Focus on integration of people, technology and product convergence

Interim Report
1 January–30 September 2023

Timo Laaksonen CEO
Sari Somerkallio CFO
Q3: Acquisition integration and strategy execution

Performance still burdened by low consumer confidence

Revenue growth of **25.8%**, organic growth **0.3%** – Direct Business organic growth decline continued whereas Partner Business grew marginally

Strategy execution continued: new **Total** sign-ups and launches as well as growth initiatives with both existing and new **partners**

Revised **outlook for 2023**; slower than anticipated conversion to F-Secure Total offering and postponed deliveries in partner business

Some **early signs of demand recovery** and slightly increased market activity in Direct Business starting from September

**Change negotiations** initiated to restructure operating model and personnel
F-Secure initiates change negotiations

Announced on 25 October 2023

- F-Secure and its subsidiaries initiate group-wide statutory change negotiations to restructure its global operating model and personnel to align with the strategic priorities and financial targets of the company.
- Concerns the entire personnel globally, could result in a reduction of a maximum of **70 positions** globally, of which maximum of 50 are expected to be in Finland.
- Estimated to generate annual cost savings of around **EUR 9 million** versus current run rate. Mid-term guidance remains unchanged.
- Change negotiations will begin on October 30, 2023 and last an estimated **six weeks** unless otherwise agreed.
Q3/2023: Cornerstones of our strategy

<table>
<thead>
<tr>
<th>Strategic focus:</th>
<th>Accelerate the roll-out of F-Secure Total</th>
<th>Expand market coverage and the accessible market</th>
<th>Replicate our proven business model</th>
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</thead>
<tbody>
<tr>
<td>Progress in Q3:</td>
<td>• Signed up 3 new partners for F-Secure Total</td>
<td>• Embedded Security: My CyberShield service with Touch’n Go Digital, an eWallet provider, in Malaysia.</td>
<td>• Active pipeline development: Insurance companies, banks, payment providers.</td>
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<td>• 3 existing partners signed up for F-Secure Total upgrade</td>
<td>• Launch of Sense 4.0 to partners – the first fully packaged and industrialized version of the solution</td>
<td>• Allianz launched F-Secure Total service</td>
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<td>• In total 6 new Total launches were made with partners during the quarter.</td>
<td>• DNS (Domain Name System) Security service launched with a European CSP, another one signed</td>
<td>• Touch’n Go Digital launched My Cyber Shield</td>
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<td>• Continued actively working on new Tier1 partnerships with a solid pipeline of prospects.</td>
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</table>
Integration of Lookout consumer business
Integration has been progressing mainly as planned

Integration of the mobile consumer security business unit from Lookout Inc.

- Transaction completed and integration process ongoing: Figures consolidated with F-Secure started from 1 June 2023. No attrition among ex-Lookout Life personnel.

- Lookout Life growth has been delayed due to longer sales cycles and challenges in our own execution capability in the first months after the acquisition.

- Our teams and fellows have worked together to plan and kick off a program to combine the best of F-Secure and Lookout Life into a strong, differentiated product portfolio

- We have enhanced our partner business strategy to aim for leadership also in the Tier 1 service provider segment on the back of the acquisition.
Journey to becoming the security experience leader

2023

Growth through Total and replacing stand-alone products
- 16% of billings generated from multi-module Total in partner business
- 8% of users are subscribed to multi-module Total in partner business
- 83% of Security Suite users on Total technology generation (EPP-only or multi-module)

2024

Agility
2x Customer base with service that talks to people
- Enhanced set of F-Secured digital moments protecting from scams
- Enhanced market reach through major service provider partners
- 70% increase in number of served customers post Lookout consumer business acquisition

2025

No.1 Security Experience
Double-digit revenue growth
- Value proposition: Sense of security on the internet
- Converged product represents next evolution phase in security experience
- Data-driven, context-aware user experience that guides users → Trusted companion

2026

Tier 1 Partner Excellence
Leader among Tier 1 partners
- Tier 1 partnerships in North America, Europe, Japan and Asia-Pacific
- Holistic scam protection services available through Total and Embedded
- 1B+ addressable consumers through service provider partners
Financials

Sari Somerkallio, CFO
Q3: Revenue up by 25.8%, organic growth 0.3%
Currency neutral organic growth 1.8%

Revenue by geography

- Figures of the acquired business consolidated with F-Secure starting from 1 June 2023.
- Partner Channel: revenue increased by 28.7%, organic growth 1.4%
  - Revenue increased in the Netherlands, where activity and partners’ interest in F-Secure solutions is good.
  - Revenue increased in the APAC area, positive development in Japan and Singapore.
  - Revenue decreased in Poland and Germany, due to weaker business performance during the quarter.
- Direct Channel: revenue increased by 14.6%, organically revenue declined by 3.8%
  - Weak performance especially in new sales.
  - Also, the renewal performance weakened during the third quarter.
Q3 2023: Group revenue up by 25.8%

