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H1 2023 presentation - Penneo
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Presentation

Christian Stendevad - Chief Executive Officer

We will walk through here. So just a second here. So together with me, I have here Casper Christiansen, our CFO, and me, myself, Christian Stendevad. I'm the CEO of Penneo. And what we are going to do today is breaking a very short introduction to Penneo. And then we will dive into our H1 result that includes, of course, both Q1 and Q2. And then we will have our outlook going forward. And then at the end have our question and answer. And please you can always provide your questions both in the chat and also afterwards by raising your hands and then come up we will answer every questions that we have.

Let's dive into a very short introduction to Penneo. So Penneo. was founded in 2014 by a group of entrepreneurs that had this ambition of reducing the hassle of signing documents by replacing pen and paper with a digital alternative. And we have now after nine years moved into business to business software as a service company with 123 employees here at the and we now have more than 2600 customers in Denmark, Norway, Sweden and Belgium. And as a key focus of our product we have our digital sign solution and with all the workflows around it and then we have our KYC Know your Customer solution as part of the anti money laundering regulation that is required that you do your customer due diligence or customer as part of your customer onboarding. So these are the two products that we have and we still have this aim of being the preferred platform for audit and accounting in Europe. Yes, and just some facts around Penneo. In Denmark 81% of all annual reports filed to the Danish business authorities were signed using Penneo. And if you look across all market a total of 1.8 million Penneo sign case files were completed by the end of H One 2023. More than 100,000 client relations they were onboarded and verified using our Penneo KYC solution. And just as a reference to back to when we had our annual report we said at the end of 2022 we had a total of 40,000 in total. So a little more and then if we look at from our impact on CO2 then you can see here that we have a space of 32 million paper that we are safe of a manual paper and where we save also both CO2 and our whole footprint. That's part of urgency from an ESG point of view. So these were some facts about Penneo.

Then let's dive into the H1 results that we have and here first some performance highlights. So in H1 2023 we achieved a year on year ARR growth of 25% and this ARR increase is 8.3 million kroner compared to 8 million in the same half year last year. So we are reaching a year to date total of 79.2 million Danish kroner and this result was achieved in spite of a negative currency exchange related impact of 0.9 million DKK, which is due to the Swedish currency and especially the Norwegian currency which are at a historical low level viewed against the Danish kroner. And Penneo reports ARR based on actual currency exchange rate end of quarter. So, for background, in a constant currency based scenario we would have achieved 9.2 million Danish kroner ARR increase in H1 2023 as opposed to the reported 8.3. The ARR increase from Newbiz amounted to 4.3 million compared to 4.8 in H1 2022. We onboarded 253 new customers in H1 compared to 201 new customers last year. 142 of these new customer joined us in Q2 compared to 103 in Q2 last year. But the ARR increase from Newbiz is less compared to last year due to an average deal size for new customer that decreased from 23.9 thousand to 16.8 thousand kroner. So, generally speaking, this was due to a more cautious buying behavior but is also linked to the binary nature of how and when Penneo closes larger Newbiz deal. In H1 2023, for example, we did not close any larger Newbiz deals, which was not the case in H1 2022. Year on year ARR net retention rate amounted to 113. We have observed a continued healthy uplift from existing customer based on increased engagement with Penneo Sign and revenue from cross selling of Penneo KYC and the year on year amounted to 17%. We maintained a year on year customer churn rate of 4%. If we look at the EBITDA that amounted to negative ten 3 million Danish kroner compared to negative 9.7 million in H1 2022 and that is in line with our expectation, our gross profit margin was 85%. So these were some highlights of our performance.

