

Secureworks®

Q4 and Full Year Fiscal 21 Performance Review

Mar. 11, 2021

Disclaimers

Non-GAAP Financial Measures

This presentation includes information about SecureWorks Corp.'s non-GAAP revenue, non-GAAP gross margin, non-GAAP research and development expenses, non-GAAP sales and marketing expenses, non-GAAP general and administrative expenses, non-GAAP operating income (loss), non-GAAP net income (loss), adjusted EBITDA, and non-GAAP earnings (loss) per share, which are not measurements of financial performance prepared in accordance with U.S. generally accepted accounting principles. We have provided a reconciliation of the non-GAAP measures to the most directly comparable GAAP measures in the slides captioned "Reconciliation of non-GAAP to GAAP Financial Measures."

Operating Metrics

The Company defines annual recurring revenue (ARR) as the value of its subscription contracts as of a particular date. Because the Company uses recurring revenue as a leading indicator of future annual revenue, it includes operational backlog. Operational backlog is defined as the recurring revenue associated with pending contracts, which are contracts that have been sold but for which the service period has not yet commenced.

Special Note on Forward Looking Statements

Statements in this material that relate to future results and events are forward-looking statements and are based on SecureWorks Corp.'s current expectations. These forward-looking statements include but are not limited to SecureWorks Corp.'s current expectations regarding GAAP revenue, non-GAAP revenue, GAAP net loss per share and non-GAAP net loss per share for the first quarter of fiscal 2022, and GAAP revenue, non-GAAP revenue, Adjusted EBITDA, GAAP net loss, non-GAAP net loss, GAAP net loss per share, non-GAAP net loss per share, cash flow from operations, capital expenditures, tax benefit rate, annual recurring revenue and revenue for the Taegis platform for the full year of fiscal 2022. In some cases, you can identify these statements by such forward-looking words as "anticipate," "believe," "could," "estimate," "expect," "intend," "confidence," "may," "plan," "potential," "should," "will" and "would," or similar expressions. Actual results and events in future periods may differ materially from those expressed or implied by these forward-looking statements because of a number of risks, uncertainties and other factors, including those discussed in SecureWorks Corp.'s periodic reports filed with the Securities and Exchange Commission. These forward-looking statements speak only as of the date of this presentation. SecureWorks Corp. assumes no obligation to update its forward-looking statements.



Our Vision

To be the essential
cybersecurity company for a
digitally connected world

Our Purpose

To secure human progress by
outpacing and outmaneuvering
adversaries

Q4 and Full Year
Fiscal 2021

Performance Highlights

SOLID FY21 RESULTS:

- **Revenue** of \$561.0 million (+1% Y/Y)
- **Total ARR** ended FY21 at \$426.8 million, with **Taegis** now representing **13%**
- **Gross margin percentage** of 60% (+300bps Y/Y)
- **Adjusted EBITDA** of \$33.2 million (+222% Y/Y)
- **Record cash balance** of \$220.3 million

On track to derive **100% of ARR from cloud-native software** over the long-term

Drove robust **Taegis customer count growth**, up +390% Y/Y

Increased the average Taegis revenue per customer to ~\$140K, lifting the **total average revenue per customer to the highest in company history**

Continued **expansion of our channel strategy**, building momentum in the partner community

Q4 and Full Year
Fiscal 2021

Taegis Traction

TAEGIS XDR PLATFORM MOMENTUM

- Taegis ARR of **~\$55M**, +31% Q/Q, and up from **~\$15M** at the start of FY21
 - Taegis FY21 revenue of **~\$30M**, which began the year at essentially zero
 - **Expanding the platform** with additional capabilities:
 - Announced improvements in our Extended Detection and Response application, addressing the need for a compelling SIEM alternative
 - Added the Vulnerability, Detection and Response application, demonstrating our intent to use both organic and inorganic strategies
 - Our platform positions us to compete in a **TAM of \$37B**, growing in the mid-teens
-

