Workiva Inc

2015 Second Quarter Earnings Conference Call
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CORPORATE PARTICIPANTS

Matt Rizai, Chairman and Chief Executive Officer

Stuart Miller, Executive Vice President, Treasurer and Chief Financial Officer

Adam Rogers, Investor Relations Manager

PRESENTATION

Operator:

Good afternoon. My name is Elisa and I will be your conference Operator. At this time, I would like to welcome everyone to the Workiva Q2 2015 Results Conference Call. All lines have been placed on mute to prevent any background noise. After the Speakers' remarks, there will be a question-and-answer session. If you'd like to ask a question during this time, please press star then the number one on your telephone keypad. If you'd like to withdraw your question, please press the pound key. Thank you.

Adam Rogers, you may begin.

Adam Rogers:

Thank you and good afternoon everyone and welcome to the Workiva Second Quarter 2015 Earnings Conference Call. This afternoon, we'll begin with comments from Chairman and Chief Executive Officer, Matt Rizai, followed by Executive Vice President, Treasurer, and Chief Financial Officer, Stuart Miller, and then we'll turn the call over to questions. Also on the line today are Marty Vanderploeg, President and Chief Operating Officer, and Mike Sellberg, Executive Vice President and Chief Product Officer.

A replay of this call will be available until August 12. Information to access the replay is listed in today's press release which is available on our website under the Investor Relations section. As a reminder, today's conference call is also being broadcast live via webcast.

Before we begin, I'd like to remind everyone that during today's call, we will be making forward-looking statements regarding future events and financial performance, including guidance for our third quarter and full fiscal year 2015. These forward-looking statements are subject to known and unknown risks and uncertainties. Workiva cautions that these statements are not guarantees of future performance. All forward-looking statements made today, reflect our current expectations only and we undertake no obligations to update any statements to reflect the events that occur after this call.

Please refer to the Company's Annual Report on Form 10-K and Quarterly Report on Form 10-Q for factors that could cause our actual results to differ materially from any forward-looking statement.

Also during the course of today's call, we will refer to certain non-GAAP financial measures. Reconciliations of non-GAAP to GAAP measures and certain additional information are also included in today's earnings press release.

With that, we'll begin by turning the call over to our Chairman and CEO, Matt Rizai.

Matt Rizai:

Thank you, Adam and thanks to everyone for joining us today to discuss our second quarter 2015 results.

We delivered strong second quarter performance, generating revenue and operating loss results that beat our guidance range. Total revenue for the quarter was $34 million, an increase of 28% over quarter two of 2014, with Subscription and Support revenue up 28% and Professional Services revenue up 29% year-over-year. Overall, our Q2 results show continued strong demand for Wdesk. Investments in sales and marketing and enhancements in Wdesk technology are not only driving new customer wins, but also increasing the average subscriptions that (phon) support contract value across our total customer base.

Our first half of 2015 results combined with our strong and growing pipeline of new business opportunities, gives us the confidence to again raise our full year 2015 revenue guidance which Stuart Miller will discuss later in the call. In Q2, we continued to add new Wdesk customers for SEC reporting, as Wdesk has become that market's best practice. We also saw strong demand for our non-SEC use cases which are driving not only new customer wins, but increasing our ability to add fees and solutions within our existing customer base.

We are encouraged by the demand for our Sarbanes-Oxley or SOX compliance solution and we continue to believe we have a significant runway for expansion in this market. As you may have read in our press release yesterday, more than 200 companies now use Wdesk for SOX compliance. Enhancements to our platform over the several months helped drive Wdesk adoption for SOX. These enhanced features include task and evidence management, data collection, flowcharts, visualizations, dashboards, audit trails, campus (phon) and extended mobile compatibility.

We are also extremely pleased that the unique capabilities of Wdesk and the SOX market are attracting new users to our platform who work in the areas of Governance, Risk and Compliance, or GRC, including related policies and procedures, audit, and risk and controls management. This is another great example of how Wdesk is expanding across our customers' organizations.

On the management reporting side, our customers continue to discover new use cases for Wdesk. For example, new use cases for management reporting this quarter include W.R. Grace using Wdesk for sales, compensation planning and to manage foreign tax provisions; Titbit, using Wdesk within its sales organization to sign off on a sales (inaudible) letter; field partners using Wdesk to track corporate timesheets from multiple subsidiaries; and a large media company using Wdesk to track information related to severance packages.

