Workiva Inc.

2015 Third 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, *Senior Manager of Investor Relations*

PRESENTATION

Operator:

Good afternoon. My name is Melissa, and I will be your conference operator today. At this time, I would like to welcome everyone to the Workiva Q3 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 would like to ask a question at this time, simply press star then the number one on your telephone keypad. To withdraw your question, press the pound key. Thank you. Mr. Adam Rogers, Senior Manager of Investor Relations, you may begin your conference.

Adam Rogers:

Good afternoon, everyone, and welcome to the Workiva Third 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 made available until November 12. Information to access the replay is listed on 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 fourth 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 statements. 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 third quarter 2015 results. Our third quarter results were strong with revenue and operating results that exceeded the high end of our guidance range. Total revenue for the quarter was $36 million, an increase of 30% over the third quarter of 2014. Subscription and support revenue was up 26% and professional services revenue grew 52% year-over-year. Based on our results for the first nine months of 2015 and our visibility into the fourth quarter of this year, we are again raising our full-year 2015 revenue outlook. Stuart will discuss our guidance in a greater details later in the call.

Demand for Wdesk remains strong. We're seeing good momentum in new customers wins and our existing customers continue to expand their use of Wdesk throughout the organizations which is increasing our average subscription and support contract value. The investments we are making in sales and marketing, recent enhancements to our technology platform and strong execution by the entire Workiva team are driving our growth.

Now turning to some recent operational and business highlights. In the third quarter, we continued to see growing demand for our Wdesk solution for the Sarbanes-Oxley or SOX market. For example, one of our SOX customers is a large airline services company. Prior to Wdesk, they would print physical copies of their internal controls and pass them back and forth to make changes. Now with Wdesk, all of their SOX testing and work papers are in digital formats and linked to their test of controls in Wdesk. They now save nearly five days each quarter in the SOX review process.

Another recent Wdesk SOX customer is a large manufacturer of electronic products. They had acquired several companies spread over many geographic locations, making SOX compliance extremely difficult. Now all of their SOX data is linked, stored and managed in Wdesk. Because Wdesk is in the Cloud, collaborators are able to seamlessly work together regardless of location. With Wdesk, they have reduced their SOX process by three weeks each quarter.

We are also seeing early customer successes from our Evidence Management Solution for SOX compliance that we released in the second quarter of this year. For example, Republic Airways has decreased its quarterly review time by 20 hours. Another customer, Diversified Healthcare Services, reduced its annual consulting fees related SOX by $38,000 and lowered its time spent on collecting evidence by 20%.

SOX continues to be an exciting market for us for several reasons. First of all, SOX deal sizes are larger than SEC deals. Second, SOX processes cut across many different departments which introduces Wdesk to audit, risk and finance teams further supporting the expand side of growth strategy. We expect Wdesk to continue to grow organically throughout these solution areas.

Here is how it happens. Our main focus in the SOX market is in controls management, which primarily focuses on risk. Teams who work in the areas at risk must also work closely with audit management, which includes the audit planning process and the internal audit group. These teams are subsets of a much larger market that's defined as governors, risk and compliance or GRC. Through this pathway, we are just beginning to scratch the surface of the GRC market which is a large and complex set of business processes.

According to industry analysts, GRC includes SOX compliance, audit management, enterprise risk management, policies and procedures, vendor management, incident loss management, IT risk and controls, compliance management, threat and vulnerability, business continuity planning and disaster recovery. While it's still early for us, we see a lot of expansion opportunities for Wdesk within the GRC market. For example, one of the fastest growing financial institutions in the United States signed on for our SEC Solution immediately after going public in 2014. When searching for GRC solution for their SOX and risk processes (phon), they turned to Wdesk. In addition to SOX compliance, the company now uses Wdesk to create risk assessments for its operational, credit and fraud risk reports.

