

Secureworks®

Q2 Fiscal 2023 Performance Review

Sep. 1, 2022

Disclaimers

Non-GAAP

This presentation includes information about the Company's non-GAAP revenue, non-GAAP gross margin, non-GAAP subscription cost of revenue, non-GAAP professional services cost of revenue, non-GAAP gross profit, non-GAAP subscription gross profit, non-GAAP subscription gross margin, non-GAAP professional services gross profit, non-GAAP professional services 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), non-GAAP earnings (loss) per share and adjusted EBITDA, which are non-GAAP financial measures provided as a supplement to the results provided in accordance with accounting principles generally accepted in the United States of America ("GAAP"). A reconciliation of each of the foregoing non-GAAP financial measures to the most directly comparable GAAP financial measure is provided below for each of the fiscal periods indicated.

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, the statements in this press release with respect to the Company's expectations regarding revenue, GAAP net loss per share, and non-GAAP net loss per share for the third quarter of fiscal 2023, and revenue, GAAP net loss, GAAP net loss per share, non-GAAP net loss, non-GAAP net loss per share, Adjusted EBITDA, cash flow from operations, capital expenditures and annual recurring revenue for its Taegis platform for full year fiscal 2023, all of which reflect the Company's current analysis of existing trends and information. 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 the adversary

Q2 Fiscal 2023

Performance Highlights

SOLID RESULTS:

- **Taegis ARR grew to \$201 million**, now representing 56% of Total ARR
- **Taegis Q2 Revenue of \$43 million +131% y/y**
- **Total Q2 Revenue of \$116 million (13)% y/y**
- **Adjusted EBITDA of \$(14) million**

Strong XDR Growth:

- **Taegis ARR growth** of 100% y/y
 - **Added 800 Taegis customers** y/y, a 114% increase, to end Q2 at 1,500 customers
 - **Taegis ARPC grew** to \$136k
-
- Won **Silver for Taegis XDR in the Security Software Category**, 17th Annual 2022 Information Technology World Globe Awards
 - Received **Editor's Choice Award for XDR** in the Cyber Defense Global InfoSec Awards for 2022

