

Workiva Q1 2024 Earnings Call

Mike Rost, Julie Iskow, Jill Klindt

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Mike Rost

Good afternoon, and thank you for joining us for Workiva's first quarter conference call. During today's call, we will review our first quarter results and discuss our guidance for the second quarter and full year 2024. Today's call has been pre-recorded and will include comments from our Chief Executive Officer, Julie Iskow followed by our Chief Financial Officer, Jill Klindt . We will then open the call up for a live Q&A session.

A replay of this webcast will be available until May 9, 2024. Information to access the replay is listed in today's press release, which is available on our website under the Investor Relations section.

Before we begin, I would 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 the second quarter and full fiscal year 2024. 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 obligation to update any statement to reflect the events that occur after this call.

Please refer to the company's Annual Report on Form 10-K and subsequent filings 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 press release.

With that, we'll begin by turning the call over to CEO, Julie Iskow ...

Julie Iskow

Thank you, Mike. And thank you to everyone on today's call. Jill and I look forward to sharing our Q1 results. We'll also discuss our outlook for Q2 and updated guidance for the full year 2024.

Q1 was another **solid** quarter. Subscription revenue grew at **20%**, and total revenue grew at **17%** which drove a beat to the high end of our revenue guidance. And operating margin came in slightly above the top range of our Q1 guide.

In Q1, we once again saw broad-based demand across our solution portfolio. ESG was yet again one of our top solutions for new bookings. It was followed by **strong** execution in both our financial reporting and GRC solutions.

Consistent with the past several quarters, we continue to see outpaced growth in our large contract customers. This is driven by additional solution sales into our install base. In Q1, the number of contracts valued over \$100 thousand dollars increased **24%**; those over \$150 thousand dollars increased **29%**; and contracts valued over \$300 thousand dollars were up **34%** - all compared to Q1 of 2023.

Despite these positive proof points, we still saw a cautious buying environment. Nonetheless, I remain confident in our ability to successfully execute our growth strategy and advance our productivity initiatives. We have the strategy, the team and the platform to deliver results.

Our platform remains a key differentiator for our new logo wins and account expansion deals. Workiva is the only platform that brings Financial Reporting, ESG and GRC together in one secure, controlled, audit-ready environment. We are the platform for assured, integrated reporting.

I'd like to highlight three assured, integrated reporting wins that we signed in Q1:

- **First**, a top 10 US bank expanded use of the platform with investment in ESG. This was the 11th solution purchased by this bank. This 11-year loyal customer was engaged with two Big 4 Advisory firms for an ESG transformation project. Workiva was the clear ESG solution of choice based on the connected value of the platform. The Big 4 firm that's driving the CSRD transformation engagement at the bank... will be delivering the project.
- **Second**, we signed a six figure account expansion deal with a North American financial cooperative who added to their investment in Workiva with GRC. The purchase of the controls management solution complements their previous investment in ESG, SEC, and financial services solutions. This company first purchased the Workiva platform for funds reporting in 2019. The opportunity was a co-sell with a Big 4 advisory firm that was engaged in a GRC platform replacement at this company. The same Big 4 firm will be providing delivery for the project.

- **And third**, we signed a 4-solution new logo assured integrated reporting deal with a Canadian-based real estate and asset management company. They purchased Workiva's management reporting, controls management, risk management, and ESG solutions. **This was a true platform win.** In this opportunity, there were multiple point solution alternatives being evaluated for ESG, risk management and controls management. It was NOT just the strength of our individual solutions, **but it was also** the connected platform approach that made Workiva the clear winner. This opportunity was a co-sell with a regional advisory firm who will be providing delivery for the project.

Let's move on to one of our top bookings solutions for 7 quarters in a row. **Yes. I said 7.** ESG.

Sustainability continues to be front-in-center in Boardrooms and C suites across the globe. And our sustainability solution is driving pipeline expansion and success in winning both new logos and account expansion deals. We already support sustainability reporting for some of the world's most complex companies – now including over 30% of the Fortune 100.

I'd like to highlight three ESG wins from the quarter.