Revenue growth attributable to the acquisition of Lookout Life consumer business

Partner channel revenue
EURm
+28.7%

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Partner channel revenue</th>
</tr>
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<tbody>
<tr>
<td>Q3/22</td>
<td>22.1 EURm</td>
</tr>
<tr>
<td>Q4/22</td>
<td>22.5 EURm</td>
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<tr>
<td>Q1/23</td>
<td>22.0 EURm</td>
</tr>
<tr>
<td>Q2/23</td>
<td>24.5 EURm</td>
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<tr>
<td>Q3/23</td>
<td>6.1 EURm</td>
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</table>

Direct channel revenue
EURm
+14.6%

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Direct channel revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3/22</td>
<td>5.8 EURm</td>
</tr>
<tr>
<td>Q4/22</td>
<td>5.7 EURm</td>
</tr>
<tr>
<td>Q1/23</td>
<td>5.8 EURm</td>
</tr>
<tr>
<td>Q2/23</td>
<td>6.0 EURm</td>
</tr>
<tr>
<td>Q3/23</td>
<td>1.1 EURm</td>
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</table>

Deferred revenue*
EURm
+15.1%

<table>
<thead>
<tr>
<th>Quarter</th>
<th>Deferred revenue*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3/22</td>
<td>19.8 EURm</td>
</tr>
<tr>
<td>Q4/22</td>
<td>20.9 EURm</td>
</tr>
<tr>
<td>Q1/23</td>
<td>21.2 EURm</td>
</tr>
<tr>
<td>Q2/23</td>
<td>23.4 EURm</td>
</tr>
<tr>
<td>Q3/23</td>
<td>22.8 EURm</td>
</tr>
</tbody>
</table>

* Deferred revenue breakdown is indicative, figures in brackets refer to Q2/2023

F-Secure revenue
Lookout revenue

Current
Non-current

Direct
Partner excl. Retail
Retail

F-Secure revenue
Lookout revenue

21% (24%)
22% (10%)
57% (66%)
Operating expenses in Q3 2023

- **OPEX* development Q3**

  EURm

  - **Q3 2022**
    - Sales and marketing: 6.2
    - Research and development: 3.3
    - Administration: 4.9
    - Total: 14.5
  - **Q3 2023**
    - Sales and marketing: 8.3
    - Research and development: 5.8
    - Administration: 3.3
    - Total: 17.5

  - **+20.8%**

- **OPEX, % of revenue**
  - Q3 2022: Sales and marketing = 44.2%, Research and development = 23.0%, Administration = 27.8%
  - Q3 2023: Sales and marketing = 47.2%, Research and development = 33.3%, Administration = 24.5%

- **Key Points**
  - R&D expenses increased as planned due to increased personnel investments in technology.
  - Administration costs decreased, as the comparison period contains overlapping administration costs due to WithSecure TSA and our own costs.
  - All in all, the acquisition of Lookout consumer security business had an impact on operational expenses.
  - Figures for comparison period fully comparable due to similar allocation method.

* Excluding Items Affecting Comparability (IAC) and depreciation and amortization.
Transitional services agreements rolling with WithSecure and Lookout

- Transitional services agreements ("TSA") between F-Secure and **WithSecure** incurred in connection with the demerger from WithSecure
  - These TSA costs in cost of revenue are planned to terminate latest by the end of 2023.
  - Majority of the administration TSAs terminated at the end of 2022, and the rest of administration and all of R&D planned to terminate by the end of 2023.
- TSAs entered between F-Secure and **Lookout** consumer security business incurred in June 2023.
  - These TSAs in cost of revenue are planned to last several years.
  - Majority of the administration TSAs are planned to terminate during 2023 and the rest of administration and all of R&D are planned to terminate during 2024

<table>
<thead>
<tr>
<th>EURm</th>
<th>7-9/2023 Total(1)</th>
<th>7-9/2023 WithSecure TSA</th>
<th>7-9/2023 Lookout TSA</th>
<th>7-9/2023 total TSA</th>
<th>7-9/2022 TSA</th>
<th>7-12/2022 TSA(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Costofrevenue</td>
<td>4.8</td>
<td>0.8</td>
<td>1.7</td>
<td>2.5</td>
<td>1.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Operating expenses</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>R&amp;D</td>
<td>5.8</td>
<td>0.5</td>
<td>0.2</td>
<td>0.8</td>
<td>1.0</td>
<td>1.9</td>
</tr>
<tr>
<td>Administration</td>
<td>3.3</td>
<td>0.2</td>
<td>0.2</td>
<td>0.4</td>
<td>2.6</td>
<td>5.3</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1.5</strong></td>
<td><strong>2.1</strong></td>
<td><strong>3.6</strong></td>
<td><strong>4.6</strong></td>
<td><strong>4.6</strong></td>
<td><strong>9.0</strong></td>
</tr>
</tbody>
</table>

(1) Excluding IAC and depreciation and amortization
(2) TSA costs incurred only in the second half of 2022
Gross margin and adjusted EBITA development

