

Workiva Q1 2023 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 2023. 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, 2023. 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 2023. 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 our CEO, Julie Iskow ...

Julie Iskow

Thank you for joining our earnings call - my first as Workiva's CEO. Jill and I look forward to sharing our strong Q1 results. We'll also discuss our continued growth opportunities and our outlook for Q2.

The Workiva team delivered a solid quarter and continued to execute at a high level resulting in subscription revenue growth of 21%. Accelerating subscription growth drove revenue above the high end of our Q1 guidance. We also beat the high end of our guidance for operating results by \$3.7 million dollars.

In Q1, we continued to see healthy market demand for our platform and best-of-breed solutions, even in an uncertain macro environment. We believe this is a result of the rapidly evolving market trend of increasing stakeholder scrutiny of both financial data and non-financial (or ESG) data - and this has made our product offerings and our platform more relevant than ever.

Workiva was born in the cloud, it established itself in financial reporting, and then expanded to a broad portfolio of solutions. Today, Workiva offers the only reporting platform that brings Financial Reporting, ESG, and GRC together in one secure, controlled, audit-ready environment. This unified platform offering - known as assured, integrated reporting - is a unique and key differentiator that sets us apart from our competition. And in Q1, we saw continued momentum of customers expanding their solution portfolio to include all three of our assured integrated reporting solutions. I'd like to highlight a few examples.

- First, one of the world's largest big box retailers added ESG to their existing Workiva portfolio that included SEC, GRC, and Management Reporting. This long-time SEC client began working with a Big 4 advisory firm with their initial purchase and implementation of Workiva management reporting back in 2020. This same advisory firm led the co-sell and the delivery of Workiva GRC in 2022 and then sourced an ESG opportunity for us in Q1 of this year. As a testament to the breadth of our partner ecosystem, a different Big 4 firm will be providing advisory and implementation services for this ESG project. But that's not all...this ESG account expansion was further influenced by one of our Climate Accounting technology partners. The Workiva ESG solution on our open platform can be complementary to any purpose-built climate accounting solution on the market.
- A second assured, integrated reporting customer win was with a Fortune 100 diversified healthcare services provider. During Q1, this existing SEC and GRC customer added ESG to their solution portfolio through a joint deal with two different Big 4 firms. Both firms have a long-standing relationship with this customer, and a robust and growing ESG solution practice with Workiva. These two Workiva partners competed for the advisory and consulting services on this ESG project. Also critical to securing this ESG expansion was our platform's ability to connect to the customer's already-established carbon accounting system. Because we're carbon-solution agnostic - meaning our platform has the ability to integrate with any source system, including carbon accounting systems, we're able to set ourselves apart from other ESG reporting solutions.

These two account expansion, multi-solution stories highlight that the value and the flexibility of our platform is being recognized and that businesses and partners are going all-in with Workiva.

As I mentioned, Financial Reporting has been the historical foundation of our platform. And 15 years later, the market continues to invest in our leading financial disclosure, financial statement, and industry-specific financial reporting solutions.

During the first quarter, the Workiva team booked a number of new financial reporting logo wins and competitive SEC takeaways. We also landed with financial reporting outside of our SEC solution with a diverse cohort of new private and government reporting customers. Although the IPO market has yet to rebound, we continued to drive account expansion and we closed a record number of capital market follow-on offerings.

An important financial reporting win secured during the quarter was a mid-six-figure new logo deal with a Big 4 accounting firm. The firm purchased our Fund Reporting solution to be used as a managed service to deliver reporting services to their investment firm clients. We believe the continued trust that the world's top accounting firms place in Workiva as the platform they can standardize on is a testament to the power of our solutions.

I'll now turn to GRC ...

During the first quarter, we saw strong demand and momentum for our GRC suite of solutions in both the US and in Europe. Our R&D investments in new functionality and an enhanced user experience continued to support our solid growth in this market.