If we look at some other business highlights that we have experienced, then as I just mentioned, in both Q1 and Q2, our sales team continued to observe this cautious buying behavior that we also encountered in H2 2022 and this applied both to existing and new customer and led to a lower deal sizes compared to historical performance. And this is due to smaller initial sales commitment and longer sales cycle for longer for some larger deals. And this is in line with our expectation. Therefore, we are also happy that we as a result of our sales effort, we have welcomed more than 250 new customers in H1 and we have continued our growth in foreign markets. This was in large part driven by our successful market entry in Belgium. In Q2 alone, for example, we secured 28 new customers resulting in 57 new customers in total for H1 in Belgium. So the year to year growth in ARR in Belgium is 299%. We have added additional sales capacity in Q2 in Belgium to secure that we can continue this good momentum that we are experiencing in 2023. We also have our intention to enter a new market in Europe. And based on our market research and dialogue with customer, we continue to expect it to be the German market. The contribution to arr from new market is insignificant, as we have also described in our outlook for 2023. We have also here in H1, we have invested in our product development organization during this half year and we are focusing on expanding the team, reinforcing some key leadership position and also aligning the product development objective with the international expansion plans that we have. We have also strengthened our demand generation capability with the hire of our new Chief Marketing Officer, CMO, Kirstine Møller Pedersen, and she started here on August 1. And earlier this week we also announced that Viking Ventures become our largest investor and shareholder. And Viking Ventures is a Nordic investment firm focusing on minority investments in selected software company and they now hold a 9.2% of the total number of shares and we are happy to have them on board. On a general note here looking through the business, we do not believe that the current economy have changed the longer term growth potential of Penneo. We remain a company with a solid subscription based business model, with growing ARR from both existing and new customers, a low yearly ARR churn and a relatively high contribution margin. And moreover, we also continue to see a strong underlying market trends that translate into attractive possibilities in both our existing market but also our new foreign markets across the two distinct solutions areas that we cover our digital signing and document workflow with our Penneo sign, and also our Know Your Customer software with the Penneo KYC.

So, with this business highlight, then I will hand over to you to continue.

Casper Christiansen - Chief Financial Officer

Thank you, Christian, and to all of you out there. Thank you for letting me take some time, some minutes of your day. Before we dive into the current period. I just want to give you a briefly highlight on our historical performance ARR driven business. And it's pretty important for us that we onboard a lot of new customers. It's not important for us how big the customers is the first year. Of course we want to have bigger ARR the first year. But the most important part of our development is that we maintain our ability to growth the customers and bring more value throughout the years. So, when that said, I have chosen to bring this slide and I have chosen this slide because here you can see we had grouped all our customers into the year they became customers. Meaning the cohort is like if customers is coming in in 14, they're grouped. And this is the arr development over the year. What you can see here is that overall, all cohorts are positively developed year over year over year. And that goes for all the financial year. In terms of this H1, only one of the cohorts is decreasing slightly decreasing all other cohorts is also positively developed this period and I think it's pretty important for you as an investor, if you are so to notice this slide, since it's a part of the business that we are uplifting on our customers. We maintain a low churn and we bring value to the customers.

When that said, let's dive into the past twelve months period. I've chosen this waterfall diagram to show three elements of our portfolio development. In the left side you have churn, you have uplift and then in the right side you have ARR from new customers. What you can see here that in the beginning of the period approximately 10% of our ARR was based on Know Your Customer. And of course we're happy to see that this percentage is increasing throughout the year since in 2020 we acquired this solution. The first part here churn ARR Churn on 4%. It's not a local churn, it's ARR churn on 4%. First of all, it's aligned with our past results. For instance in Q1 it was 4%, but it's also below the 5% benchmark as we in our guidance had set out that as long as below 5% we are pretty satisfied in Penneo. So of course I'm happy that we are maintaining this relationship with our customers where we are able to bring more value and bring more uplift in terms of ARR. Talking about uplift, it's 17% and it's again in line with Q1. Why we also have maintained our strong net retention rate on 113%. And that said the Newbiz the ARR coming from originate from new customers it slightly decreased to 12%. In Q1. It was 14%. But as Christian said, the numbers of new customers is record high if you look at a twelve month period and also H1. So of course, when I still see a good traction in terms of uplift, I'm pretty glad to see, despite the lower percentage that we are able to get new customers on board, even the fact that the financial environment isn't the same like for instance for two years ago. So, concluding this slide, at the end of the period we ended the ARR on 79.2 million Danish Kroner and it's an year in year increase on 25%. And when we ended the year approximately 12% of the ARR was originated from your customer. And of course I'm glad to see that we are expanding that percentages, meaning it makes sense to have the revenue stream next slide here.

An important part of development of Penneo is our European expansion strategy. So I have chosen to zoom in to this slide because you can see here how much is originated for the four year market of our ARR. What I'm most happy to see here that we are maintaining the figure that approximately half or 48% of our new ARR is originated for the foreign market. Meaning that our focus, our scaling on sales and marketing is actually working when it comes to market outside of Denmark. A large portion of this growth is coming from the Belgian market. We have pretty strong solid traction in Belgium. What we have seen this past half year is that we have a loss on currency, as you also talked about Christian, on approximately 1 million, 0.9 million. And if you adjust for this, it would have been a growth on 29% in foreign market. So it is still a strong traction in the market outside of Denmark. And what I'd also like to highlight just before

I go to the next slide is that now the Belgian market has approximately the same size as Sweden. So it proves that we have a strong traction in Belgium.