CUSTOMER SUCCESS

- Ended the year with **~400 Taegis customers**, up +35% Q/Q
 - Includes wins with both new logos and existing customers
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GO-TO-MARKET EXPANSION

- Recently **launched a MSSP track** to our Global Partner Program
- Expect momentum to build in 2H FY22

Q4 and Full Year Fiscal 2021

Consolidated GAAP Results

(\$ in millions)

	4Q20	4Q21	Change	FY20	FY21	Change
Revenue	142.0	139.7	-1.6%	552.8	561.0	1.5%
Gross Margin	77.2	80.0	3.6%	300.0	318.9	6.3%
<i>GM % of Revenue</i>	<i>54.4%</i>	<i>57.2%</i>	<i>280 bps</i>	<i>54.3%</i>	<i>56.8%</i>	<i>250 bps</i>
R&D	23.4	29.2	25.1%	95.0	105.0	10.6%
S&M	40.7	37.0	-9.0%	157.7	144.9	-8.1%
G&A	25.6	27.9	8.9%	99.5	101.8	2.3%
Operating Expenses	89.7	94.2	5.0%	352.1	351.7	-0.1%
<i>OpEx % of Revenue</i>	<i>63.2%</i>	<i>67.4%</i>	<i>-420 bps</i>	<i>63.7%</i>	<i>62.7%</i>	<i>100 bps</i>
Operating Loss	(12.5)	(14.2)	13.5%	(52.2)	(32.8)	-37.1%
<i>OpLoss % of Revenue</i>	<i>-8.8%</i>	<i>-10.2%</i>	<i>-140 bps</i>	<i>-9.4%</i>	<i>-5.9%</i>	<i>350 bps</i>
Interest & Other (Net)	(0.1)	0.1	-181.1%	0.9	1.0	21.6%
<i>I&O % of Revenue</i>	<i>-0.1%</i>	<i>0.1%</i>	<i>---</i>	<i>0.2%</i>	<i>0.2%</i>	<i>---</i>
Income Tax	(7.4)	(4.6)	-38.0%	(19.7)	(9.9)	-49.6%
<i>Effective Tax Rate</i>	<i>59%</i>	<i>33%</i>		<i>38%</i>	<i>31%</i>	
Net Loss	(5.2)	(9.5)	82.3%	(31.7)	(21.9)	-30.8%
<i>NL % of Revenue</i>	<i>-3.7%</i>	<i>-6.8%</i>	<i>-310 bps</i>	<i>-5.7%</i>	<i>-3.9%</i>	<i>180 bps</i>

* Sum of individual items may differ from total due to rounding of individual components.

* See supplemental slides in Appendix for reconciliation of GAAP to Non-GAAP measures.

Q4 and Full Year Fiscal 2021

Consolidated Non-GAAP Results

(\$ in millions)

	4Q20	4Q21	Change	FY20	FY21	Change
Revenue	142.0	139.7	-1.6%	552.8	561.0	1.5%
Gross Margin	81.0	84.2	4.0%	315.3	334.8	6.2%
<i>GM % of Revenue</i>	<i>57.0%</i>	<i>60.2%</i>	<i>320 bps</i>	<i>57.0%</i>	<i>59.7%</i>	<i>270 bps</i>
R&D	22.2	28.0	25.8%	90.7	100.6	10.9%
S&M	41.4	36.1	-12.9%	156.0	141.3	-9.4%
G&A	18.8	20.2	7.5%	73.0	72.7	-0.5%
Operating Expenses	82.5	84.3	2.2%	319.7	314.5	-1.6%
<i>OpEx % of Revenue</i>	<i>58.1%</i>	<i>60.3%</i>	<i>-220 bps</i>	<i>57.8%</i>	<i>56.1%</i>	<i>170 bps</i>
Operating Income (Loss)	(1.5)	(0.1)	-92.3%	(4.4)	20.3	-556.0%
<i>OpInc (Loss) % of Revenue</i>	<i>-1.1%</i>	<i>-0.1%</i>	<i>100 bps</i>	<i>-0.8%</i>	<i>3.6%</i>	<i>440 bps</i>
Net Income	1.9	0.3	-84.4%	0.2	17.9	9538.3%
<i>NI % of Revenue</i>	<i>1.3%</i>	<i>0.2%</i>	<i>-110 bps</i>	<i>0.0%</i>	<i>3.2%</i>	<i>320 bps</i>
Adj. EBITDA	2.3	3.2	36.1%	10.3	33.2	222.1%
<i>Adj. EBITDA % of Revenue</i>	<i>1.6%</i>	<i>2.3%</i>	<i>70 bps</i>	<i>1.9%</i>	<i>5.9%</i>	<i>400 bps</i>

