Workiva Inc

2015 Fourth Quarter Earnings Conference Call
March 1, 2016

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 Mike, and I will be your conference Operator today. At this time I would like to welcome everyone to the Workiva, Inc. Fourth Quarter and Full Year 2015 Earnings 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 would like to ask a question during this time, press star then the number one on your telephone keypad. If you would like to withdraw your question, press the pound key. Thank you. I will now turn the call over to Adam Rogers, the Senior Manager of Investor Relations. You may begin your conference.

Adam Rogers:

Thanks, Mike. Good afternoon, everyone, and welcome to the Workiva fourth quarter and full year 2015 earnings conference call. This afternoon we'll begin with comments from Chairman and Chief Executive Officer, Matt Rizai; followed by our Executive Vice President, Treasurer and Chief Financial Officer, Stuart Miller. 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 made available until March 8. 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'll be making forward-looking statements regarding future events and financial performance, including guidance for our first quarter and full fiscal year 2016. 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 for factors that could cause our actual results to differ materially from any forward-looking statements.

Also during the course of today's call we'll 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 fourth quarter and full year 2015 results. The fourth quarter capped off another strong year for Workiva. Fourth quarter total revenue was $39.9 million, up 32% year-over-year and ahead of our guidance range. For the full year 2015 revenue was $145.3 million, up 29% over the prior year.

Before discussing our results in more detail, I would like to comment on our outlook for operating cash flow. We anticipate cash usage from operations to improve in 2016, and then improve again in 2017. We also believe that we've raised enough capital at our IPO to get to positive annual operating cash flow without needing to return to the equity market. Stuart Miller will provide more details later on this call.

The ongoing investments we're making to enhance our Wdesk platform and generate demand for our solutions have enabled us to continue to gain market share. In 2015 we added 263 net new customers, including 56 net new customers in the fourth quarter. We're making good progress on diversifying our revenue sources. In 2014, 25% of our subscription bookings were from non-SEC use cases, and for the full year 2015 the contribution from non-SEC use cases rose to 39% of our subscription bookings. In 2016 we expect that non-SEC use cases will contribute more than 50% of our subscription bookings. The percentages I've just provided are conservative because customers who bought Wdesk from our SEC Sales Team tell us they also use Wdesk for Management reporting, Investor Relations, and other use cases.

In the second half of 2015 we saw an increase in new use cases due to our expansion in management reporting and risk, as well as growth in the adjacent markets of Enterprise Risk Management and Audit Management that have proven customer demand for Wdesk. This expansion of use cases has increased the size of our total addressable market for Wdesk by over 50% based on our estimates from $6.8 billion to $10.4 billion for both public and private companies in North America and Europe today. Our markets are at different stages of development and we're still in investment mode on several use cases. Therefore in 2016 we're continuing to invest in software development, sales and marketing to capitalize on these expanded market opportunities.

We're excited about the opportunities we see in our expanded TAM and new markets and growth within existing markets. Let me give you some examples. Just yesterday we released a study by Forrester Consulting that showed a large global manufacturer achieved an ROI of 108% by using Wdesk. The customer recognized more than $640,000 in total benefits and cost savings over a three-year period, and reduced data collection and aggregation work load by 90%. The manufacturer used Wdesk to automate financial data collection throughout its global enterprise, streamline a complicated review and reporting process, and benefit from cloud-based security protections.

Here are other use cases this quarter. NPRO (phon) uses Wdesk to collect data for its swing sheets, which detail actual financial results along with comments to explain variances from plants. Ameri-Co Logistics is a private company using Wdesk for its internal controls and annual corporate reports. A leading motorcycle manufacturer uses Wdesk for financial planning and analysis. New York Life uses Wdesk for statutory reporting. UPS now uses Wdesk to track environmental health and safety data along with other sustainability data, and Noble Energy uses Wdesk for its mostly monthly close checklist. A global airline now uses Wdesk to collect and report information about ramp and airport incidents. With Wdesk the airline streamlined safety reporting with control and accountability, neither of which was possible with its former processor outdated spreadsheets and email.

We continue to see strong demand for Wdesk in the SOX market because it streamlines how Teams document, implement and assess internal controls over financial reporting. By integrating the risk control metrics, process management and flowcharts, Wdesk enables data consistency and control which helps our SOX customers be more productive and accountable.