The insurance sector is another great example of Wdesk expansion. Many of our insurance customers began using Wdesk for one or two business processes. But now more than 100 insurance companies use Wdesk to improve efficiencies and reduce risks across multiple business processes such as statutory reporting, other financials and footnotes, product contract filings, model audit-ruled reports and ORSA which stands for Own Risk and Solvency Assessment.

The Wdesk risk solution continues to expand across other financial service companies. We help customers with regulating risk which includes mandated reports to government agencies and we help customers with enterprise risk management which includes internal controls and management functions. For example, one banking customer started using Wdesk for Comprehensive Capital Analysis and Review or CCAR reporting to Federal Reserve. They soon added other risk processes to Wdesk including peer incentive (phon) analysis, executive summary, monthly capital reporting, benchmarking and industry analysis, and capital planning committee presentations. They also added recovery and resolution plans in this Wdesk and now different teams across the bank rely upon centralized, linked Wdesk workbooks for a single source of its data.

You also may have read that we recently released the result of a total economic impact study by Forrester Consulting that shows a Wdesk ROI of 187% at a major airline carrier. Over a three-year period, the airline spent just over $140,000 on Wdesk but recognized more than $404,000 in total benefits and cost savings. While the airline significantly improved efficiency by reducing the process to create and review its 10-K report by three weeks and its 10-Q report by two weeks, the largest cost savings and benefits of Wdesk were for non-SEC solutions, including reducing the cost of internal management reporting, simplifying sustainability data collection, and benefiting from the cloud-based security projection of Wdesk—protections of Wdesk.

We're looking forward to hosting more than 1,000 attendees at our Fourth Annual User Conference, September 14 to 17 in Orlando, Florida. We're offering more than 50 sessions on a wide range of topics including SOX and SEC compliance, risk mitigation, XBRL training, collecting and managing unstructured data, and advanced Wdesk features.

In summary, our second quarter was strong. The adoption of Wdesk continues to gain traction with both new and existing customers and our sales pipeline continues to build. The breadth of Wdesk use cases enables us to engage our customers in multiple ways and it helps drive our expansion activity. We believe our value proposition is resonating in the marketplace and we're well positioned to achieve our operating and financial objectives for 2015 and beyond.

With that, let me turn it over to Stuart Miller. Stuart?

Stuart Miller:

Thank you. As Matt discussed, we had strong results in the second quarter and we have a growing pipeline of new business opportunities that should position us well for the second half of 2015.

In the second quarter, we generated total revenue of $34 million, an increase of 28.1% from the second quarter of last year.

Breaking out revenue by reporting line item; Subscription and Support revenue was $28.1 million, up 27.8% from Q2 of 2014; 57.4% of the S&S revenue increase came from new customers added in the last 12 months. The remaining 42.6% of the increase came from deeper penetration of our existing customer base. The average contract value on Subscription and Support from all customers continued to increase.

Professional Services revenue was $5.9 million, an increase of 29.4% from the second quarter of 2014. Higher customer account and services for additional use cases accounted for most of the growth.

When comparing results from sequential quarters, please recall that Q1 is our seasonal peak for Professional Services revenue, due to higher demand for services associated with the preparation of 10-K and proxy statements.

Turning to our supplemental metrics; we ended the second quarter with 2,390 customers, a net increase of 287 customers from Q2 of 2014 and a net increase of 100 from Q1 of 2015. Our Subscription and Support revenue retention rate, excluding add-ons, was 96.3% at the June 2015 measurement date, up from 95.9% in March 2015. Customers being acquired or ceasing to file SEC reports once again accounted for over half of the revenue attrition.

Including add-ons, our Subscription and Support revenue retention rate was 108.4% at the June 2015 measurement date, compared with 105.8% in March 2015. Continued success by our farmer teams in selling additional use cases with higher annual contract values to our existing accounts is having a positive impact on our revenue retention rate.

Moving down the income statement, I will talk about our results before stock-based compensation, in other words on a non-GAAP basis. Please refer to our press release for a reconciliation of our non-GAAP and GAAP results.

Gross profit was $24.4 million in the second quarter, up 30.2% from the prior year period and represented a gross margin of 71.8% compared to a gross margin of 70.7% in the second quarter of 2014.