SaaS metrics later on we'll go to the slide where you see the total negative free cash flow compared to the ARR growth. A big part of why it makes sense for Penneo to have a negative free cash flow instead of just having a positive free cash flow is when you dive into the SaaS metrics you will see that we have a positive relationship between what it costs to get new customers in and what we are receiving from the new customers. So in this table I have mapped out new customers, average ARR from new customers, the customer acquisition cost and the net retention rate and the average revenue per account. Let's start out with the new customers. So, as you also said, the numbers of new customers is pretty good looking, also looking twelve months or half year. But it's also true that in Q2 last year we have grown in the same period. I will not say more about the number of new customers, but just say that of course the CAC is pretty solid in this quarter and it's a result of getting a lot of new customers in. What I normally focus is that okay, our customers is invoiced twelve months upfront when they sign up for subscription, and as long as the relationship between the ARR from new customers is below 24 months, it means that our customers is cash positive after just one year or twelve months. So it is still, despite the lower initial ARR, a healthy business to get more new customers in. So, yeah, that's the main thing here. And then we are in a situation where we have a very big portfolio compared to the number of new customers, why the average revenue per account is also growing, even the fact that we in the last three quarters have a slightly lower ARR per new customers. EBITDA or our PNL. First of all, as you could see in the overall ARR growth, we are growing year year 25%. And it's the same amount, same percentage. If you look at our revenue and if you compare to last period, it's an increase on 25 compared to 19%. So we have a stronger growth rate in terms of recognized revenue. Cost of sales, It mainly consists of for instance e-ID, MitID in Denmark, itsme in Belgium and so on and also Amazon web service. That's the main two main figures when you look at our cost of sales. So when you look at the improved gross profit margin now up to 85%, a big part of that is that in Denmark we have due a transaction from nemID to MitID and the price model is different. Meaning that when we have a fully financial year we actually expect the cost per transaction and so on to be the same but it's different price model. So what I like to say that this positive affects the H1. It will not continue throughout the full year in terms of mitID. But a positive thing is that we are working with Amazon web service and the structure behind and I'm pretty positive that we can keep on this okay traction on gross profit margin. But just want to highlight that do not expect us to grow out of almost 100% or so on. So just do not adjust going forward.

Other external expense first of all, when you see the top line or the revenue is growing 25% I'm pretty glad to see that our cost base is only growing 19%. A part of it is software but also the marketing effect or the investment into getting leads in and so on is increasing and that's a part of being a scaling up organization. We need to buy more software and seats for the new employees but we also need and want to invest into for instance lead generation. On the other hand, a very positive thing about our other external expense is that our provision or expected loss on credit, it's based on the historical performance and now we actually see an improvement in that figure. So in this period we have a very positive impact for the provision in our loss on debtors. And as you can see in our report and we do not have the numbers here but at the end of H1 last year it was 95%, now we are 123 meaning it's an increase in the headcount on approximately 30% and it's more or less the same percent here. So it's actually following that we are scaling the team and of course the staff cost is going the same direction. Just to highlight and we'll also come back to that in the next slide that in the spring. Last year we raised capital. We start hiring a lot of new people. So it's pretty okay and natural thing for us to have this increase in staff cost. That's a part of why we raised the capital.

So talking about capital, this chart shows the relationship between the ARR growth divided into twelve months period and the negative free cash flow. And since I know it's pretty hard to read this slide I'll just zoom into the ARR growth. This is the short term outcome of the investment we are doing. We're doing a lot of investment, which is not for the short term purpose, but more midterm and long term. But just to highlight, how much are we actually in short term getting out of having a negative free cash flow. And a negative free cash flow for me, it represents the cost of doing all what we do. We invest into getting better product and so on. It's more midterm and long term, but we also invest into having more lead spend, having more people and sales reps and so on. So that's the short term. But here we combine all the negative free cash flow and say, okay, let's see the ratio between the negative free cash flow and the ARR growth and see how is the ratio actually developed. I've chosen to show the historical years here, since it represents the first round. We raised 50 million at the beginning of 2020 and start applying the money by hiring a lot of new people. What we saw is that before the new people actually generate value to the company, it will take time. So the ratio between negative free cash flow and the ARR growth was pretty high 1.7. But the year after we saw the result of all the investments, and that's the same for this current investment period. We are in spring. Last year we raised capital again and now we see a negative relationship between negative free cash flow and ARR growth. As I stated in Q1, we have pretty solid numbers for Q1, but please expect the numbers to be worse in Q2 and Three. But when we ended the year, we expect to see, okay, now we are getting closer to the end of this investment period. Why? You also might expect the numbers to be better, but this investment period end in the last part of 2024. Why? We also in the report tells about if we want to, when we look into our KPI and our model and so on, we are able to go cash positive and start just having a cost base which fits to our ARR at the end of next year. That's simply a part of why we raised capital last spring, is to deploy them and see the ARR following after. And if you choose to raise further capital, you'll see the negative relationship again. If we do not, then we can decide to be a profitable company or just reinvest what we are having growth and so on. So do not expect the numbers to be better in Q3. But when you're coming out of Q4 this financial year, then you might say that okay, we expect the numbers to be slightly better. With that. said, thank you for letting me talk to you and the mic to you Christian.