Here are some customer examples for SOX. Talen Energy uses the evidence management feature in Wdesk to upload documentation to a single location and perform quality controlled checks. They use Wdesk to assign tasks to process owners, send out certification requests, and track progress from a dashboard, which eliminates the administrative burden of babysitting email. All of Talen Energy's SOX and internal controls, documentation is located in Wdesk and is linked to audit committee slides and dashboards, which instantly updates other documents. Because Wdesk is cloud-based, external auditors are able to securely access the information as needed.

Other SOX customers have shared the following ROI examples with us. A large global energy company said the efficiency gained with Wdesk is equivalent of a full time employee for one year. An information technology company saved two weeks on every on-site audit. A banking company saved 40% on document management. Diversicare Healthcare Services has dramatically improved its consistency among internal controls. A SOX manager at Upland Software used to spend two to three days sorting spreadsheets and updating information across all documentations. Now with Wdesk it takes that person only two to three hours to do the same tasks. Before using Wdesk, Cousins Properties was only able to complete three or four items on a three page list of improvements for internal audit related to SOX. With Wdesk they significantly improved the efficiency of their process and are now able to cover many more audits that Management needs to assess risk.

Wdesk for SOX and internal controls recently won an Edison Award in the Financial Solutions Category, and Gartner once again named Wdesk a Best-of-Breed vendor for Enhanced Financial Controls and Automation.

In the regulatory risk market, we continue to win new businesses for a wide range of risk reporting, including resolution and recovery plans, comprehensive capital analysis and review, Dodd-Frank Act, Stress Testing and own risk and solvency assessment, which is used primarily by insurance companies. For example, Credit Suisse, which began using Wdesk for its resolution and recovery plan has expanded Wdesk to its valuation risk group, which manages an extremely complicated process involving many contributors across the company. Wdesk is used to document formal procedures around valuation review for purposes of SOX and other regulators. Because Wdesk serves as a repository of linked data, it's also used as a procedure reference by Valuation Risk Team members.

We also see growing demand within private companies. For example, a large private healthcare insurance company recently started using Wdesk for its master audit plan and risk scorecards. An adjacent market for Wdesk is Enterprise Risk Management, or ERM, which executives use to identify systemic risk, determine and assess risk magnitude and planned strategic responses. A large financial services customer uses Wdesk to securely collect, organize and present key risk indicators while ensuring consistency and accuracy of multiple levels of descriptive information throughout their monthly and yearend reporting (inaudible).

In the fourth quarter of 2015, we began marketing Wdesk to the broad based audit management market which includes audit risk assessments, audit planning and internal auditing (phon). Audit management, along with ERM is a subset of a much larger market that's defined as Governance, Risk and Compliance known as GRC.

So as you can see 2015 was a great year for Workiva and our 1,100 employees. In November, Deloitte listed us at its 2015 Technology Fast 500 list and in December Fortune Magazine ranked Workiva at number sixth on its 50 Best Workplace for Camaraderie, and in January Fortune Magazine ranked Workiva fourth on its Best Ten Workplaces for Technology in the large company category.

Looking to 2016, we're extremely optimistic about the growth opportunities available to us. We expect that the SEC filings market will continue to be a source of growth for Workiva. As a reminder today we serve about half of the accelerated and large accelerated SEC filers in the United States, and we are optimistic about capturing the balance of this market as we believe that Wdesk is widely regarded as the best practice for SEC reporting.

As I discussed with you last quarter and earlier in the call, our work in SEC and SOX is enabling us to expand into the GRC market. Here's how it happens, when our customers work on SOX, often times their colleagues from risk and audit are collaborating on the same documents. Once they experience firsthand how Wdesk helps them to work together in a single live document and allows them to control and track data, they want to use Wdesk for other projects. In this way Wdesk is introduced to new groups of collaborators and audit and Enterprise Risk Management. That's why we began marketing Wdesk in the fourth quarter of 2015 to the broader based GRC market where we see a lot of expansion opportunities.

To land and expand in all of our markets we continue to improve our Wdesk technology. Later this year we plan to release Wdesk enhancements that will include an enhanced data platform for SOX, next generation workbooks, workbooks that can handle millions of rows of data at high speeds and an intuitive user experience with improved collaboration and audit trail.

