Workiva Q4 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 fourth quarter and full fiscal year 2023 conference call. During today's call, we will review our fourth quarter results and discuss our guidance for the first 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 February 27, 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 first 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. The Workiva team closed out 2023 with solid Q4 results, delivering subscription revenue growth of 18% and a Non-GAAP operating profit that beat the high end of our guidance by **367** basis points.

For the full year 2023, we exceeded guidance for the targets that we set in both February **and** Q3 of 2023. Our solid performance resulted in a revenue growth rate of 20% in subscription revenue and 17% in total revenue.

These results were driven by broad-based, strong demand across our solution portfolio. 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 Q4, the number of contracts valued over $100 thousand dollars increased 21%; those over $150 thousand dollars increased 27%; and contracts valued over $300 thousand dollars were up 32% - all compared to Q4 of 2022.

Although 2023 brought with it a tough macro environment, we finished the year strong and we believe we're set up for durable growth in the years to come.

Our platform is a key differentiator in the marketplace. Workiva remains 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 Q4:

- **First,** a Fortune 50 US multinational food company rounded out their platform with investment in GRC. The purchase of the controls management solution complements their previous investment in ESG, SEC, and Management Reporting. This 10-year loyal SEC customer was engaged with a Big 4 Advisory firm in a 2023 ESG implementation project, and this firm recommended Workiva as the technology of choice for GRC. This same firm will also be providing delivery for the GRC project.
- **Second,** a European-based biopharmaceutical company expanded their platform usage with the purchase of ESG and Global Statutory reporting. This ESG win was in competition with a regional ESG point solution that could only address some of the company's requirements. This customer initially purchased Workiva for ESEF Reporting, Internal Controls and

Enterprise Risk Management back in Q3 of 2022. The Big 4 firm that successfully implemented those solutions was a co-sell partner in this Q4 deal, and they will be providing delivery of both the ESG and the Global Statutory Reporting solutions.

- **And third,** more than just account expansion, we're landing with the platform - including a 5-solution new logo win with a European-based holding company that purchased: global statutory reporting, ESG, controls management, audit management and enterprise risk management. This was a competitive deal against 5 GRC platform solution providers. This assured, integrated reporting win was sourced by a Big 4 advisory firm who will be providing implementation services for this project.

Financial Services

In addition to the assured integrated reporting wins that I just described, we also saw some large platform deals this quarter in financial services. While our platform itself is a clear differentiator, the wins we saw were also driven by the specific fit-for-purpose solutions we offer to Banks, Insurance companies and Investment Firms.

I'd like to highlight three financial services specific deals:

- **The first** is a new logo, seven-figure opportunity with a top 20 US bank holding company. This was a 5-solution deal that included SEC reporting, ESG reporting, Stress Testing, Living Will, and Bank Regulatory reporting. This deal was sourced and will be implemented by a Big 4 advisory firm.
- **The second** is a seven-figure account expansion with a top 10 global bank. This bank is now using 15 solutions across the platform with an annual spend of over $5 million dollars. This existing account renewal included expanded use of financial reporting, ESEF reporting and bank-specific solutions including: ICAAP or the Internal Capital Adequacy Assessment Process which is part of the Basel Pillar 2 framework. It also included Resolution Planning; Stress Testing; and Basel Pillar 3 disclosure reporting.
- **And,** these platform wins are not just limited to banks. The third highlighted deal is a seven-figure account expansion with a top-10 global life insurance company. This customer has now licensed 17 solutions with an annual spend of over $3 million dollars. This solution expansion included the addition of ESG and three insurance-specific solutions: Insurance statutory reporting, Solvency II reporting, and Actuarial Memorandum - a National Association of Insurance Commissioners reporting

requirement. This opportunity was a co-sell with a Big 4 firm who'll be providing delivery for the ESG solution.

A connecting theme between these financial services customers is that they are all spending more than $ 1 million in annual recurring revenue with us. Although the Workiva customer base is spread across all industries, more than half of those customers spending more than $1 million in ARR with us are financial services firms.

We're encouraged by the increased spend that we saw with financial services customers in 2023 and we believe we have room for significant growth in this industry in the coming years. This optimism is driven by the value we deliver to these customers, and it's supported by our unrivaled platform, internal expertise and an expanding partner ecosystem.

- **First,** we've been doing SEC and investor-grade regulatory reporting for more than a decade.
- **Second,** we have the market-leading ESG reporting solution. And ESG is quickly becoming a must-have for financial services firms as they manage ESG risks as part of their overall risk program.
- **Third,** we have fit-for-purpose capabilities for financial services regulations. We have more than a decade of experience supporting firms with their Dodd-Frank, Solvency

2, Stress Testing, Living Will and other regional regulatory reporting requirements.