- **First**, a Fortune 50 telecommunications company purchased our ESG solution to support their global ESG reporting initiatives. This company has been a loyal SEC customer for four years. At that time, they chose to continue their manual processes for sustainability reporting using office productivity tools. But with new regulatory requirements on the horizon - including the CSRD in Europe - the company engaged a specialized-ESG-regional-advisory-firm that worked with Workiva on a co-sell of this deal. This partner will be providing delivery for the project.
- **Second**, we signed a six-figure new logo deal for ESG with a privately held European-based retailer. This opportunity was a co-sell with their trusted design agency, a Workiva partner, that has been working with them on their integrated report for many years. Design agencies are an important stakeholder in the financial and sustainability reporting processes for many firms in Europe. The designed reporting features available in our platform are a significant differentiator for CSRD deals and also provide an opportunity for these design firms to drive enhanced value to their clients. Our clients' long trusted relationships with these design agency partners instill further confidence in the purchase of Workiva. In addition to the influence from the design agency, this opportunity was a co-sell and will be delivered by the Big 4 firm.
- **And third**, we signed a multi-six figure account expansion deal with a US-based Fortune 500 global payments company for ESG. This customer also owns Workiva's SEC, controls management, risk management, policy and procedures, and management reporting solutions. Since this firm has more than 30 percent of its revenue outside of the US, our CSRD-related platform-features for Double Materiality Assessments were critical in the decision criteria for this client. This opportunity was a co-sell with a Big 4 firm that will be providing delivery for this project

I'll turn now to Financial Reporting.

Our Financial Reporting solutions go well beyond SEC. They also include multi-entity reporting, private company reporting, management reporting, ESEF and industry specific solutions.

In Q1 Financial Reporting continued to contribute significantly to both new logos and account expansion deals.

I'd like to highlight 3 financial reporting wins from the quarter.

- **First**, we closed a mid six figure new logo deal with a US based privately owned hedge fund with our fund reporting solution. This deal was sourced and will be implemented by a regional advisory firm . We **have** seen an increase in private-investment-firms purchasing our funds-solution now that they are subject to recent SEC regulatory disclosure requirements.
- **Second**, we closed a three-solution new logo deal with a South American Bank. The bank purchased a multi six-figure deal for SEC reporting, global statutory reporting, and ESG. This deal was sourced and will be implemented by a Big 4 Advisory firm.
- **And third**, an Australian Bank invested in Workiva's platform as a new customer with a multi-solution platform purchase that included private company reporting, global statutory reporting, and ESG. Our financial reporting solution replaced their legacy reporting systems and was a competitive win over multiple ERP vendors. This opportunity was a co-sell with a Big 4 advisory firm who will be providing delivery for the project

With increasing stakeholder scrutiny, establishing an integrated, enterprise-wide governance, risk, and compliance program is a strategic priority for many organizations.

At their core, GRC programs include processes for controls, risk, and audit management.

I'd like to highlight 3 GRC deals that closed in Q1:

- **First**, an international specialty insure-ance and reinsure-ance group became a new platform customer with a multi-six-figure investment in our audit, controls, risk management and SEC solutions. This opportunity was sourced by a Big 4 firm that was actively working with the company on an outsourced GRC project. The company decided to bring the GRC work in-house and will use Workiva's platform to support their SOX, Audit and risk management processes. This project will be implemented by the Big 4 advisory firm .
- **And second**, a European-based pharma and medical supplies company purchased our risk management solution to complement their ESG purchase to manage ESG risks. This new logo deal was a co-sell and will be implemented by a Big 4 Advisory firm .

Workiva was selected as the vendor of choice in this competitive deal since we were the only solution to provide capabilities that addressed not only GRC-specific requirements but also supported their future CSRD reporting needs.

- **And third**, we signed a new logo deal with a European based automotive parts manufacturer who purchased our audit, controls, and risk management solutions. This was a competitive deal against a GRC platform provider. The opportunity was sourced and will be delivered by a global professional services firm.

