all, Rancher, I think you initially focused on, yes, we’ve got a market-leading 145%. No, there is no specific deals that are driving that. It is really based off our land-and-expand strategy with Kubernetes. And we see significant growth once we've landed the customer. So, that's delivering the 145%. If we then look at SUSE, I mean, we’re normally in the range of sort of 109 to 110 for SUSE as a company was. There, clearly, we see that as stable, because it's mission-critical. And because of that, we have low churn. But over time, and not in a big hurry, but over time and progressively, our opportunity in the pricing area hopefully should start to improve that over time.

1:12:05 Operator

The next question is from Johannes Schaller at Deutsche Bank, your line is now open.

1:12:10 Johannes Schaller (Deutsche Bank)

Thanks. Hi, Melissa. Hi, Andy. Congrats on the great results. Two quick ones, just from my side. Andy already touched on it, the pricing aspect. And if we leave upselling aside, which is obviously also helpful here – and I think Melissa gave us a lot of detail on that already – can you maybe talk about some of the more recent developments? I know the pricing strategy is really a multi-year thing, but in the current deflationary environment, obviously, any kind of detail you can share on SUSE demonstrating pricing power, even though a like-for-like basis, I think that would be quite helpful, if you have a bit more color around that.

And then the second question would be on China, slightly weaker quarter on the ACV side. I think Q3 was really strong. And this quarter, you also had actually a quite sizable win, it seems. So how should we look at the China region as we go into 2022? Thank you.

1:13:16 Melissa DiDonato

Hi, Johannes. Thanks very much, and nice to hear from you as well. Andy, I'm going to let you cover pricing, but maybe I'll do China first, if that's okay. Yeah, you're right, Johannes. China was extremely strong in Q3. We had two large contracts signed last quarter as well. And in the full year, we saw growth in China 22%. So by no means is China on its backfoot, per se, but market conditions remain challenging, as you can imagine. It becomes increasingly difficult to sell to Chinese entities by being a foreign business. Now, as we've discussed the last two quarters, our advantages remain. We were more advantaged than an American business, there's no doubt, but nonetheless, we're beginning to see difficulties in general to sell to Chinese entities. And so there's nothing particularly interesting or different to report in China, but in the full year, we did see growth in China still remaining the 22%. Andy, can I hand the pricing detail/upselling over to you?

1:14:16 Andy Myers

Yeah, thanks. Hi, Johannes. From a pricing perspective, this is an ongoing program. We are starting to see some encouraging signs. I would describe them as green shoots. What we're seeing is, and I guess particularly around our core offering, we're seeing sellers that are now starting to sell for value. And because of our mission-critical nature, our low churn, we're starting to gain some traction in selling value. And that in itself is starting to reduce, on a limited basis initially, some of the discounts that we've historically offered, but it is on a deal-by-deal basis. The team are learning. And that's why it's small at the moment, but it will, as I said before, progressively grow over the future quarters and the next two to three years. That's how it will roll out, as the organization learns.

1:15:17 Johannes Schaller

That’s certainly encouraging. Thank you.

1:15:20 Operator

The next question coming from Charles Brennan, Jefferies. Your line is now open.

1:15:29 Charles Brennan (Jefferies)

Hi, this is Alex for Charlie from Jefferies here. So I have two questions. With regards to your guidance, you have guided mid to high teens revenue growth for 2022. And we are estimating that would be around 2% or 3% of FX headwind. So my first question is that: does your guidance already include that FX headwind, or is it based on constant currency?

And then the second question is with regard to ACV growth. So, you have pointed out that Q1 2022 will be a tough comp, but I think we also know that maybe Q3 would also be a tough comp for you guys because I think last year you recorded more than 30% of growth. So, am I correct in understanding that maybe Q3, you guys will be facing a tough comp as well? That would be my two questions. Thank you.

1:16:28 Melissa DiDonato

Thank you, Alex. Andy, if you want to take both of those around guidance and ACV, comparative quarter over quarter, and Q1 and Q3, respectively flusher?

1:16:38 Andy Myers

First of all, if I could just take the FY22 phasing, what you see in our guidance for Q1, we will then see an acceleration of ACV growth through the year. But you're absolutely right in terms of Q3. Q3 has a very high comp for us. So yes, I'll be guiding you to take that into account in terms of delivery of our full-year forecast, which we are confident of. Could I just ask you to repeat the first question, please? Because I've missed a little bit of it.

1:17:13 Melissa DiDonato

The first question was around FX headwinds. Is it constant currency or not? And the guidance, and how that incorporates the FX headwinds that we're going to be facing.

1:17:27 Andy Myers

Our guidance is given on a sort of current rate. Our budget rates are the current rates pretty much at the moment. So our guidance is given on that level. We have not provided anything for headwinds, FX headwinds on our top line or on the P&L. We've just used our budget rates, which are reasonably consistent with current rates.

1:17:59 Melissa DiDonato

And did we give enough on the ACV growth? Was that acceptable? The answer on the Q1/Q3 comp?

1:18:05 Charles Brennan

Yeah, that answers my question.

1:18:13 Operator

As a reminder, if you have a question for our speakers, please dial 01 now to enter the queue. There seem to be no more questions at the moment. For closing remarks, I give back to the speakers.

1:87:34 Melissa DiDonato

Thank you very much. Thank you, everyone, for joining our Q4 FY21 results and earnings call. Thank you very much indeed for your continued interest in covering SUSE, and I hope that we left you with exactly what we promised you in our IPO. Just a couple of remaining thoughts as we go. I'll leave you with the growth story around SUSE, the innovation story that we continue to lead from the forefront. And we will continue to not just take market share in our expanding TAM, but always focus on powering mission-critical workloads and an open environment, where we will continually deliver and exhibit growth and profitability at scale. Thank you for joining this call, and we look forward to speaking next quarter. Bye-bye.

1:19:19 Operator

Thank you for attending today. This call is concluded, and you may now disconnect.