And, importantly, our partner ecosystem and staff-expertise enable us to support complex regulatory requirements. We have a proven track record of delivering to top global banks, insurance companies, and investment firm.

ESG

Let's move on to a top bookings solution, yet again, for the quarter. ESG.

We're beginning to see early signs that the upcoming deadlines of regulations such as the European CSRD are influencing purchasing cycles. Reporting for CSRD begins in 2025. While we still see many firms purchasing ESG outside of mandatory regulatory requirements, we did see more deals in Q4 referencing the CSRD and the reporting requirements approved this past year - the Enterprise Sustainability Reporting Standards (ESRS).

Our ESG account expansion activity remains strong. And both our differentiated platform and our partner-first strategy are contributing to our win rate.

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

- **First,** a Fortune 25 oil and gas company purchased our ESG solution to support their global ESG reporting initiatives, including the CSRD. This healthy six-figure account expansion deal was sourced by a regional advisory firm who has been engaged with this company on a three-year finance transformation project that includes the Workiva platform. This deal was also influenced by a Big 4 firm that is working with the company's carbon accounting solution and will provide integration between Workiva and this carbon solution.
- **Second,** a European-based shipping company expanded to their sixth solution on the Workiva platform with the addition of ESG. This company first purchased Workiva to support SEC reporting back in 2017. Over the years, they've added ESEF reporting and GRC solutions to their platform usage. The specific features offered by Workiva to support the Enterprise Sustainability Reporting Standards and connectivity to GRC solutions were a differentiator for this customer. This opportunity was a co-sell with a Big 4 firm.
- **And third,** we signed a new logo deal for ESG with a top U.S.-based private consumer products company. This company

has publicly committed to achieving net zero emissions by 2050 and is investing more than $1 billion in the coming years to become more sustainable. With over half its revenue coming from outside of the US, compliance with the European CSRD was one of the drivers for this deal. This was a co-sell deal with a Big 4 advisory firm who will also lead the implementation.

GRC

I'd like to shift the discussion now towards the performance of our GRC solution-set. GRC provided a significant account expansion opportunity for us in 2023. In the face of economic slowdown, geopolitical events, and a heightened awareness of sustainability, organizations are grappling with increased uncertainty. As a result, managing risk and controls has become more important than ever.

I'd like to highlight three GRC deals that closed during the fourth quarter...

- **First,** a Fortune 100 US-based consumer staples company expanded their use of the Workiva platform with a six-figure investment in our controls and risk management solutions.

This customer had previously purchased Workiva's SEC, global statutory reporting and ESG solutions.

This was a competitive deal against a GRC point solution-provider, where the Workiva platform approach was a significant differentiator. The connectivity of ESG and GRC data along with a single vendor platform approach were key in achieving the signoff by IT on this important transformation project. This opportunity was sourced and will be implemented by a Big 4 advisory firm.

- **And second,** a European-based digital media company purchased our controls management solution. This new logo deal was a co-sell and will be implemented by a Big 4 Advisory firm.

  The co-sell motion on this GRC deal also positioned the Workiva ESG solution. We were selected as the top vendor 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,** a top UK insurance company expanded their investment in Workiva with a four-solution deal including

controls management, audit management, policy management and enterprise risk management. This customer had previously invested in Workiva's financial reporting, global statutory reporting and insurance-specific solvency II solutions. This healthy six-figure product expansion into our GRC solution set was sourced and will be implemented by a Big 4 advisory firm. Over the past two years, this firm has been working with the company on a finance transformation project that includes the Workiva platform.

Regulatory Activity

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

2023 was a busy year for regulators with a number of final rulings on ESG - both in Europe and in the US, including the State of California's "Climate Disclosure rule" which passed in October. During Q4, there was additional ESG regulatory activity in Europe with further updates announced in 2024.

On February 7th, the EU Council and EU Parliament announced a two-year delay in developing standards for specific industry sectors and third-country companies. The CSRD defines third-country companies as those non-EU organizations with over 150 million euros in annual revenue from the EU for the past two consecutive years. This **standards-setting** delay, which does *not* impact reporting timelines, will provide regulators more time to develop specific disclosure rules for non-EU companies and certain industries. The end result of this action is that it will provide affected companies less time to prepare once the final rules are published.

To be very clear, this was *not* a change to the reporting timeline for non-EU companies. The qualifying non-EU company reporting dates remain unchanged.

What this change is likely to do is cause greater uncertainty with those companies affected. We believe that this provides an opportunity for Workiva to offer additional guidance to clients on how to be ready when these specific ESRS guides are published.

What remains unchanged is that companies will need to build the processes and reporting systems to disclose additional climate and sustainability information and deliver those disclosures on the dates as originally outlined in the CSRD.

As we enter 2024, the ESG regulatory landscape is taking shape.

- In Europe, the CSRD and related enterprise sustainability reporting standards are in place and the timelines are set.