In summary our fourth quarter and full year of 2015 results were strong. We're very excited about the momentum we're seeing in Wdesk expansion across our customers. We're pleased with the progress we've made on our land and expand growth strategy, and we believe the investments we're making position us to capture a much larger total addressable market for future growth. With that, let me turn it over to Stuart Miller.

Stuart Miller:

Thank you. As Matt indicated we're pleased with our results for the fourth quarter and the full year. I will talk about our non-GAAP results which are before stock-based compensation. Please refer to our press release for a reconciliation of our non-GAAP to GAAP results.

I'll begin by reviewing our fourth quarter and fiscal year 2015 results, and then I will comment on our first quarter and full year 2016 financial outlook. Thereafter we'll open up the call to your questions.

We generated total revenue in the fourth quarter of $39.9 million, an increase of 32.4% from the fourth quarter last year. In addition, our non-GAAP operating margin improved 10.7% points compared to the fourth quarter last year. Breaking out revenue by reporting line item, subscription and support revenue was $32.1million, up

28.4% from Q4 of 2014, 47.6% of the S&S revenue increase in Q4 came from new customers added in the last 12 months. The remaining 52.4% of the increase came from deeper penetration of our existing customer base. The average contract value on subscription support from all customers continued to rise. Professional services revenue was $7.8 million, an increase of 52% from the fourth quarter of 2014. Higher customer count in services for non-SEC use cases, particularly stocks and regulatory risk, accounted for the majority of the growth in services revenue in the fourth quarter.

Turning to our supplemental metrics, we finished the fourth quarter with 2,524 customers, a net increase of 263 customers from Q4 of 2014 and a net increase of 56 from Q4) of 2015. Our subscription and support revenue retention rate was 95.8% at December 2015 measurement date, down slightly from 96.4% at September 2015. Customers being acquired or ceasing to file SEC reports once again accounted for over half of our revenue attrition.

Including add-ons, our subscription and support revenue retention rate was 112.5% at December 2015 measurement date, up from 107.7% in September 2015. Consistent with Matt's comments earlier, increased subscription bookings from existing customers on non-SEC use cases was the primary driver of the inquiries in the add-on revenue retention rate.

Moving down the income statement; gross profit was $29.1 million in the fourth quarter, up 42.8% from the same quarter a year ago, representing a gross margin of 72.9% compared to a gross margin of 67.5% in the fourth quarter of 2014.

Now breaking out gross profit; subscription and support gross profit was $26.4 million, equating to a gross margin of 82.2% on S and S revenue; compared to $19 million or 76% gross margin in the fourth quarter of 2014. Improved efficiency of our Customer Success Team and higher subscription prices accounted for the margin expansion.

Professional services gross profit in the fourth quarter was $2.7 million, equating to a 34.1% gross margin, compared to $1.3 million or 25.9% gross margin in the same period last year. Better utilization of capacity compared to Q4 last year accounted for the higher margin.

Turning to operating expenses; research and development expense in the fourth quarter was $12.9 million, an increase of 10.9% from $11.6 million in the prior year's fourth quarter due to higher compensation and additional staff as we've being dedicating more resources to building the next generation of Wdesk. Our R&D expense as a percentage of revenue this quarter declined to 32.2%, compared to 38.5% in Q4 last year. Sales and marketing expense increased 32.4% over Q4 of 2014, to $18.1 million, driven primarily by additional headcount and cash incentive compensation in line with our expectations. Expanded marketing programs accounted for the remaining part of the increase.

General and administrative expenses were $6.7 million in Q4, an increase of 40%, compared with $4.8 million in the fourth quarter of 2014, driven by the cost of being a public Company, together with increased compensation, software and support fees. Operating loss was $8.7 million in the fourth quarter of 2015, compared to $9.8 million in the same period last year. Net loss was $7.2 million for the fourth quarter of 2015 compared to a net loss of $10.8 million in the fourth quarter of 2014. We posted a net loss per share of $0.18 in the fourth quarter of 2015 compared to a net loss per share of $0.33 in the same quarter a year ago.

Now I'll recap our full fiscal year 2015 results. Total revenue was $145.3 million, up 29% year-over-year. Subscription and support revenue was $116.3 million, increasing 27% over 2014. Professional services revenue was $29 million, up 36% from the prior year. So our revenue mix was 80% subscription and support and 20% professional services in 2015.