I'll move on now to an update on global regulations

On March 6, the U.S. Securities and Exchange Commission announced that it adopted its long-awaited climate disclosure rule. This new rule is set to enhance and standardize the disclosure of climate-related data and associated financial risks. The goal is to provide investors with consistent, comparable, and reliable data in annual reports and registration statements.

Since the announcement, there have been several legal challenges to the rule. Energy companies and business groups contend that the rules amount to environmental regulation and therefore overstep the SEC's legal mandate. On the other side, environmental groups including the Sierra Club and Natural Resources Defense Council have countered that the rules don't go far enough.

On April 4th, the SEC announced that it exercised its discretion to **stay** the final rules - pending a review in the Eighth Circuit U.S. Court of Appeals.

The SEC is just one of many stakeholders that organizations must factor in as they transform their sustainability data collection and reporting processes. As we have communicated in the past, regardless of regulatory mandates, companies have been purchasing and will continue to purchase software to report their sustainability and financial information.

The regulatory timing and enforcement in Europe is much clearer. As highlighted in several of our Q1 client wins, we are seeing CSRD requirements driving purchasing decisions - in both the US and Europe.

Q1 did bring further clarity on the digital disclosure requirements for CSRD. On February 8, the European Financial Reporting Advisory Group or EFRAG announced its public consultation on the Draft ESRS XBRL Taxonomy.

With the CSRD, the EU has stated that it aims to bring sustainability reporting on equal footing with financial reporting. And this includes requirements around digital disclosure using XBRL. The draft CSRD taxonomy published the first week in February will utilize the European Single Electronic Format (ESEF) - which is already required for EU publicly listed companies in reporting their annual financial statements.

The European Single Electronic Format, which is based on Inline XBRL, will be the same standard used for sustainability disclosures. Workiva is a global leader in XBRL and already supports over 1200 organizations in their XBRL reporting using the ESEF format for annual financial disclosure.

Similar to the process used for financial reporting, companies will have to tag their CSRD disclosures with a digital XBRL taxonomy, having a unique definition for every data point. This draft XBRL taxonomy has more than 1000 data points with a wide range of types, including GHG emissions, water & energy consumption, headcount, pollution, and a number of **narrative disclosures**.

Workiva stands ready to serve our clients with these new XBRL requirements. In fact, Workiva clients already have the ability to explore and test this new CSRD XBRL taxonomy with their disclosure data.

The publishing of this new XBRL taxonomy reinforces the requirement that financial and sustainability information will need to follow a consistent disclosure process. **This is what Workiva does. And this is what assured integrated reporting is all about.**

The sustainability regulations in Europe go beyond the CSRD. Just last week, the European Parliament approved the Corporate Sustainability Due Diligence Directive, moving it one step closer to formal adoption by the European Union.

Referred to as CS3D, this regulation will require companies to track and report the adverse human rights and environmental impacts of their operations **and** their value chains. It also requires they put in place appropriate compliance measures. The Directive applies to EU companies with more than 1,000 employees **and** a global revenue of over €450 million Euros. And is *also* applies to *non-EU companies* generating that same amount of revenue **in** the EU (450million euros).

Companies will be required to integrate mandatory human rights and environmental due diligence into their policies and risk management systems. **Companies that do not comply with the CS3D may face sanctions from national administrative authorities – including fines of up to 5% of their global revenue. The CS3D**

Let's move on now to platform innovation.

In Q1 we continued to deliver new capabilities that address our customers' ever-changing requirements. As I speak about often, a significant driver of many of our product requirements are new and changing regulations.

Delivering features that enable our customers to comply with regulations **the day** new standards are released (and well ahead of regulatory deadlines) is a strong differentiator for Workiva.

In Q1, we released enhancements to our ESG solution to support the draft ESEF XBRL taxonomy. These capabilities enable customers to explore the CSRD tagging requirements defined in the new ESEF standard released in February. We also released new features for financial reporting - including support for UK ESEF 2024 and additional country-specific tax disclosure taxonomies. We're a global leader in XBRL tagging; fast, efficient, and accurate. And, yes, we've been using AI in our tagging for years.