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Q1 and Full Year Fiscal 2022

Financial Guidance

Q1 FY 2022 GUIDANCE RANGES	LOW	HIGH	COMMENTARY
GAAP and Non-GAAP Revenue	\$134M	\$136M	
Non-GAAP net loss per share	(\$0.04)	(\$0.02)	
FY 2022 GUIDANCE RANGES	LOW	HIGH	COMMENTARY
GAAP and Non-GAAP Revenue	\$535M	\$545M	<ul style="list-style-type: none"> Shifting from partner-led service delivery model to cloud-based security platform
- Taegis ARR	At least \$150M		
- Taegis Revenue	\$90M	\$100M	
Adjusted EBITDA	(\$23M)	(\$13M)	<ul style="list-style-type: none"> Incremental \$25M R&D investment to extend the Taegis platform Incremental \$15M in S&M to expand the Partner Program and promote Taegis
Non-GAAP net loss per share	(\$0.31)	(\$0.22)	<ul style="list-style-type: none"> Anticipate some pandemic-related costs coming back and strategic investments
Cash flow from operations	(\$10M)	\$0M	<ul style="list-style-type: none"> Use of cash in Q1, driven by our annual performance payouts, offset by cash from operations in later quarters
Capital expenditures	\$3M	\$4M	

* See supplemental slides in Appendix for reconciliation of GAAP to Non-GAAP measures.

THANK YOU

APPENDIX

Supplemental GAAP to Non-GAAP Financial Measures

Q4 and Full Year Fiscal 2021

Reconciliation GAAP to Non-GAAP Financial Measures

(In thousands, except per
share data)