A few key GRC highlights during the quarter include:

- A mid-six-figure deal with a British multinational bank for Controls Management to replace a legacy GRC platform. This long-standing customer had already invested in SEC, ESEF, ESG, and our Financial Services solutions. This UK SOX opportunity then was a joint pursuit with a Big 4 advisory partner that had an existing relationship with the bank's SOX team. This partner will be providing both advisory and implementation services for this deal.
- Another notable GRC win was with a European-based global airline that purchased our Controls Management solution. This new logo win was a competitive replacement of a legacy on-premise GRC platform. This deal was a joint pursuit with a regional advisory firm who will be providing the implementation and advisory services. Landing with GRC provides a great future account expansion opportunity for both financial reporting and ESG.

Now I'll cover some ESG highlights...

ESG remained one of our top solution bookings in Q1. We added several Fortune 500 clients to our already elite roster of ESG account expansions. The best-of-the-best are investing in Workiva for their ESG reporting and our partner-first strategy is driving results. The vast majority of our ESG opportunities continued to be either sourced or a co-sell with a Workiva advisory or technology partner.

Yes, there's ongoing political debate in the U.S. and there is an extended evaluation period for the proposed SEC Climate Disclosure regulation, but we continue to see strong demand for the Workiva ESG solution.

This observation is supported by a joint PwC/Workiva survey published in March. 70% of business leaders report their companies will proceed with ESG compliance regardless of when the SEC Climate Disclosure Rule becomes law. This survey also reported that 96% of executives say they'll proceed with independent assurance, whether it's required in the final rule or not.

We're hearing from our ESG customers and prospects that ESG reporting is a Board-level mandate that's driven by a number of stakeholders, including investors, customers, vendors, and employees. Organizations that have made public ESG commitments or have published science-based targets have set their own standards for what they've committed to report on and disclose. More than 3,000 businesses and financial institutions are working with the Science-Based Targets Initiative to reduce their emissions in line with climate science.

With this market momentum, we anticipate that companies will continue to consider their investment in ESG a critical factor in driving sustainable, long-term value creation for their enterprises, regardless of politics.

I'll turn now to highlight some of our investments in R&D, which continue to be an important part of our strategy. Our on-going innovation expands the capabilities of our platform, keeps our solutions differentiated, and opens up new TAM. At Workiva, we continue to provide new functionality that prioritizes our customer's experience and success, and plays a significant role in driving strong gross retention and long-term subscription growth.

Our R&D team released several platform and solution enhancements during Q1:

- We updated the capabilities for regulatory disclosure, including the release of full-featured, in-platform access for the 2023 U.S. GAAP XBRL taxonomy - and we released it the same day it was published by the SEC. Our customers' SEC reporting teams are on the clock with locked-in reporting deadlines. By providing instant access to a new taxonomy within our solutions, it allows them the valuable time to explore, assess, and implement changes to their XBRL tags and deliver on-time, validated, quality disclosures.
- For our European customers, we released important enhancements for designed reporting to better support assured, integrated reporting. We worked with both our design agency partners and our current customers to provide highly stylized and designed reports that are also audit ready and can deliver XBRL output.
- For our GRC customers, we released meaningful new features supporting more advanced risk assessments, enhanced navigation for audit management, and a fully enabled, modernized user experience for all GRC solutions.

- To support rapidly evolving ESG reporting requirements, including the EU's Corporate Sustainability Reporting Directive, we released important new enhancements, including the support for and the integration with CDP which is cited as the gold standard of environmental reporting. More than 13,000 companies disclose through CDP. As an accredited CDP solution provider, Workiva was also selected to pilot the new CDP API. Now this API will support automated data transfer which provides an enhanced and streamlined disclosure experience, reducing the need for manual data entry.
- We also released enhancements in our ESG Explorer to better enable new versions of frameworks and standards. This included the addition of GRI sector standards. More than 10,000 companies around the world communicate their impacts using GRI Standards.

These examples are just a few of many enhancements that we released that demonstrate our commitment to enable our customers to optimize their investments with us. We believe that we will see improved R&D operating leverage over time and remain committed to our long-term operating model.