Moving down to P&L and again focusing on non-GAAP expenses, gross profit was $105.8 million, rising 32.8% year-over-year, representing a 72.8% gross margin. Operating loss was $32.7 million, compared with a loss of $31.2 million in the prior year. Net loss was $32.4 million in 2015 and net loss per share was $0.81 which compares to a net loss of $33.8 million in 2014 or $1.05 per share.

Turning to our balance sheet and our statement of cash flows; at December 31, 2015, we had cash, cash equivalents and marketable securities of $76.2 million, a decrease of $5.6 million compared with the balance at September 30, 2015. In the fourth quarter of 2015, net cash used in operating activities was $5 million, compared with $4.6 million in the same quarter a year ago.

As you may recall 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 preferred revenue declined almost $1 million in the fourth quarter of 2015. Offsetting this decline was an increase in current deferred revenue of $4.7 million, which was comprised of a $3.9 million rise in subscription support (phon) deferred revenue and an $800,000 increase in professional services deferred revenue.

Before I address guidance I want to review the seasonality of our business model. Seasonality affects three dimensions of our financials, revenue, expenses and cash flow. Let's talk about revenue first. The first quarter is the seasonal peak for our professional services revenue because many of our SEC customers file their 10-K in the first quarter and hire Workiva to help them with XBRL tagging. The utilization rate for our Professional Services Team runs close to 100% in the first quarter every year. We've typically run lower utilization rates in the other quarters but Professional Services revenue has been rising the last few quarters due to the growth of our non-SEC use cases.

The second area of seasonality I want to mention relates to expenses. Our sales and marketing expenses peak in the third quarter since we hold our annual user conference in September. Third area of seasonality I want to highlight is cash flow. Workiva typically pays cash bonuses in the first quarter which has been a significant use of cash. Also as we deliver professional services in the first quarter we burn off short-term deferred revenue related to services that were invoiced during the prior year which shows up as a use of cash on that line item in Q1, at the end of Q1.

Turning to our guidance for 2016, our guidance on non-GAAP loss from operations and non-GAAP loss for basic share, excluded the impact of stock-based compensation. Please refer to our press release for a reconciliation of our non-GAAP and GAAP guidance. For the first quarter of 2016 we expect total revenue to range from $42.3 million to $42.8 million. We expect the year-over-year growth rate in our subscription revenue to outpace the growth rate in Professional Services in the first quarter. Since the utilization rate for our Professional Services Team typically runs close to 100% in the first quarter, Q1 growth and services revenue is limited to a function of headcount and billing rates. We anticipate non-GAAP operating loss to range from $10.4 million to $10.9 million. We expect GAAP operating loss in the range of $13.9 million to $14.4 million.

As Matt indicated, we plan to continue to invest in sales and marketing and research and development. We anticipate non-GAAP net loss per share to range from $0.26 to $0.28, with GAAP loss per share in the range of $0.35 to $0.37. Our loss per share guidance assumes 40.5 million basic and diluted shares outstanding.

Our guidance for the full fiscal year 2016 is as follows; we expect total revenue to range from $177 million to $180 million. Based on the midpoint of that range we are expecting revenue growth of 23% in 2016. We expect non-GAAP operating loss to be in the range of $46 million to $49 million and anticipate GAAP operating loss to range from $60.8 million to $63.8 million. Workiva's operating cash flow was a negative $21.6 million in 2015. We expect operating cash flow to improve for the full year 2016 and then again in 2017 as Matt indicated. We anticipate most of the expected cash use in each year to occur in the first quarter, heavily impacted by seasonality for the reasons I discussed earlier.

Also based on our projections, including our expected ability to convert some quarterly contracts to annual contracts we believe operating cash flow for the fourth quarter of 2016 will be breakeven or better. We continue to believe that we've raised enough money at our IPO to get to positive annual operating cash flow without needing to return to the equity market.

We expect non-GAAP net loss per share to be in the range of $1.16 to $1.23 into 2016 and we expect GAAP net loss per share in the same year to range from $1.52 to $1.59 per share. Our loss per share guidance for the full year assumes 41 million basic and diluted shares outstanding.

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

We will now take your questions. Operator—Mike, we're ready to begin the Q&A session.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.