Continued Triple-Digit XDR Growth Rates

Taegis Annual Recurring Revenue

- Taegis ARR of \$201M



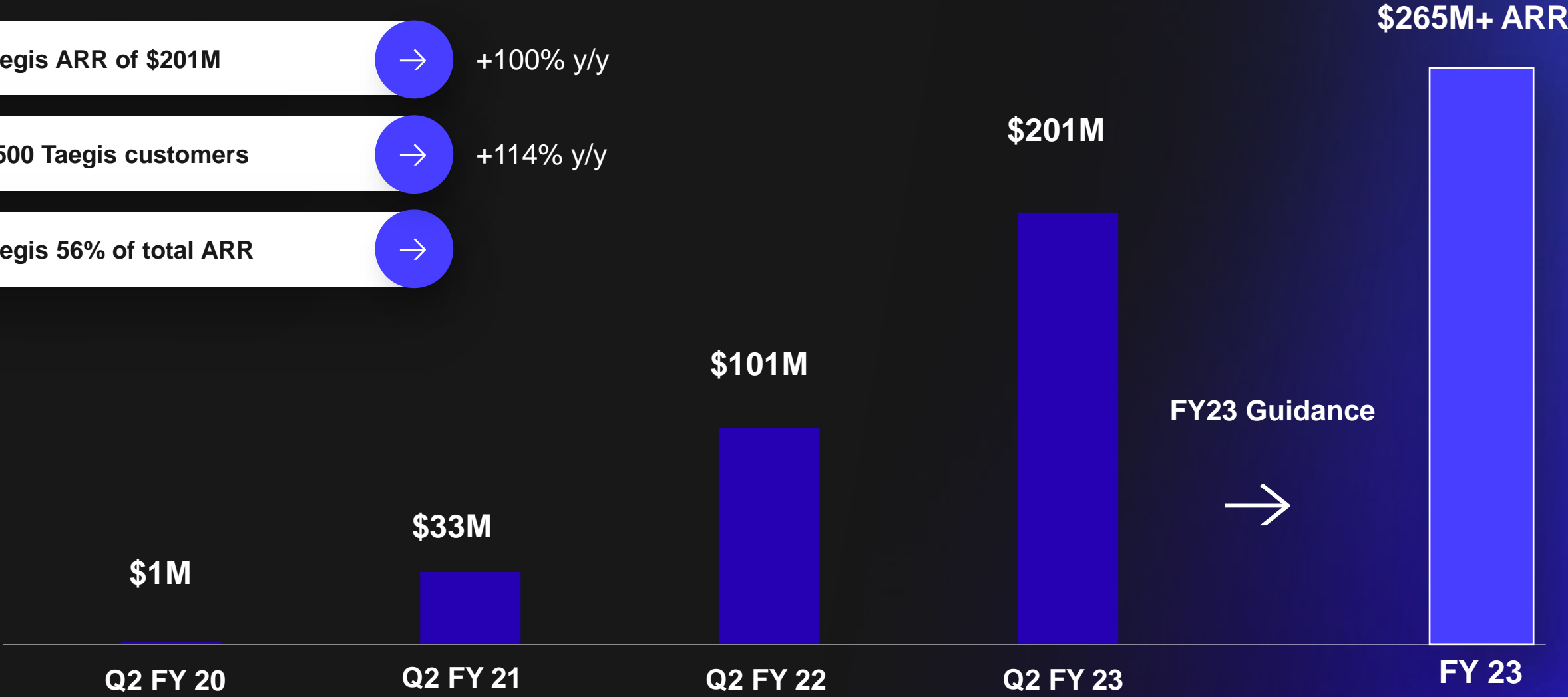
+100% y/y

- 1,500 Taegis customers



+114% y/y

- Taegis 56% of total ARR



Q2 Fiscal 2023

Consolidated GAAP Results

(\$ in millions)

	2Q23	2Q22	Change
Subscription	90.3	102.4	(11.8)%
Professional Services	25.9	31.7	(18.5)%
Total Revenue	<u>116.2</u>	<u>134.2</u>	<u>(13.4)%</u>
Subscription	56.3	65.4	(13.9)%
<i>GM % of Revenue</i>	62.3%	63.8%	-150 bps
Professional Services	10.3	12.3	(16.1)%
<i>GM % of Revenue</i>	40.0%	38.8%	120 bps
Total Gross Margin	66.6	77.7	(14.3)%
<i>GM % of Revenue</i>	<u>57.3%</u>	<u>57.9%</u>	<u>-60 bps</u>
R&D	33.6	30.4	10.6 %
S&M	40.9	34.7	18.0 %
G&A	24.3	26.5	(8.4)%
Operating Expenses	98.9	91.6	7.9%
<i>OpEx % of Revenue</i>	<u>85.1%</u>	<u>68.3%</u>	<u>1680 bps</u>
Operating Loss	(32.2)	(13.9)	132.0 %
<i>OpLoss % of Revenue</i>	<u>(27.8)%</u>	<u>(10.4)%</u>	<u>-1740 bps</u>
Interest & Other (Net)	0.1	(0.6)	(121.8)%
<i>I&O % of Revenue</i>	<u>0.1%</u>	<u>(0.4)%</u>	<u>50 bps</u>
Income Tax	(7.4)	(2.7)	170.1%
<i>Effective Tax Rate</i>	<u>23.0 %</u>	<u>18.9 %</u>	
Net Loss	(24.7)	(11.8)	110.1%
<i>NL % of Revenue</i>	<u>(21.3)%</u>	<u>(8.8)%</u>	<u>-1250 bps</u>

* 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.

Q2 Fiscal 2023

Consolidated Non-GAAP Results

(\$ in millions)