Christian Stendevad - Chief Executive Officer

Yeah, thank you so much.

So now I will go into the outlook for 2023 and when we have here our ARR guidance, we can see here that we have maintained our outlook and guidance that we have previously released for 2023. So we continue to assume that we have an ARR level of 87 to 95 million Danish kroner at the end of 2023, corresponding to an ARR growth rate of 23 to 24. And this outlook is based on a currency exchange rate per end of 2022. With the recent increase of the Norwegian krona against the Danish krona, since we closed the books, the impact from currency exchange rate seems to have been reduced. The guidance is based on a number of key assumptions that have stayed the same. So they are both described in our annual report and the Q1 and also here in our half year report. And that is that we assume that we have a continued conservative buying behavior and that's across our market that we still don't see any indication that these short term economic prospects in that short term economic prospect that we about to improve these buying patterns that we have seen. So we continue to assume the pattern that we have seen so far. We have also unchanged strategic priorities with the focus on both upselling to our existing clients and Newbiz and then both in our domestic market and in the foreign market. And we also expect to continue to see the result of our increased demand generation capabilities. But here in Q2 resulted in more new customers and we also continuously assume this low churn and continued uplift.

So that's for the guidance of arr and if we then go into the guidance for the EBITDA, we are also maintaining the guidance for EBITDA. So looking ahead, we anticipate a negative EBITDA between -10 and -15 for the full fiscal year for 2023 so here by the end of H1 we have a negative around ten and we also expect that by the end of Q3 we have a negative and that could be even below the guidance range. But we are confident that we will meet the guidance for the entire year because we have fluctuation in our billing cycles and that's the primary reason that the EBITDA varies between quarters. So the guidance remains like that. So that also ends our presentation of our H1 report. So now we are open for all questions and then we will answer them. And then either you speak up directly or raise your hand or you write in the chat and we are ready to. So, any questions?

Questions and Answers

Casper Christiansen - Chief Financial Officer

Yeah, Mikkel. Go ahead.

Mikkel - ABG Sundal Collier

Yeah, thank you Casper and Christian for the presentation.

So I just have one question. Given that you answered most of my questions during your presentation and that's related to employee intake, going forward Q1 saw quite a significant increase in the employee base, whereas Q2 grew more moderate. Should we expect the same in H2 as we saw in Q2 in terms of employee intake?

Christian Stendevad - Chief Executive Officer

Yeah, basically. So what we are looking overall we don't expect the same way that we have, we have higher and that doesn't continue. It will be less. But we do have hired also here in Q3. But it will go down. And in general, we always look at our investment on how much we can invest up against what we achieve from our SaaS metrics. So it will flatten out. But we have still increased the headcount and we have continued it hiring.

Mikkel - ABG Sundal Collier

Yeah, perfect. That was all for me. Thanks.

Casper Christiansen - Chief Financial Officer

And Anders.

Anders Egsvang Rasmussen - Stokk.io

Yes, perfect, thank you.

So Anders from Stokk.io and I will ask some questions by other investors. The first question is looking at the cohort slide on page seven. It seems like there is a significant uplift in the second year of each cohort, meaning that the ARR in H1 2021 is uplifted significantly in H1 2022. What can this be explained by? Is that a strategy focus, a part of the upstart or a way the contract is made?