Now breaking out gross profit. Subscription and Support gross profit was $22.6 million, representing an 80.5% gross margin on Subscription revenue compared to $17 million or a 77.5% gross margin in the second quarter of 2014, reflecting operating leverage in our model.

Our Customer Success Teams continue to be more efficient.

Professional Services gross profit was $1.8 million, a 30.3% gross margin compared to $1.7 million or a 37.6% gross margin in the same period last year. We have increased both FTEs and cash compensation over the past year in order to handle the growing demand for services around our new use cases.

Turning to operating expenses. Research and Development expense in the second quarter was $11.8 million, an increase of 13.3% from $10.4 million in the prior year's second quarter. The increase in our R&D expense was due to higher compensation and additional staff to further strengthen and enhance our technology platform.

Sales and Marketing expense increased 27.2% over Q2 of 2014 to $15.9 million, driven by additional headcount and cash incentive compensation. We remain on track with our plans to expand our quota carrying Sales Team by 25% to 30% in 2015. In Q2, we also extended our investments in our marketing and advertising programs to improve market and brand awareness about Wdesk and Workiva.

In September we will host our Annual Tech User Conference again. The majority of the expense of this conference will hit in Q3, causing an increase in our Sales and Marketing expenses relative to Q2. So Q3 is the seasonal high point for marketing expenses for Workiva.

General and administrative expenses were $4.6 million in Q2, an increase of 24.4% compared with $3.7 million in the second quarter of 2014, driven by cost of being a public company together with increased compensation, software and support fees. Our G&A expenses in the second quarter were actually lower than we projected largely due to timing of consulting and professional fees which we expect to recognize in the second half of 2015.

Operating loss was $8 million in the second quarter of 2015, similar to 2014's second quarter operating loss of $7.9 million. Net loss was $8.4 million for the second quarter of 2015, essentially flat when compared with the net loss in the second quarter of 2014. Net loss per share was $0.21 in the second quarter of 2015 compared to $0.26 net loss in the prior year period.

Turning to our balance sheet and our statement of cash flows. At June 30, 2015, we had cash and equivalents of $86.4 million, a decrease of $3.5 million compared with March 31, 2015. Net cash used in operating activities was $2.6 million in the second quarter of 2015.

Regarding change in deferred revenue; as you may remember from previous calls, we cut incentives for long-term prepayments from customers in order to capture more margin and we continue to implement that plan. As a result, our long-term deferred revenue declined $2.3 million from the first quarter of 2015. Offsetting this decline was an increase in current deferred revenue of $4.8 million over the prior quarter which was comprised of a $3.4 million rise in subscription support deferred revenue and a $1.4 million increase in professional services deferred revenue.

As I indicated on the call last quarter, we began standardizing around one-year contracts with new customers in Q2. Going forward and starting in Q3, we are shifting contract renewals from existing customers to a one-year term. About 60% of existing contracts are now quarterly auto-renewed. Our plan is to transition a substantial majority of these quarterly contracts to an annual maturity over the next 24 months.

Turning to our guidance for 2015. Our guidance on a non-GAAP loss from operations and non-GAAP loss per basic share excludes the impact of stock-based compensation. Please refer to our press release for a reconciliation of our non-GAAP and GAAP guidance.

For the third quarter of 2015, we expect total revenue to range from $35.1 million to $35.6 million. We expect non-GAAP operating loss to range from $14.1 million to $14.6 million with GAAP operating loss in the range of $17.2 million to $17.7 million.

We expect non-GAAP net loss per share to range from $0.36 to $0.37 with GAAP loss per share in the range of $0.44 to $0.45. Our loss per share guidance assumes 40 million basic and diluted shares outstanding.

Our guidance for the full fiscal year 2015 is as follows. We are raising our revenue guidance to a range of $141.5 million to $143 million. We continue to expect non-GAAP operating loss to be in the range of $36 million to $38 million and GAAP operating loss range from $47 million to $49 million. We expect non-GAAP net loss per share to remain in the range of $0.90 to $0.95.

Finally, we still expect GAAP net loss share to range from $1.17 to $1.22 per share. Our loss per share guidance for the full year also assumes 40 million basic and diluted shares outstanding.

In summary, Workiva posted another strong quarter. Demand remains robust for our solutions and we remain focused on executing our growth plan to capitalize on our multi-billion market opportunity.