	2Q23	2Q22	Change
Subscription	90.3	102.4	(11.8)%
Professional Services	25.9	31.7	(18.5)%
Total Revenue	<u>116.2</u>	<u>134.2</u>	<u>(13.4)%</u>
Subscription	60.5	69.4	(12.8)%
<i>GM % of Revenue</i>	<i>67.0%</i>	<i>67.8%</i>	<i>-80 bps</i>
Professional Services	10.7	12.5	(14.5)%
<i>GM % of Revenue</i>	<i>41.3%</i>	<i>39.4%</i>	<i>190 bps</i>
Total Gross Margin	71.2	81.9	(13.1)%
<i>GM % of Revenue</i>	<i><u>61.3%</u></i>	<i><u>61.1%</u></i>	<i><u>20 bps</u></i>
R&D	31.0	28.9	7.4%
S&M	39.3	33.7	16.8%
G&A	16.7	18.1	(7.8)%
Operating Expenses	87.0	80.7	7.9%
<i>OpEx % of Revenue</i>	<i><u>74.9%</u></i>	<i><u>60.1%</u></i>	<i><u>1480 bps</u></i>
Operating Income (Loss)	(15.8)	1.2	(1368.0)%
<i>OpInc % of Revenue</i>	<i><u>(13.6)%</u></i>	<i><u>1.0%</u></i>	<i><u>-1450 bps</u></i>
Net Income (Loss)	(11.3)	0.9	(1326.1)%
<i>NI/NL % of Revenue</i>	<i><u>(9.7)%</u></i>	<i><u>0.7%</u></i>	<i><u>-1040 bps</u></i>
Adj. EBITDA	(14.3)	3.6	(494.8)%
<i>Adj. EBITDA % of Revenue</i>	<i><u>(12.3)%</u></i>	<i><u>2.7%</u></i>	<i><u>-1500 bps</u></i>

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

Q2 Fiscal 2023

Financial Guidance

Q3 FY 2023 GUIDANCE RANGES	LOW	HIGH
Total Revenue	\$111M	\$113M
GAAP net loss per share	\$(0.38)	\$(0.36)
Non-GAAP net loss per share	\$(0.22)	\$(0.20)

FY 2023 GUIDANCE RANGES	LOW	HIGH
Taegis ARR	At least \$265M	
Other MSS ARR	Below \$70M	
Total Revenue	\$458M	\$465M
Adjusted EBITDA	\$(68)M	\$(63)M
GAAP net loss per share	\$(1.35)	\$(1.30)
Non-GAAP net loss per share	\$(0.70)	\$(0.64)
Cash flow from operations	\$(65)M	\$(60)M
Capital expenditures	\$7M	\$9M

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

THANK YOU

APPENDIX

Reconciliation of GAAP to Non-GAAP Financial Measures

Q2 Fiscal 2023

Reconciliation of GAAP to Non-GAAP Financial Measures

(In thousands, except per share data)

SECUREWORKS CORP.
 Reconciliation of GAAP to Non-GAAP Financial Measures
 (in thousands, except per share data)
 (unaudited)