Casper Christiansen - Chief Financial Officer

What you can see, I think it's pretty natural for us to see that the newest cohort is growing more than the oldest cohort. A big part of the historical perspective is that back in the first year of Penneo, when we got into one of the big auditors, then we was lucky that a small portion of the auditors actually used this platform. And when the other colleagues saw that, okay, it actually makes sense to use this new tool, we will also do it. So the engagement in the platform is growing over the year. And Christian also talked about this initial commitment at the moment. And I think that's one of the reasons why I highlighted this, that I was glad to see the high numbers of customers, even the fact that the total amount of ARR from new customers measured in percent was decreased from 14% to 12%. So yeah, I don't know if it was a question otherwise, please feel free to ask again.

Anders Egsvang Rasmussen - Stokk.io

Yeah, I think it was perfect.

Then there's a question about the foreign MitID comparables. How is the cost of these foreign digital IDs? Is it more expensive or less expensive to use foreign digital IDs and how significant is the difference?

Casper Christiansen - Chief Financial Officer

I think the answer is different from country to countries, but they have different price model. Also this now, I promise Christian not to be technical, but this is a Q&A; and you ask yourself, MitID is based on low transaction fee the entire year. And nemID was based that we buy free the unique users, meaning that we pay a high price for our friends and CEO. But that CEO used Penneo a lot of time during the years. So it's completely different. All the countries, some have a fixed fee and small transactions. Some have this unique user, some have transaction. So it's pretty hard to say that overall, is it cheaper or more expensive in your other countries. And it is also a small part of our delivery. Also in terms of know your customer, it's like almost 100% gross profit margin on that revenue stream and on signing it's like 90%. So it's not that big amount going to the eIDs.

Anders Egsvang Rasmussen - Stokk.io

Perfect.

Then I will take one more question and let some others come along as well. With Viking Ventures recent share purchase, will they take an active part in the company and what is the objective for Viking Ventures? They have been part of numerous companies that has been delisted and acquired by private companies. For example, EcoOnline, Ørn Software and Mercell. Is this a risk for current shareholders?

Christian Stendevad - Chief Executive Officer

So there was basically two questions as I see it. So if you take the first one, first of all, we have welcomed that they now have become a shareholder Viking Venture by their recent purchase of shares. And general speaking, then we are treating all our investors equally. And currently Viking Ventures, they are shareholders, but they are alongside also our other shareholders, including some of the large ones like ATP and others. So just to start up, it is important for me to underline that they do not have any active role in terms of our strategy or daily operation. They are shareholder like the other ones. But at the same time it's also true that we have now the recent investment, yet then they do offer us assistance if we would like to have and then have access to a knowledge base and experience because they are very experienced investors and they have invested in 40 other companies that are similar to ours. So they do have a lot of knowledge sharing around and that we can tap into and that we are looking forward to and I'm sure we can take advantage of that. So that was the first part of the question, as I remembered, and then you had the second and that was the objective behind the investment. And then I guess that's not really me to answer. I suggest that you ask a Viking Venture directly for that. From our point of view, we are just happy to see when investors have evaluated our company and then are investing it because they see the potential that we are laying out in our strategy and with our performance.

Anders Egsvang Rasmussen - Stokk.io

Perfect. Thank you.

Casper Christiansen - Chief Financial Officer

Cool. So do you have more?

Anders Egsvang Rasmussen - Stokk.io

I have a few more, but I can take them after some of the others have asked a few questions.

Casper Christiansen - Chief Financial Officer

Even the fact that Tobias just raised his hands. I think we'll take this before we go to the chat. So to be just speak up.

Tobias Berg Nissen - BankInvest

Good morning, Casper and Christian. I hope you can hear me. Yes, that's perfect.

I have a question regarding the level of new customers. It has been trending upwards the last couple of quarters and a given that's because of the increased investments in sales reps and demand generation, should we see this trend to continue going forward? I know there's some seasonality in Q3 and both Q4. But like the average level, should we expect that to increase? Can we go to some input on that?

Christian Stendevad - Chief Executive Officer

Yeah, so in general, because it's completely correct, we have enhanced our demand generation capabilities and we now see the effect both in Q1 and Q2. And so compared to last year, then we expect that also to have been increased in the second half. Yes.

Casper Christiansen - Chief Financial Officer

I just want to elaborate a bit since I actually forgot a point on this chart. The SaaS metrics. In Q2 last year, we got one big auditors in Norwegian, which was a new customers. Normally we have all the big ones in the Nordics, so it's normally an uplift if we see the big customer deals. So if you adjust the average ARR from new customers in Q2 last year, it was actually approximately the same deal as this year. Just wants to say it, since I forgot this point.

Tobias Berg Nissen - BankInvest

Fair enough.

