

Secureworks®

# Q3 Fiscal 2023 Performance Review

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Dec. 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 fourth 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, Taegis annual recurring revenue, and Other MSS annual recurring revenue 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

Q3 Fiscal 2023

# Performance Highlights

## SOLID RESULTS:

- **Taegis ARR grew to \$222 million**, now representing 65% of Total ARR
- **Taegis Q3 Revenue of \$48 million +100% y/y**
- **Total Q3 Revenue of \$111 million (17)% y/y**
- **Adjusted EBITDA of \$(17) million**

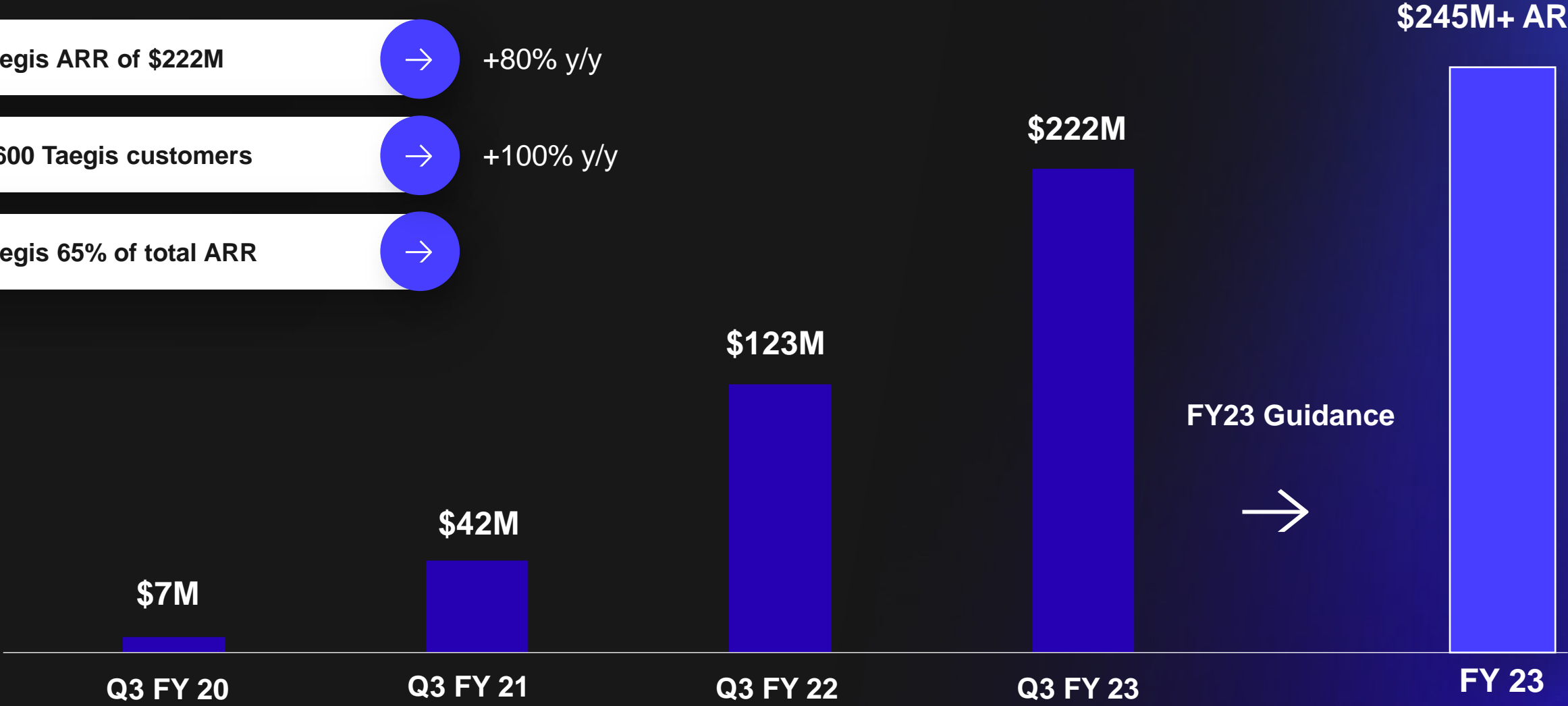
## Strong XDR Growth:

- **Taegis ARR growth** of 80% y/y
  - **Added 800 Taegis customers** y/y, a 100% increase, to end Q3 at 1,600 customers
  - **Taegis ARPC grew** to \$139k
- 
- Announced **general availability** of the Taegis™ XDR platform **in Japan**
  - Unveiled **Partner First strategy**, an important next step in the evolution of its **Global Partner Program**.