	Three Months Ended		Six Months Ended	
	July 29, 2022	July 30, 2021	July 29, 2022	July 30, 2021
Subscription Revenue	\$ 90,322	\$ 102,426	\$ 184,735	\$ 206,496
Professional Services Revenue	\$ 25,860	\$ 31,746	\$ 52,462	\$ 67,139
Non-GAAP revenue	\$ 116,182	\$ 134,172	237,197	273,635
GAAP subscription cost of revenue	\$ 34,060	\$ 37,058	\$ 66,886	\$ 74,730
Amortization of intangibles	(4,115)	(4,044)	(8,380)	(7,863)
Stock-based compensation expense	(167)	(15)	(290)	(117)
Non-GAAP subscription cost of revenue	\$ 29,778	\$ 32,999	\$ 58,216	\$ 66,750
GAAP professional services cost of revenue	\$ 15,519	\$ 19,425	\$ 32,128	\$ 38,960
Stock-based compensation expense	(345)	(176)	(732)	(372)
Non-GAAP professional services cost of revenue	\$ 15,174	\$ 19,249	\$ 31,396	\$ 38,588
GAAP gross profit	\$ 66,603	\$ 77,689	138,183	159,945
Amortization of intangibles	4,115	4,044	8,380	7,863
Stock-based compensation expense	511	190	1,021	489
Non-GAAP gross profit	\$ 71,229	\$ 81,923	147,584	168,297
GAAP research and development expenses	\$ 33,638	\$ 30,417	66,969	58,569
Stock-based compensation expense	(2,640)	(1,542)	(5,383)	(2,640)
Non-GAAP research and development expenses	\$ 30,998	\$ 28,875	61,586	55,929
GAAP sales and marketing expenses	\$ 40,940	\$ 34,685	80,185	71,090
Stock-based compensation expense	(1,627)	(1,016)	(3,265)	(1,748)
Non-GAAP sales and marketing expenses	\$ 39,313	\$ 33,669	76,920	69,342
GAAP general and administrative expenses	\$ 24,274	\$ 26,488	49,634	52,043
Amortization of intangibles	(3,523)	(3,523)	(7,047)	(7,047)
Stock-based compensation expense	(4,034)	(4,832)	(8,269)	(8,738)
Non-GAAP general and administrative expenses	\$ 16,717	\$ 18,133	34,318	36,258
GAAP operating income (loss)	\$ (32,249)	\$ (13,901)	(58,605)	(21,757)
Amortization of intangibles	7,639	7,567	15,428	14,910
Stock-based compensation expense	8,812	7,580	17,938	13,615
Non-GAAP operating income (loss)	\$ (15,798)	\$ 1,246	(25,239)	6,768
GAAP net income (loss)	\$ (24,719)	\$ (11,763)	(46,317)	(18,153)
Amortization of intangibles	7,639	7,567	15,428	14,910
Stock-based compensation expense	8,812	7,580	17,938	13,615
Aggregate adjustment for income taxes	(3,024)	(2,463)	(5,944)	(5,460)
Non-GAAP net income (loss)	\$ (11,292)	\$ 921	(18,895)	4,912
Weighted Avg Commons Shares Outstanding - Diluted (Non-GAAP)	84,483	84,009	84,123	83,645
GAAP earnings (loss) per share	\$ (0.29)	\$ (0.14)	\$ (0.55)	\$ (0.22)
Amortization of intangibles	0.09	0.09	0.18	0.18
Stock-based compensation expense	0.10	0.09	0.21	0.16
Aggregate adjustment for income taxes	(0.04)	(0.03)	(0.07)	(0.07)
Non-GAAP earnings (loss) per share *	\$ (0.13)	\$ 0.01	\$ (0.22)	\$ 0.06
<i>* Sum of reconciling items may differ from total due to rounding of individual components</i>				
GAAP net income (loss)	\$ (24,719)	\$ (11,763)	(46,317)	(18,153)
Interest and other, net	(131)	601	566	1,508
Income tax expense (benefit)	(7,399)	(2,739)	(12,854)	(5,112)
Depreciation and amortization	9,132	9,945	18,515	19,863
Stock-based compensation expense	8,812	7,580	17,938	13,615
Adjusted EBITDA	\$ (14,305)	\$ 3,624	(22,152)	11,721

Q3 and Full Year Fiscal 2023

Reconciliation of GAAP to Non-GAAP Financial Measures

(In millions, except per
share data)

SECUREWORKS CORP.
Reconciliation of GAAP to Non-GAAP Financial Measures
(in millions, except per share data)
(unaudited)

	Three Months Ending October 28, 2022		Fiscal Year Ending February 3, 2023	
	Low End of Guidance	High End of Guidance	Low End of Guidance	High End of Guidance
GAAP and Non-GAAP revenue	\$ 111	\$ 113	\$ 458	\$ 465
GAAP net loss	\$ (32)	\$ (30)	\$ (114)	\$ (110)
Amortization of intangibles	7	7	30	30
Stock-based compensation expense	11	10	41	41
Aggregate adjustment for income taxes	(4)	(4)	(16)	(16)
Non-GAAP net loss*	\$ (18)	\$ (17)	(59)	\$ (55)
GAAP net loss per share	\$ (0.38)	\$ (0.36)	\$ (1.35)	\$ (1.30)
Amortization of intangibles	0.08	0.08	\$ 0.35	0.35
Stock-based compensation expense	0.13	0.12	\$ 0.49	0.48
Aggregate adjustment for income taxes	(0.05)	(0.05)	\$ (0.19)	(0.19)
Non-GAAP net loss per share*	\$ (0.22)	\$ (0.20)	\$ (0.70)	\$ (0.64)
GAAP net loss			\$ (114)	\$ (110)
Interest and other, net			1	0
Income tax benefit			(32)	(31)
Depreciation and amortization			35	35
Stock-based compensation expense			41	41
Adjusted EBITDA*			\$ (68)	\$ (63)
Other Items				
Effective tax rate				22%
Weighted average shares outstanding (in millions)				84.7
Cash flow from operations				\$(65) to \$(60)
Capital expenditures				\$7 to \$9

* Sum of reconciling items may differ from total due to rounding of individual components
Sum of quarterly guidance may differ from full year guidance due to rounding

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