To summarize my comments this afternoon:

- Workiva delivered another solid quarter.
- We are focused on subscription revenue growth while improving our operating leverage and we remain committed to delivering on both our short-term and long-term operating margin targets.
- Our unified platform offering - known as assured, integrated reporting - is a unique and key differentiator that sets us apart from the competition, and it underpins our multi-solution and account expansion strategy.
- The value of our platform is being recognized. Businesses and our partners are going all-in with Workiva.
- And finally, investments in our platform, in our solutions, and in our people have positioned us well to drive greater performance and productivity through focused execution of our strategic initiatives.

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 and 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 fifth consecutive year. This award celebrates the world-class culture we've created.

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 turn it over to you Jill ...

Jill Klindt

Thank you, Julie. It's great to join you on your first earnings call as CEO.

Let's turn to our results. This afternoon I will review our financial performance for the first quarter 2023 and provide Q2 and full year 2023 guidance before opening the line for questions.

As Julie mentioned, we beat our Q1 revenue guidance due to accelerating subscription revenue growth which was somewhat offset by a decline in services revenue.

We beat guidance on Q1 operating results at the midpoint by \$4.2 million dollars. Our revenue beat, along with lower compensation, T&E and other employee-related expenses drove the remainder of the operating beat.

Now let's go through some key results and highlights for the quarter. We generated total revenue in the first quarter of \$150.2 million, delivering growth of 16% from Q1 2022.

- **Subscription revenue** was \$129.7 million, up 21% from Q1 2022. While new logos and account expansions both helped drive strong revenue growth in Q1 2023, 58% of the increase in subscription revenue in Q1 came from new customers added in the last 12 months.
- **Professional Services** revenue was \$20.5 million in Q1 2023, down 9% from the same quarter last year. We discussed in our Q4 call that we expected services revenue to be flat for Q1. However, the Q1 numbers came in below our forecast showing a year-over-year decline primarily driven by the timing of XBRL services.

I want to expand on professional services revenue a bit more. As we've discussed, 2023 will be a pivot year for us in professional services. Our strategy this year is to transition lower margin setup and consulting services to our partners. Given this, we expect setup and consulting services revenue to decline year over year for the full year 2023.

Alternatively, we believe that we will show improved performance for XBRL services revenue in Q2 and for the balance of the year. Our strategy is to continue to deliver these higher margin XBRL services through our dedicated and talented services team. Overall, we believe that for the full year our total services revenue will remain flat compared to 2022.

Now on to our performance metrics. We added 90 net new customers in Q1 for a total customer count of 5,754, a growth of 1,346 customers from Q1 2022. Our total customer count includes 919 ParsePort customers.

Our subscription and support revenue retention rate remained at a best-in-class 98% for the first quarter of 2023, remaining comfortably ahead of our internal objective of 96% or above.

With add-ons, our subscription and support revenue retention rate remained flat at 109% for the first quarter of 2023 compared to the same quarter last year. This rate improved 70 basis points compared to the fourth quarter of 2022. Please note that ParsePort customers will not be included in our retention calculation until next quarter when we have a full year of comparable data.

As Julie noted, our focus on multi-solution deals and account expansions led to the increase in the number of larger subscription contracts.

In the first quarter of 2023, we had 1,363 contracts valued at over \$100K per year, up 21% from Q1 the prior year. The number of contracts valued at over \$150K totaled 746 customers in the first quarter, up 24% from Q1 2022. And, the number of contracts valued over \$300k totaled 247, up 33% from Q1 2022.

Moving on to our operating metrics, Gross profit totaled \$113.4 million in Q1, up 13% from the same quarter a year ago. Gross margin was 75.5% in the latest quarter versus 77% in Q1 2022. The decrease is due to higher compensation, server, and T&E expenses vs Q1 2022.

Operating expenses increased 19% from Q1 2022 driven by investment in new headcount and return to travel & events.