Speaking of AI, Q1 also saw the release of new enhancements to the Generative AI capabilities that we launched last year. We've built AI into our platform and are delivering capabilities our customers can trust. In Q1 we released a new "Generative AI information assistant." It's available anywhere in the Workiva Platform. It provides a conversational prompt to get details about our solutions, best practices, and enablement. This is just one example of delivering an AI solution that works for our customers, that leverages trusted data sources, *and* that provides immediate value.

For the balance of 2024, we will continue to focus R&D on the pace of product innovation, consistent execution, and enhancing our high-performing, differentiated platform. You can expect to see continued development in response to the ever-changing requirements for ESG, more comprehensive GRC functionality, and enhanced capabilities throughout the platform to support our reporting and disclosure use cases.

I'll move on now to say a few words about our guide.

Taking into consideration the current demand environment, we were pleased with our subscription revenue growth for Q1. With respect to our future outlook, Jill will provide the numbers for our updated revenue and profit guidance - for both Q2 and full year 2024.

What you'll see in this guide is that **overall** we remain first and foremost focused on growth. Not unlike other SaaS companies though, we remain cautious on the topline as the current measured buying environment may persist until we see changes in market conditions.

We **are** increasing our full year Non-GAAP operating margin guide by over 100 basis points as a result of increasing operating leverage. And we remain committed to improving our productivity and performance.

We are confident in the resiliency of our business, the continued demand for our assured, integrated reporting platform, and our ability to expand in our large and relatively unaddressed TAM.

Regulations around the world are increasing in both scope and complexity. Our customers are faced with greater investor scrutiny, more rigorous audit requirements, and an increased need to manage material risk and disclosures. Companies need transparency. Companies need to comply with regulation. And companies need accuracy in reporting and disclosure. We provide solutions that companies need in both good times and in challenging times.

In closing, I'd like to thank our talented team of dedicated employees. Their commitment to our values... and the way they support our customers, our communities, and each other have yet again earned us a spot on the list of Fortune's 100 Best Companies to Work for. And it's our sixth consecutive year winning this award. Workiva again ranks in the top 50 on this list. This award celebrates the world-class culture we've created **and** maintained.

And thank you to our customers, our partners, and our shareholders for your continued trust in Workiva. We believe we have the right team, the right technology at the right time to capitalize on the increasing global opportunities to power transparent reporting for a better world.

And with that - I'll now turn the call over to you, Jill...

Jill Klindt

Thank you, Julie.

For our call today, I will be discussing the financials and key metric highlights for the first quarter of 2024. Following that, I will provide commentary and guidance for Q2 and full year 2024, before opening the line for questions.

As Julie mentioned, we beat the high end of our Q1 revenue guidance due to strong subscription revenue growth.

We also delivered operating results at the high end of our guidance -- generating \$6 million dollars of operating profit -- an 830 basis point improvement vs Q1 2023.

We generated \$175.7 million of total revenue in the first quarter, delivering growth of 17% from Q1 2023.

- **Subscription revenue** was \$155.0 million, up 20% from Q1 2023. A combination of new customers and account expansions continue to contribute to our strong revenue growth. New customers added in the last 12 months accounted for 45% of the increase in subscription revenue.
- **Professional Services** revenue was \$20.7 million in Q1 2024, remaining flat compared to the same quarter last year. A decline in set-up and consulting revenue was offset by growth in XBRL services.
We are making progress on our strategic plan to shift lower margin setup and consulting services to our advisory and consulting partners. We anticipate that the revenue from setup and consulting services will continue to decrease throughout 2024 compared to 2023

Moving to our performance metrics. We had 6,074 customers at the end of Q1 2024, a growth of 320 customers from Q1 2023.

Our gross revenue retention rate of 98% was well ahead of our 96% internal target. And, our net revenue retention rate increased to 111% for the first quarter of 2024 compared to 109% for Q1 2023. We expect this rate will have quarter over quarter fluctuations due to items such as currency, seasonality, and solution mix of sales.

For Q1 2024, 66% of our subscription revenue was generated from customers that have multiple solutions. This compares to 63% reported in Q1 2023. We are pleased with this trend and the progress it shows as we expand relationships with our largest customers.