# Continued Strong XDR Growth Rates

Taegis Annual Recurring Revenue

- Taegis ARR of \$222M → +80% y/y
- 1,600 Taegis customers → +100% y/y
- Taegis 65% of total ARR →



## Q3 Fiscal 2023

# Consolidated GAAP Results

(\$ in millions)

	3Q23	3Q22	Change
Subscription	87.2	103.0	(15.3)%
Professional Services	23.8	30.7	(22.7)%
<b>Total Revenue</b>	<b><u>110.9</u></b>	<b><u>133.7</u></b>	<b><u>(17.0)%</u></b>
Subscription	55.1	68.1	(19.2)%
<i>GM % of Revenue</i>	63.1%	66.1%	-300 bps
Professional Services	10.3	12.7	(18.9)%
<i>GM % of Revenue</i>	43.4%	41.4%	200 bps
<b>Total Gross Margin</b>	<b>65.4</b>	<b>80.8</b>	<b>(19.1)%</b>
<i>GM % of Revenue</i>	<u>58.9%</u>	<u>60.4%</u>	<u>-150 bps</u>
R&D	35.3	32.8	7.6%
S&M	41.4	35.0	18.2%
G&A	24.7	28.4	(13.0)%
<b>Operating Expenses</b>	<b>101.4</b>	<b>96.2</b>	<b>5.4%</b>
<i>OpEx % of Revenue</i>	<u>91.4%</u>	<u>71.9%</u>	<u>1950 bps</u>
<b>Operating Loss</b>	<b>(36.0)</b>	<b>(15.4)</b>	<b>134.3%</b>
<i>OpLoss % of Revenue</i>	<u>(32.5)%</u>	<u>(11.5)%</u>	<u>-2100 bps</u>
<b>Interest &amp; Other (Net)</b>	<b>(0.7)</b>	<b>(0.8)</b>	<b>(13.3)%</b>
<i>I&amp;O % of Revenue</i>	<u>(0.6)%</u>	<u>(0.6)%</u>	<u>0 bps</u>
<b>Income Tax</b>	<b>(8.5)</b>	<b>(3.3)</b>	<b>160.7%</b>
<i>Effective Tax Rate</i>	<u>23.2%</u>	<u>20.3%</u>	
<b>Net Loss</b>	<b>(28.1)</b>	<b>(12.9)</b>	<b>118.8%</b>
<i>NL % of Revenue</i>	<u>(25.4)%</u>	<u>(9.6)%</u>	<u>-1580 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.

## Q3 Fiscal 2023

# Consolidated Non-GAAP Results

(\$ in millions)

	3Q23	3Q22	Change
Subscription	87.2	103.0	(15.3)%
Professional Services	23.8	30.7	(22.7)%
<b>Total Revenue</b>	<b><u>110.9</u></b>	<b><u>133.7</u></b>	<b><u>(17.0)%</u></b>
Subscription	59.6	72.3	(17.5)%
<i>GM % of Revenue</i>	68.3%	70.2%	-190 bps
Professional Services	10.6	12.8	(17.0)%
<i>GM % of Revenue</i>	44.8%	41.7%	310 bps
<b>Total Gross Margin</b>	<b>70.2</b>	<b>85.1</b>	<b>(17.4)%</b>
<i>GM % of Revenue</i>	<u>63.3%</u>	<u>63.6%</u>	<u>-30 bps</u>
R&D	32.2	30.5	5.5%
S&M	39.7	33.5	18.6%
G&A	16.8	18.7	(10.1)%
<b>Operating Expenses</b>	<b>88.8</b>	<b>82.7</b>	<b>7.3%</b>
<i>OpEx % of Revenue</i>	<u>80.0%</u>	<u>61.9%</u>	<u>1810 bps</u>
<b>Operating Income (Loss)</b>	<b>(18.5)</b>	<b>2.3</b>	<b>(897.6)%</b>
<i>OpInc % of Revenue</i>	<u>(16.7)%</u>	<u>1.7%</u>	<u>-1840 bps</u>
<b>Net Income (Loss)</b>	<b>(13.7)</b>	<b>1.2</b>	<b>(1225.2)%</b>
<i>NI/NL % of Revenue</i>	<u>(12.4)%</u>	<u>0.9%</u>	<u>-1330 bps</u>
<b>Adj. EBITDA</b>	<b>(17.2)</b>	<b>4.7</b>	<b>(463.1)%</b>
<i>Adj. EBITDA % of Revenue</i>	<u>(15.5)%</u>	<u>3.5%</u>	<u>-1900 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.

Q3 Fiscal 2023

# Financial Guidance

Q4 FY 2023 GUIDANCE RANGES	LOW	HIGH
Total Revenue	\$108M	\$112M
GAAP net loss per share	\$(0.46)	\$(0.41)
Non-GAAP net loss per share	\$(0.28)	\$(0.24)

FY 2023 GUIDANCE RANGES	LOW	HIGH
Taegis ARR	At least \$245M	
Other MSS ARR	Below \$65M	
Total Revenue	\$456M	\$460M
Adjusted EBITDA	\$(68)M	\$(64)M
GAAP net loss per share	\$(1.34)	\$(1.29)
Non-GAAP net loss per share	\$(0.69)	\$(0.63)
Cash flow from operations	\$(68)M	\$(64)M
Capital expenditures	\$7M	\$9M

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



**THANK YOU**

# APPENDIX

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## Reconciliation of GAAP to Non-GAAP Financial Measures