Another subset of the GRC market where Wdesk is expanding is in the audit management and enterprise risk management, which includes internal controls and management processes. For example, one utility customer that uses Wdesk to manage its rate case reporting for a subsidiary also uses Wdesk to collect, aggregate and present reports and dashboards related to key risk indicators and matrices as part of its enterprise risk management function. By having all of this ERM data in Wdesk, the customer is also able to easily create executive memos as well as ERM framework and policy documentation.

On the SEC side of our business, our market strength continues to grow. While we picked up four more Fortune 500 customers this quarter, we also had many exciting wins in companies of all size. We believe that the constant improvements in our Wdesk platform continue to attract new customers and further enrich our relationships with our current customers, which supports our high revenue retention rates.

For example in Q3, we released support binders for the SEC market, which is a digital paper trail that gives our customers a better way to reference and verify supporting work documents that are required by boards, auditors and regulators. While it's early, we are seeing strong customer demand for support binders.

Our customers continue to adopt Wdesk for management reporting. Here are few examples this quarter. A global real estate management firm signed on for a corporate reporting package for its executive management team. A major car manufacturer uses Wdesk for its financial consolidation process and its annual plan. A leading hotel chain uses Wdesk for its quarterly business review and a private cyber security company now creates their annual audit report in Wdesk.

I'd like to share one final example of how our customers are expanding Wdesk across their organizations. The Berkshire Hathaway Energy Company began using Wdesk for SEC reporting and then adopted Wdesk for SOX compliance. Based on their experience, they now also use Wdesk for regulatory reporting, specifically their rate case process. They have increased their number of Wdesk speeds by more than 10 times since our initial contract and we expect to them to continue to expand Wdesk into more departments.

We are very enthusiastic about accelerating expansion of Wdesk across customers' organizations. We believe it underscores the value that our solutions deliver to our customers. The value of Wdesk continues to be recognized not only by our customers but also by third party industry experts. For example, Wdesk recently won a 2015 GRC Innovation Award in internal controls management for the best user experience by analyst firm GRC 2020. We believe this award further validates the strength of our platform and solutions.

Finally I'd like to highlight that in September we held our most successful annual user conference to-date. The conference, which we call the Exchange Community, drew more than 1500 audit, finance, risk and compliance professionals from nearly 800 companies. Besides the educational component and the opportunity for us to showcase Wdesk to our customers and prospects, we also benefit greatly from direct feedback from our customers who spend a lot of time with our product and development teams. We were also encouraged by the interest and attendance at our first summit of SOX and internal controls which preceded our tech conference.

In summary, our third quarter was strong. The more functionality we give to our customers, the more ways they find way to use Wdesk. We're pleased with the progress we've made on our land and expand growth strategy and we believe the investments we're making positions us in the several markets for future growth. The adoption of Wdesk continues to gain traction as companies increasingly embrace our solutions to collect, link, report and analyze business data.

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

Stuart Miller:

Thank you. As Matt discussed, we posted strong results in the third quarter. We generated total revenue of $36.3 million, an increase of 30% from the third quarter of last year. Breaking out revenue by reporting line items, subscription and support revenue was $29.8 million, up 26% from Q3 2014; 59% of the S&S revenue increase came from new customers added in the last 12 months; the remaining 41% of the increase came from deeper penetration of our existing customer base. The average contract value on subscription and support from all customers continue to rise.

Professional services revenue was $6.4 million, an increase of 52% from the third quarter of 2014. Higher customer count in services for non-SEC use cases accounted for the majority of the growth.

Turning to our supplemental metrics, we finished the third quarter with 2468 customers, a net increase of 292 customers from Q3 of 2014 and a net increase of 78 from Q2 of 2015. Our subscription and support revenue retention rate excluding add-ons was 96.4% at the September 2015 measurement date, up slightly from 96.3% in June 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 107.7% at the September 2015 measurement date compared with 108.4% in June 2015. We continue to invest in our inside sales in former teams to expand our account footprint with our existing customers.