This account expansion trend is also reflected in our large contract customers. In the first quarter of 2024, we had 1,696 contracts valued at over \$100K per year, up 24% from Q1 the prior year. The number of contracts valued at over \$150K totaled 961 customers in the first quarter, up 29% from Q1 2023. And, the number of contracts valued over \$300k totaled 332, up 34% from Q1 2023.

Moving on to our operating results -- gross profit totaled \$136.5 million in Q1, up 20% from the prior year. Gross margin improved year over year by 220 basis points, increasing to 78% in Q1 2024. This was driven by improved leverage in compensation and cloud computing costs versus the same quarter a year ago.

Operating expenses increased 8% from Q1 2023, driving 610 basis points of our margin improvement vs. the prior year. Our continued focus on process automation and efficiency helped improve productivity and drove margin improvement compared to Q1 2023.

We posted operating profit of \$6.0 million in Q1 2024, compared to the Q1 2023 operating loss of \$7.3 million. We were pleased with the leverage we delivered. The operating profit improvement was driven by revenue growth, disciplined investments and managing controllable expenses.

At March 31, 2024, cash, cash equivalents, and marketable securities increased \$25 million sequentially to a balance of \$838 million.

Operating activities in Q1 2024 resulted in cash provided of \$25 million compared with cash provided of \$6M in the same quarter a year ago. In Q1 2024 our free cash flow margin was 14%, an improvement of over 1,000 basis points vs Q1 2023.

Turning now to our guidance for Q2 and the full year 2024. As Julie discussed, it remains an uncertain macro and a measured customer buying environment. However, we continue to focus on execution and are encouraged by opportunities to drive growth over the longer term.

For the second quarter of 2024...

- We expect total revenue to range from \$174 million to \$176 million.
- We expect services revenue will be down compared to Q2 2023. This is a result of the shift I discussed, moving our low margin setup and consulting services to our partners as well as flat to slightly down XBRL services revenue.
- We expect Non-GAAP operating income to range from \$2.0 million to \$4.0 million, a net income of \$0.16 to \$0.19 on a per share basis. Our share count will be approximately 55 million weighted average shares.
- Seasonality in our business can impact quarter over quarter revenue and expenses. Our Q2 2024 operating margin guidance reflects a seasonal, quarter over quarter decrease in XBRL services revenue as well as expense fluctuations.

For the full year 2024...

- We expect total revenue to be between \$719 million and \$723 million.
- We expect total Services Revenue to remain flat.
 - We expect XBRL Services revenue will continue to grow at a low-single-digit rate.
 - For setup and consulting revenue, we expect a similar rate of decline from what we saw in 2023.
- We expect our subscription revenue growth to be slightly over 16% at the midpoint.
- We are increasing our guidance for non-GAAP operating income to range from \$27 million to \$31 million or a net profit of \$0.96 to \$1.03 on a per share basis. Our share count will be approximately 55 million weighted average shares.
- We believe we will post positive free cash flow margin of 11% for the full year 2024.

To reiterate Julie's comments, while we are focused on growth, we continue to look for leverage in our business. With calculated investment, we believe we can expect the best returns in the long term.

Before we proceed to the Q&A session, I'd like to emphasize three important points:

- **First**, ESG reporting is an increasing requirement. We believe our platform continues to be valuable to companies as they solve for this need.
- **Second**, I wanted to reiterate how pleased we are with the large account growth we saw during Q1. Expansion into our existing customer base is not only an important factor contributing to our growth but also helps strengthen our customer relationships.
- **And finally**, our focus on generating leverage from our existing resources led to our full year operating margin guidance increase. We look for efficient ways to expand in our large and relatively unaddressed TAM.

In conclusion, I want to echo Julie's thanks to our employees. Your dedication and enthusiasm led to our placement on Fortune's 100 Best Companies to Work For for the sixth year in a row. It's because of you that we continue to deliver a positive impact benefiting everyone involved: Customers, partners, shareholders, and employees.

We're now ready to take your questions.

Operator, please begin the Q&A session.