Q3 Fiscal 2023

# Reconciliation of GAAP to Non-GAAP Financial Measures

(In thousands, except per share data)

**SECUREWORKS CORP.**  
Condensed Consolidated Statements of Operations and Related Financial Highlights  
(in thousands, except per share data and percentages)  
(unaudited)

	Three Months Ended		Nine Months Ended	
	October 28, 2022	October 29, 2021	October 28, 2022	October 29, 2021
Net revenue:				
Subscription	\$ 87,191	\$ 102,992	\$ 271,926	\$ 309,488
Professional Services	23,751	30,707	76,213	97,846
Total net revenue	<u>\$ 110,942</u>	<u>\$ 133,699</u>	<u>\$ 348,139</u>	<u>407,334</u>
Cost of revenue:				
Subscription	32,136	34,888	\$ 99,022	\$ 109,423
Professional Services	13,444	18,002	45,572	57,157
Total cost of revenue	<u>45,580</u>	<u>52,890</u>	<u>144,594</u>	<u>166,580</u>
Gross Profit:				
Subscription	55,055	68,104	172,904	200,065
Professional Services	10,307	12,705	30,641	40,689
Total gross profit	<u>\$ 65,362</u>	<u>\$ 80,809</u>	<u>\$ 203,545</u>	<u>\$ 240,754</u>
Operating expenses:				
Research and development	35,263	32,767	102,232	91,336
Sales and marketing	41,380	35,008	121,565	106,098
General and administrative	24,725	28,404	74,359	80,447
Total operating expenses	<u>101,368</u>	<u>96,179</u>	<u>298,156</u>	<u>277,881</u>
Operating loss	(36,006)	(15,370)	(94,611)	(37,127)
Interest and other, net	(661)	(762)	(1,227)	(2,270)
Loss before income taxes	(36,667)	(16,132)	(95,838)	(39,397)
Income tax expense (benefit)	(8,521)	(3,269)	(21,375)	(8,381)
Net loss	<u>\$ (28,146)</u>	<u>\$ (12,863)</u>	<u>\$ (74,463)</u>	<u>\$ (31,016)</u>
Earnings (loss) per common share (basic)	<u>\$ (0.33)</u>	<u>\$ (0.15)</u>	<u>\$ (0.88)</u>	<u>\$ (0.37)</u>
Earnings (loss) per common share (diluted)	<u>\$ (0.33)</u>	<u>\$ (0.15)</u>	<u>\$ (0.88)</u>	<u>\$ (0.37)</u>
Weighted-average common shares outstanding (basic)	84,584	83,297	84,277	82,754
Weighted-average common shares outstanding (diluted)	84,584	83,297	84,277	82,754
<b>Percentage of Total Net Revenue</b>				
Subscription gross margin	63.1 %	66.1 %	63.6 %	64.6 %
Professional services gross margin	43.4 %	41.4 %	40.2 %	41.6 %
Total gross margin	58.9 %	60.4 %	58.5 %	59.1 %
Research and development	31.8 %	24.5 %	29.4 %	22.4 %
Sales and marketing	37.3 %	26.2 %	34.9 %	26.0 %
General and administrative	22.3 %	21.2 %	21.4 %	19.7 %
Operating expenses	91.4 %	71.9 %	85.6 %	68.2 %
Operating loss	(32.5)%	(11.5)%	(27.2)%	(9.1)%
Loss before income taxes	(33.1)%	(12.1)%	(27.5)%	(9.7)%
Net income (loss)	(25.4)%	(9.6)%	(21.4)%	(7.6)%
Effective tax rate	23.2 %	20.3 %	22.3 %	21.3 %

Note: Percentage growth rates are calculated based on underlying data in thousands

## Q4 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 February 3, 2023		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	\$ 108	\$ 112	\$ 456	\$ 460
GAAP net loss	\$ (39)	\$ (35)	\$ (113)	\$ (109)
Amortization of intangibles	7	7	31	31
Stock-based compensation expense	12	12	40	40
Aggregate adjustment for income taxes	(5)	(5)	(16)	(16)
Non-GAAP net loss*	\$ (24)	\$ (20)	\$ (59)	\$ (55)
GAAP net loss per share	\$ (0.46)	\$ (0.41)	\$ (1.34)	\$ (1.29)
Amortization of intangibles	0.08	0.08	\$ 0.36	0.36
Stock-based compensation expense	0.15	0.15	\$ 0.47	0.47
Aggregate adjustment for income taxes	(0.06)	(0.06)	\$ (0.19)	(0.19)
Non-GAAP net loss per share*	\$ (0.28)	\$ (0.24)	\$ (0.69)	\$ (0.63)
GAAP net loss			\$ (113)	\$ (109)
Interest and other, net			2	1
Income tax benefit			(32)	(31)
Depreciation and amortization			36	36
Stock-based compensation expense			40	40
Adjusted EBITDA*			\$ (68)	\$ (64)
Other Items				
Effective tax rate				22%
Weighted average shares outstanding (in millions)				84.5
Cash flow from operations				\$(68) to \$(64)
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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