Moving down the income statement, I will talk about our non-GAAP results which are beforehand stock-based compensation. Please refer to our press release for a reconciliation of our non-GAAP and GAAP results. Gross profit was $26.7 million in the third quarter, up 37% from the prior year period, representing a gross margin of 73.5% compared to a gross margin of 69.9% in the third quarter of 2014.

Now breaking out gross profit, subscription and support gross profit was $24.6 million, equating to a gross margin of 82.5% on subscription revenue compared to $18.4 million or 77.6% gross margin in the third quarter of 2014. Improved efficiency of our customer success team accounted for the margin expansion. Professional services gross profit in the third quarter was $2.1 million equating to a 32.1% gross margin compared to $1.1 million or 26.6% gross margin in the same period last year. Better utilization of capacity compared to Q3 last year accounted for the higher margin.

Turning to operating expenses, research and development expense in the third quarter was $12.2 million, an increase of 12% from 10.8 million in the prior year's third quarter due to higher compensation and additional staff to further strengthen and enhance our technology platform. Our R&D expense as a percent of revenue this quarter declined to 33.6% compared to 38.8% in Q3 last year. Sales and marketing expense increased 28% over Q3 of 2014 to $20.4 million, driven primarily by additional headcount and cash insensitive compensations.

We remain on track with our plans to expand quota-carrying sales team by 25% to 30% in 2015. In September we hosted our Annual Tech User Conference, as Matt mentioned, which caused an increase in sales and marketing expense for Q3 as it did in Q3 last year. So Q3 is the seasonal high point for marketing expenses as we've discussed on previous calls.

General and administrative expenses were $5.3 million in Q3, an increase of 35% compared with $3.9 million in the third quarter of 2014, driven by the cost of being a public company together with increased compensation, software and support fees. Operating loss was $11.2 million in the third quarter of 2015, essentially unchanged from the same period a year ago. Net loss was $11.5 million for the third quarter of 2015 compared to the net loss of $12 million in the third quarter of last year. We posted a net loss of $0.29 in the third quarter of 2015 compared to a net loss per share of $0.38 the same quarter a year-ago.

Turning to our balance sheet and our statement of cash flows, at September 30, we had cash, cash equivalents and marketable securities of $81.8 million, a decrease of $4.7 million compared with June 30's balance sheet. In the third quarter of 2015, net cash used in operating activities was $4.7 million compared to $4.6 million in the same quarter of a year ago. 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 $1.7 million in the third quarter of 2015. Offsetting this decline was an increase in current deferred revenue of $3.3 million which was comprised of a $3.2 million rise in subscription and support deferred revenue and a $0.1 million increase in professional services deferred revenue.

Turning to our guidance for 2015, our guidance on 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 fourth quarter of 2015, we expect total revenue to range from $37.6 million to $38.1 million. We anticipate non-GAAP operating loss to range from $10.8 million to $11.3 million and we except GAAP operating loss in the range of $14 million to $14.5 million.

We anticipate non-GAAP net loss per share to range from $0.24 to $0.25 with GAAP loss per share in the range of $0.32 to $0.33. Our loss per share guidance assumes 40 million basic and diluted shares outstanding.

Our guidance for the full fiscal 2015 is as follows. We're raising our revenue guidance to a range of $143 million to $143.5 million. So we are actually increasing in high end and narrowing the range of revenue guidance. We expect non-GAAP operating loss be in the range of $34.8 million to $35.3 million and anticipate GAAP operating loss to range from $45.9 million to $46.4 million.

We expect non-GAAP net loss per share for the year to be in the range of $0.87 to $0.88 and expect GAAP net loss per share to range from $1.15 to $1.16. Our loss per guidance for the full year assumes 40 million basic and diluted shares outstanding.

Finally I want to mention that we intend to provide guidance on 2016 financial data when we communicate our fourth quarter financial results. 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.