That's also my second question. On the average ARR for new customers, it's a bit lower than last year, like you mentioned also in the report, but it has been trending a bit lower since Q4. Do you expect this trend to reverse sometime soon? I know Q3 is typically a low quarter, but given that the current market is not really improving, do you see this trend, the downward trend, continuing? Or should it flatten around this level of 16,000 kroners?

Christian Stendevad - Chief Executive Officer

We basically believe that we are on the level where we are right now. Around the level you can see from every quarter goes a little bit up and down. You can also see that on these metrics that are shown here, depending a little bit on the size. But in general it has been on downward trends. But it's not that just going down and down and down. We believe that we are the more cautious buying behavior. We can see the result of that. So we have a good average around this without of course knowing exactly the future, but that's how we expect it to be.

Casper Christiansen - Chief Financial Officer

I'm allowed to elaborate just a bit on this also. I think if I now talk my person as a CFO from Penneo when we buy and people ask for new software here, I'm more focused on, okay, can we actually get just a smaller commitment at the beginning than I was just before the Ukraine crisis and so on. So I think it's a part of the financial situation right now that also our customers is okay. It seems to bring value to our company to go with those Penneo you're talking about. But can we please just start out with a smaller ARR at the beginning instead of taking the full package? So if you can answer whenever this financial situation is stopped, I can answer when we do expect the numbers to go up. But in terms of our guidance, it's not the expectation that it will explode. It is like, okay, this is the level for now. And then we're focusing on upselling and bringing value to the customers.

Tobias Berg Nissen - BankInvest

Fair enough. Makes sense. You have also grown your average revenue per account quite nicely. So it shows you're able to uplift them once they get in.

Just have a final one for me, if that's okay. Casper, you mentioned the investment period ends in 2024. I'm just wondering if you can elaborate how far you are in that investment phase in deploying your cash and how much more investment you have left to go.

Casper Christiansen - Chief Financial Officer

I think that Christian actually talked about it when we talked about the numbers of headcount. In terms of that question. We have hired the majority, I might say now. So it's more or less normal operation that okay. Can it be one more and one less and so on. So we are in terms of hiring in the second part of this investment period, meaning now we shall start seeing the performance from all the new headcounts that we have invested into it. And a lot of the new headcount is placed in product development, so it's not fair to expect the ARR exploding month two after they're hired. It is a process to see the value exact like it was in the first period. Does it answer your question?

Tobias Berg Nissen - BankInvest

Yeah, that's fair enough. That just means we should begin to see some increased operational leverage going forward since you are holding back some investments, I think. Is that correct?

Casper Christiansen - Chief Financial Officer

Yeah. You can say we have played our cards from the first round now and now we need to see exactly the result is coming. So for now, we are following the plan.

Tobias Berg Nissen - BankInvest

Okay, fair enough. Thank you.

Casper Christiansen - Chief Financial Officer

I guess it's time to go to the chat. So I need to find my mouse. You have asked what is the average LTV of your customers? And I simply love the question since I could have given you the numbers. But since we have a low churn, we also have an expected lifetime of our customers, which is so long measured in years. So we do not normally give you these LTV numbers since we have given you the average ARR for the first year. And in our annual report you can see that every year uplift 18%. You have churn rate. You can decide to give it like a shorter period than over 20 years. You will have if you calculate backwards. So I will not give you the numbers since I think if I calculate on the exact numbers, it will be too bullshit, sorry to say the numbers since we founded in 2014. Sorry. So it doesn't make sense to give you the exact number since we haven't proved that a customer relation is actually lasting for more than 20 years. So I have given you all the numbers in the report for you to calculate it. Hope it's a fair answer to that question.

Christian Stendevad - Chief Executive Officer

Then. Let's looking into the next one and that's regarding the competitive landscape and market maturity, if you are mainly requiring new customers that are first time user of the category or forced to take customers from competitors and what are the expectations for the coming years? So that was the first question and I think I would split it into both Sign and KYC, but also the market. If we look at Sign, the Nordics and looking at the audit and accounting, we do have a lot of auditors and accountants already in those market. And those that we do not have, they often have another one.