Lookout consumer security business integration burdened profitability

Gross margin

<table>
<thead>
<tr>
<th>Quarter</th>
<th>EURm</th>
<th>Gross Margin</th>
<th>Gross margin %</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3/22</td>
<td>25.7</td>
<td>92.0%</td>
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</tr>
<tr>
<td>Q4/22</td>
<td>25.9</td>
<td>91.6%</td>
<td></td>
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<tr>
<td>Q1/23</td>
<td>25.3</td>
<td>90.9%</td>
<td></td>
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<tr>
<td>Q2/23</td>
<td>27.0</td>
<td>88.4%</td>
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<tr>
<td>Q3/23</td>
<td>30.3</td>
<td>86.2%</td>
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</tbody>
</table>

Adjusted EBITA and adjusted EBITA margin

<table>
<thead>
<tr>
<th>Quarter</th>
<th>EURm</th>
<th>Adjusted EBITA</th>
<th>Adjusted EBITA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Q3/22</td>
<td>11.4</td>
<td>40.8%</td>
<td></td>
</tr>
<tr>
<td>Q4/22</td>
<td>9.8</td>
<td>34.6%</td>
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<tr>
<td>Q1/23</td>
<td>10.2</td>
<td>36.7%</td>
<td></td>
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<tr>
<td>Q2/23</td>
<td>9.9</td>
<td>32.4%</td>
<td></td>
</tr>
<tr>
<td>Q3/23</td>
<td>12.8</td>
<td>36.4%</td>
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</table>

- The gross margin impacted by fair valuation adjustments of deferred revenue made in purchase price allocation and increased costs in hosting.
- Some product mix changes have an effect on hosting costs.
- Lookout business has lower gross margin level than F-Secure traditionally.

- Profitability for the review period reflects the lower cost structure typical for the third quarter.
- Year to date, strategic investments in growth and technology as well as Lookout consumer security business integration had a negative impact on profitability.
Net debt to adjusted EBITDA above mid-term target level

**Net Deb / Net cash and Leverage**

- **Leverage target: 2.5x**
  - Q3/22: -0.2
  - Q4/22: -0.4
  - Q1/23: -0.6
  - Q2/23: 3.5
  - Q3/23: 3.6

**Equity ratio, %**

- Q3/22: 32.4%
- Q4/22: 39.6%
- Q1/23: 26.5%
- Q2/23: 9.3%
- Q3/23: 11.7%

**Earnings per share, EUR**

- Q3/22: 0.05
- Q4/22: 0.04
- Q1/23: 0.04
- Q2/23: 0.04
- Q3/23: 0.04

* Based on the average number of shares during the reporting period.
YTD 2023 in brief: revenue +12.9%, organic growth +2.3%

Revenue by geography

Q1-Q3 2022: EURm 82.8
- Nordic countries: EURm 36.4 (+30.4%)
- Rest of Europe: EURm 29.9 (+1.7%)
- North America: EURm 12.5 (+68.3%)
- Rest of World: EURm 4.4

Q1-Q3 2023: EURm 93.5
- Nordic countries: EURm 36.8 (+0.9%)
- Rest of Europe: EURm 21.1 (+68.3%)
- North America: EURm 17.2 (+14.5%)
- Rest of World: EURm 5.7 (+6.9%)

Revenue by channel

Q1-Q3 2022: EURm 82.8
- Direct Channel (Q3/23: 20% of the revenue): EURm 18.4 (+12.9%)
- Partner Channel (Q3/23: 80% of the revenue): EURm 65.5 (+30.4%)

Q1-Q3 2023: EURm 93.5
- Direct Channel (Q3/23: 20% of the revenue): EURm 10.1 (+6.9%)
- Partner Channel (Q3/23: 80% of the revenue): EURm 75.1 (+14.5%)

Adjusted EBITA

Q1-Q3 2022: EURm 34.2
- Q1: EURm 11.4
- Q2: EURm 12.7
- Q3: EURm 10.1

Q1-Q3 2023: EURm 32.9
- Q1: EURm 12.8
- Q2: EURm 10.2
- Q3: EURm 9.9

organic growth
Outlook for 2023
Updated September 8, 2023

**Growth**
F-Secure estimates that revenue for 2023 will be in the range of EUR 128–132 million.

**Profitability**
The group’s adjusted EBITA is expected to be in the range of EUR 41–45 million. The adjusted EBITA margin is estimated to temporarily decrease in 2023 due to acquisition related additional OPEX investments of about EUR 3 million to ensure successful integration and drive revenue synergies.

**Background for the outlook**
- F-Secure expects the cyber security market to grow in 2023, although we see strong price sensitivity among the consumers, in the face of a challenging operating environment.
- Lookout consumer BU included from June to December (7 months).
- Lookout consumer BU has received payments in advance related to part of its revenue. Such payments are recognised as deferred revenue. As part of the acquisition, F-Secure fair values the deferred revenue according to IFRS reporting for the purposes of acquisition balance sheet, thus the revenues recognised post-acquisition related to deferred revenue balances will be lower compared to revenue recognised by Lookout consumer BU for those advance payments. The preliminary negative revenue impact included in the outlook is estimated to be approximately EUR 3.2 million in 2023, and negative EBITA-level impact in the outlook approximately EUR 2.6 million, respectively.