	Three Months Ended		Twelve Months Ended	
	January 29, 2021	January 31, 2020	January 29, 2021	January 31, 2020
GAAP & Non-GAAP revenue	\$ 139,736	\$ 141,986	\$ 561,034	\$ 552,765
GAAP gross margin	\$ 79,991	\$ 77,194	\$ 318,867	\$ 299,969
Amortization of intangibles	3,833	3,560	14,587	14,089
Stock-based compensation expense	338	197	1,346	1,206
Non-GAAP gross margin	\$ 84,162	\$ 80,951	\$ 334,800	\$ 315,264
GAAP research and development expenses	\$ 29,218	\$ 23,364	\$ 105,008	\$ 94,964
Stock-based compensation expense	(1,229)	(1,123)	(4,410)	(4,280)
Non-GAAP research and development expenses	\$ 27,989	\$ 22,241	\$ 100,598	\$ 90,684
GAAP sales and marketing expenses	\$ 37,048	\$ 40,708	\$ 144,934	\$ 157,674
Stock-based compensation expense	(981)	695	(3,676)	(1,694)
Non-GAAP sales and marketing expenses	\$ 36,067	\$ 41,403	\$ 141,258	\$ 155,980
GAAP general and administrative expenses	\$ 27,936	\$ 25,643	\$ 101,760	\$ 99,505
Amortization of intangibles	(3,524)	(3,524)	(14,094)	(14,094)
Stock-based compensation expense	(4,190)	(3,305)	(14,982)	(12,368)
Non-GAAP general and administrative expenses	\$ 20,222	\$ 18,814	\$ 72,684	\$ 73,043
GAAP operating loss	\$ (14,211)	\$ (12,521)	\$ (32,835)	\$ (52,174)
Amortization of intangibles	7,357	7,083	28,682	28,183
Stock-based compensation expense	6,739	3,931	24,414	19,548
Non-GAAP operating income (loss)	\$ (115)	\$ (1,507)	\$ 20,261	\$ (4,443)
GAAP net income (loss)	\$ (9,531)	\$ (5,228)	\$ (21,902)	\$ (31,666)
Amortization of intangibles	7,357	7,083	28,682	28,183
Stock-based compensation expense	6,739	3,931	24,414	19,548
Impact of Tax Cuts and Jobs Act	-	(1,191)	-	(1,191)
Aggregate adjustment for income taxes	(4,269)	(2,691)	(13,267)	(14,688)
Non-GAAP net income	\$ 296	\$ 1,904	\$ 17,927	\$ 186
GAAP loss per share	\$ (0.12)	\$ (0.06)	\$ (0.27)	\$ (0.39)
Amortization of intangibles	0.09	0.09	0.35	0.35
Stock-based compensation expense	0.08	0.05	0.30	0.24
Impact of Tax Cuts and Jobs Act	-	(0.01)	-	(0.01)
Aggregate adjustment for income taxes	(0.05)	(0.03)	(0.16)	(0.18)
Non-GAAP earnings per share *	\$ -	\$ 0.02	\$ 0.22	\$ 0.01
GAAP net loss	\$ (9,531)	\$ (5,228)	\$ (21,902)	\$ (31,666)
Interest and other, net	(90)	111	(1,034)	(850)
Income tax expense (benefit)	(4,590)	(7,404)	(9,899)	(19,658)
Depreciation and amortization	10,636	10,915	41,614	42,932
Stock-based compensation expense	6,739	3,931	24,414	19,548
Adjusted EBITDA	\$ 3,164	\$ 2,325	\$ 33,193	\$ 10,306

* Sum of individual items may differ from total due to rounding of individual components.

Q1 and Full Year Fiscal 2022

Reconciliation GAAP to Non-GAAP Financial Measures (Continued)

(In millions, except per
share data)

	Three Months Ending April 30, 2021		Fiscal Year Ending January 28, 2022	
	Low End of Guidance	High End of Guidance	Low End of Guidance	High End of Guidance
GAAP and Non-GAAP revenue	\$ 134	\$ 136	\$ 535	\$ 545
GAAP net loss	\$ (14)	\$ (13)	\$ (71)	\$ (63)
Amortization of intangibles	7	7	29	29
Stock-based compensation expense	7	7	30	30
Aggregate adjustment for income taxes	(3)	(3)	(14)	(14)
Non-GAAP net loss*	\$ (3)	\$ (2)	\$ (26)	\$ (18)
GAAP net loss per share	\$ (0.17)	\$ (0.16)	\$ (0.86)	\$ (0.76)
Amortization of intangibles	0.09	0.09	0.35	0.35
Stock-based compensation expense	0.08	0.08	0.37	0.37
Aggregate adjustment for income taxes	(0.03)	(0.03)	(0.17)	(0.17)
Non-GAAP net loss per share*	\$ (0.04)	\$ (0.02)	\$ (0.31)	\$ (0.22)
GAAP net loss			\$ (71)	\$ (63)
Interest and other, net			(1)	(1)
Income tax benefit			(20)	(18)
Depreciation and amortization			38	38
Stock-based compensation expense			30	30
Adjusted EBITDA*			\$ (23)	\$ (13)
Other Items				
Effective tax rate				22%
Weighted average shares outstanding (in millions)				82.1
Cash flow from operations				Breakeven to \$(10)
Capital expenditures				\$3-\$4

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