So there we have to replace a competitor. If we look at some of what we call the new market like Belgium, a lot of the auditors, they do not have a solution in place or they have maybe have implemented and only engaged very little with a competitor. So they are very often a first time user. And especially when we then look at the type of solution that we come with, where it's integrated into their platform, so they really get all their workflows automated and really get that efficiency. That's the reason why we win in it. And that's also when we look into the market, like the German market, as an example, from a Sign perspective, yet they do not have anything yet for those specific workflows that we are supporting and we have specialized in. If we look from a KYC point of view, the majority, absolute majority, do not have anything in place like a solution like the one we have. They might have some. Often we say there is the Excel Sheet or Home Grown solution that they have built because they need to be compliant already, but they do not have such solution that we do have. So the clearly majority of that is first time users, even though we also replace competitors there. So that was it.

And then there was the second half. I can just see any specific remarks on the German market which you're considering to enter into 2023. So what we have done, just from the process point of view, we have looked at many of the markets that we have, because what we would like to do, and it's part of our whole growth strategy, is the geographical expansion. And now with what we have done successfully in Belgium, that's very much what we would like to do in other countries too. And then we have evaluated and done our field research and talked to a lot of customers. And right now we are very focusing on evaluating the German market because we have done proper search and we have talked to potential customers, we have talked to the authorities, to the eID, the ones that are providing the eIDs and so on. So all the fundamental part of that and then we are also preparing our solution to be ready for it. So we are quite far in it, but the exact timing. And when it is, then we expect that we will enter. And then at a later stage, we can then see that from an ARR point of view. But right now the most promising thing is the German market, because they seem to be at that level where, for example, Belgium were some years ago, that now the market is ready. So then you can take the next.

Casper Christiansen - Chief Financial Officer

I think the next is for me, and thank you for asking it, because it's part of my daily operation to overlook this area.

Christian Stendevad - Chief Executive Officer

Please repeat the question. Sorry.

Casper Christiansen - Chief Financial Officer

As Christian asked here, how do you handle the exchange rate risk? Do you hedge future cash flow in foreign currency? The short answer is no. But it is in our risk assessment that we have this currency risk. But it's like our traction in the European area of the foreign market is pretty strong. And we have a large portions of our ARR coming from Denmark. And all our cost is at all. But the majority of our cost is in Danish crown. So what we do is to simply take the risk, because if we have hedged the foreign currency, we could see the opposite situation, that we do not have this positive effect. So the risk is not simply not how can you say big enough that we have chosen to bring in the tools that you could have used. But I've talked to our bank and follow webinars and so on, and I'm pretty glad to see that the Norwegian crown now started being more positive. I do not know where the development will go, but I know the effect on Penneo is not big enough to actually take this tool into play.

Christian Stendevad - Chief Executive Officer

And then we can see the next question in the chat, that is, can you elaborate on your strategy to enter the German market and what main challenges you see? So part of it I have maybe already answered just before in the other one. But the main challenges, if we look at that and that's what we would like to achieve is the right timing of entering a market. And there are some criteria for that. One of them is in general the adoption of the electronic ID. We can now see a really big push from the German authorities that now they would really like to push it out. They have a whole agenda on the whole digitalization. They have put that into law. They have put a lot of funding into it that now needs to be pushed because they can really see they are behind from others. So is to find that, okay, when is that? And that we find out by talking to of course, the authorities. And we're also talking to potential customers of our auditors and also when is that? And then at the same time also evaluate when do they accept it. And we do have talked to authorities that we can basically make a reference to them and say, okay, yes, they will confirm that an electronic ID digital signature with our level of security is good enough for it just the same way as we saw in Belgium for some years ago. They need to accept the requirement and also in Denmark, but that's many years ago. So it's to find that right timing of that. And that's what we see right now, both from our digital signal, but also from our KYC, because it's basically the same regulation that they have to live up to that we also seen in Nordic. So they are also now starting to enforce and go around and review that it is done properly. And today the majority of these companies that we are looking at, at our auditors and accounting companies, what they do is they manual processes to try to do that and that's difficult. So we can now see that that trend that the market is now mature enough that we can start. So we want to be on the station when the trains pass by, not two years before and not two years afterwards. And that's the timing we have and we're looking at. But it also, of course, also to find the challenge to find the right timing. I hope that answered and I think.

Casper Christiansen - Chief Financial Officer

It concludes the chat for now, but I can see that Anders, you are here again and it's so lovely. So just go ahead.

Anders Egsvang Rasmussen - Stokk.io

Perfect. Thank you.

So, just a few more questions here from a few investors. So the first question, are you looking into additional digital solutions that would fit industries impacted by AML regulations? And further, are you looking to expand the product portfolio?