We posted an operating loss of \$7.3 million in Q1 2023, compared to an operating loss of \$1.2 million in Q1 2022. As we discussed in our Q4 call, we expect sequential quarterly improvement in our operating leverage Q2 through Q4 of 2023. We are focused on delivering non-GAAP profitability for the second half of 2023 and for the full year 2024.

At March 31, 2023, cash, cash equivalents, and marketable securities totaled \$440 million, an increase of \$9.0 million compared to the balance at December 31, 2022.

Cash flows from operating activities in Q1 2023 resulted in cash provided of \$5.6 million compared with a decrease in cash of \$937K in the same quarter a year ago.

Although we had healthy bookings growth in Q1, we did see a decrease in deferred revenue from Q4 2022 to Q1 2023. There were a couple drivers that led to this decrease.

- First, historically there is seasonality in our deferred revenue. We see that the change in deferred revenue is usually the slowest from Q4 to Q1. This is largely driven by the seasonal timing of annual renewals that are heavily weighted to Q4.
- And second, specifically in Q1 2023 the timing of several large contract renewals and contracts with prepayments led to a shift of invoicing and deferred revenue into Q2.

I want to reiterate that we did have healthy bookings growth in Q1. We don't believe that this decrease in deferred revenue indicates weakness in market demand but rather is a result of the timing of contract renewals between quarters. For the remainder of 2023, we are modeling for deferred revenue to track in-line with our historical run rate.

Turning now to our guidance... We continue to believe our guidance assumptions are prudent for the current macro environment.

For the second quarter of 2023...

- We expect total revenue to range from \$153 million to \$154 million.
- We expect Non-GAAP operating loss to range from \$(5.0) million to \$(4.0) million, a net loss of \$(0.09) to \$(0.07) on a per share basis. Our share count will be approximately 53.8 million weighted average shares.
- We expect Q2 services revenue growth to be a low single digit percent.

For the full year 2023...

- We are raising our full-year revenue guidance which we now expect to range from \$626 million to \$628 million.
- We are raising our guidance for non-GAAP operating loss to range from \$(7.0) million to \$(5.0) million or a net loss of \$(0.13) to \$(0.09) on a per share basis. Our share count will be approximately 54.0 million weighted average shares
- As I highlighted earlier, we expect full-year services revenue growth to be flat. XBRL services revenue is expected to continue to grow and be offset by a decline in setup and consulting services revenue.
- For the full year 2023, we continue to expect we will post positive free cash flow for the seventh consecutive year.
- While we are guiding to a loss in Q2, we are projecting improved operating margins for the remainder of the year. We expect to be non-GAAP breakeven in Q3, and be non-GAAP profitable in Q4. With that, we will be non-GAAP profitable in the second half

of 2023 and are committed to improved margins for the full-year in 2024. We remain committed to the long-term operating model outlined at our September 2022 Investor Day.

In summary, I want to thank all of our employees and partners for their continued support and hard work in the first quarter and for delivering a strong start to 2023.

Before we turn to Q&A, I would like to highlight three key points:

- **One.** We delivered strong subscription revenue growth in Q1 and we believe that we can deliver 20% subscription revenue growth for the full year 2023.
- **Two.** We continue to benefit from broad-based demand across our solution portfolio. As Julie highlighted, new logo wins in financial reporting, solid performance in GRC, continued momentum in ESG, and account expansions to embrace the platform all contributed to our subscription growth.
- **And Three.** We are focused on improved operating leverage and delivering Non-GAAP profitability in the second half of 2023. We remain committed to our long-term operating model.

In closing, I would like to echo Julie's excitement about our placement on Fortune's 100 Best Companies to Work For for the fifth year in a row. To all Workivians, this achievement reflects the passion and commitment you bring to work every day. By nurturing such a healthy and vibrant company, we continue to deliver a positive impact that benefits everyone involved: Customers, partners, shareholders, and employees.

We will now take your questions.

Operator, we are ready to begin the Q&A session.