Christian Stendevad - Chief Executive Officer

Yes. So that's a very good question. And right now our current focus is to exploit the potential that we see both of our Penneo Sign and Penneo KYC. We see a lot of potential in both of them and also in the markets that we are looking into. So that's the current plan. But having said that, we are always also looking and that's also our vision to expand the product portfolio to more and more. So in this whole in the customer facing processes that our customers experience. So when they interact right now is when they get a new customers or we engage with them, then they have to do customer due diligence and the customer onboarding, we do with the KYC all the interaction with them that need to be signed with documents for back, we take care. And there are other areas where there are also this interaction where we couldn't get into it. So it is clearly part of the long term strategy that we look into. Could we add additional revenue streams? And when we talk about them, okay, how is that then we always can dream up of this and this and this. But the current focus is that the potential of the market we have now, right now with our current thing is focus on that and then get that into the full extent before we open up into new one. But we have done it before with the KYC, so it can clearly be also something we do in the future.

Anders Egsvang Rasmussen - Stokk.io

Yeah, perfect.

And the last question here is about your press releases. It has been some time since you have released the news of a new big deal for Penneo. Is that a sign of the company has grown? So what was a big deal a few years ago is not that significant today? Have you changed how you do press releases or is there a longer lead time on the bigger deals today?

Christian Stendevad - Chief Executive Officer

Yes, and with press release now, I translate that question into announcements, maybe the formal announcements we send out. So as we grow, we have set some thresholds internally. And when you're very small customer, then new customers of, for example, 500,000 kroner, that can be big, that we have set, that's the threshold that we announced it. And as we have grown, those thresholds have come up, then we sometimes do it a completely new market with one of the big four, because that was a part of the strategy. Or it can be a strategic new segment like we did with in our finance, with the BankData and others. So there are some criteria, but as we grow those criteria, they do change to answer that. So that's for the announcement and then our press releases it's also or how we release it, often that is done. We have a different channel for that. And maybe if you follow us on LinkedIn, then you can see a lot of these customers that are coming that's that's to answer that directly. But having said that, as we also I think I said in the beginning when I did it, when I look at the Newbiz, it is also true that the number of Newbiz customers, these are large ones that we go out and announce and that we have got. We have not got the same way as we did first year, half year, last year compared to this. So there is some seasonality on when we close these deals.

Anders Egsvang Rasmussen - Stokk.io

Perfect.

Thank you. That was all the questions for me.

Christian Stendevad - Chief Executive Officer

Good. So if there's anybody else that are raising hands or any comments.

Christian - Unknown

Yes, Christian [---] here. First of all, thank you for a good presentation as always and congratulations on the entry into the Belgium market. That is really a success. During the presentation for Q1 Christian mentioned, or he was specifically asked how many countries are you planning to open this year? And the answer was one new country. Is that still the case?

Christian Stendevad - Chief Executive Officer

Yes. So we plan to go into a new country and by open that means then we finally decide to do it and that's where we are also preparing our product for and so on and going. So we in the future can say just like we did in Belgium, get the first visionary customers on board, take our product and accommodate to it and then start to have it. So that's what we expect to do. That I have that final selection of the market and say, okay, now that's when we go into it.

Christian - Unknown

Okay, fantastic.

Then I have a follow up question that was also asked during the last quarterly presentation and that was have you know what market is it? Because now you're being asked specifically for Germany, but are you reviewing any other countries or are the eggs now in, so to speak, the German basket?

Christian Stendevad - Chief Executive Officer

So right now it is true that when we started up also last year and also coming into this year, then we evaluated also other countries in Europe, and our vision is that we take a market and then we go in just like we did with Belgium. And then we focus on that and secure that we get success out of that. So that's as we call our strategy on going into new markets. And in that sense, we had a short list of countries that were looked into it and it could also have been others. And out of that right now, we are focusing on Germany in the sense that finally evaluation when that timing is ready or not, but it can also be that others is also some of the times is also some of the opportunities that comes out. But the focus right now is on the German market.

Christian - Unknown

Perfect. Thank you very much and keep up the good work.

Christian Stendevad - Chief Executive Officer

Thank you.

Casper Christiansen - Chief Financial Officer

Guess that's it.

Christian Stendevad - Chief Executive Officer

Then. I would like to say thank you to all of you and also both for attending the whole presentation, but also for some very good questions here, very good with this kind of interactions that we have. So thank you very much and as always, you can say if there are further questions that you would like, and you can always reach out to us directly if you have any other things. But thanks for now and this will conclude our presentation of eight one report.

Casper Christiansen - Chief Financial Officer

Thank you.