Large enterprises will be required to begin reporting in 2025 on 2024 results.

- In the US, the California climate disclosure rule has been passed with reporting dates outlined in those regulations.
    - State Bill 253 requires subject companies to report scope 1 and scope 2 emissions starting in 2026. Starting in 2027, those subject companies will have to report scope 3 emissions.
    - State Bill 261 requires covered entities to prepare, publish and submit a climate-related financial risk report on or before January 1, 2026, and biennially thereafter.
- Also in the US, we are still waiting for the finalization of the proposed SEC Climate Disclosure rule. In December, the SEC communicated that the proposed Climate Disclosure rule has targeted completion on their April regulatory calendar.

As we have communicated in the past, regardless of regulation, organizations are purchasing software to report their sustainability and financial information. Regulation or not, what remains constant is that when companies report - both the numbers and the narrative - it needs to be accurate and we shine where data consistency, data integrity and data accuracy are critical and narrative is required.

Product

How we manage this data is all driven by our platform that we continue to invest in. We remain focused on innovation and commercializing market-leading solutions. In Q4, we continued to deliver new capabilities that not only address our customers' current requirements but that also prepare them for what's on the horizon.

One of Workiva's strengths is our speed to deliver net new innovation. One example is our ambitious Generative AI roadmap. Workiva first launched in-app Gen AI platform capabilities in July 2023 to deliver a Gen AI experience to our customers that was secure and protected, focused on customer workflows, and tailored to our solutions.

At our November EMEA Amplify event, we announced the availability of new GenAI capabilities specific to ESG. These new capabilities support ESRS Disclosure Statement Generation that will assist those customers that need to comply with the EU Corporate Sustainability Reporting Directive. These new capabilities employ semantic search along with Retrieval Augmented Generation (RAG) techniques, which allow us to combine the power of Large Language Models (LLMs) with domain-specific data to help solve our customers' challenges. ESRS

Disclosure Statement Generation supports our ESG customers in adopting the new CSRD/ESRS reporting standard by enabling them to identify relevant disclosures and then automatically generating draft disclosure statements based on their data.

In Q4, we also launched new designed reporting capabilities. The ability to create formatted and highly styled disclosures is an important part of our customers' workflow. Whether they utilize an outside design agency or do the work in-house, the Workiva platform offers unique capabilities for layout and design which sets us apart. In Q4, we added more features for designers to create integrated reports with highly stylized designs. These features include locking object properties, SEC Edgar support for reports, and advanced Blackline and Track Changes capabilities. As a result of the new designed-reporting capabilities launched in Q3 and Q4, hundreds of customers and partners across Europe and North America are now adopting Workiva's platform to build designed reports.

Finally, in Q4, Workiva shared its global commitment to enable customers to work in their preferred language. Although Workiva has supported multi-language capabilities for years, the newly released platform features will reduce the time it takes to add new languages and will provide translation for both menu labels and content. The platform now supports several new languages, including Castilian and Latin-American Spanish, French, German, Japanese, and Traditional Chinese. Hundreds of customers are already using our platform in these languages for a better user experience.

We continued to deliver technology innovation on our platform and differentiating capabilities with our solutions. Both are being embraced by our customers.

2024

Moving on to the setup for 2024… Jill will provide you with detailed information for our Q1 and full-year 2024 guidance. Setting the backdrop for the guide, I'll provide a few comments on what we are seeing in the market and our 2024 focus areas.

As we step into 2024, we still observe cautious buyers and continuous uncertainty in the economic and geopolitical environment in both the US and Europe. While we're optimistic for improved market conditions, uncertainty persists. This uncertainty is reflected in our full-year guidance.

From a strategy perspective, in 2024 we are first and foremost focused on subscription revenue growth. Across the company, we continue to focus on driving growth and going after our large and untapped TAM. We **plan to** balance this growth focus with a continued emphasis on productivity. We're building strong teams, improving the way we work, and incentivizing the right behaviors to achieve our growth.

We also remain enthusiastic about the opportunity we see with account expansion and the increased leverage delivered from our expanding partner ecosystem. Furthermore, we're pleased with the progress made by our sales and customer success teams, who are working closely with our clients to address their most challenging reporting and compliance needs.

Leading organizations are investing in our strategic platform that brings together financial reporting, GRC, and ESG. Workiva's position as **the** assured, integrated, reporting platform to power transparent reporting continues to gain momentum.

Our value proposition has never been stronger or more relevant.

Closing

In closing, I'd like to thank the entire Workiva team for their commitment and their achievements in Q4 and throughout 2023. We have an incredible opportunity in front of us. And I remain confident in our ability to capitalize on it, thanks to the more than 2,500 Workivians dedicated to our mission.

And with that - I'll now turn the call over to Jill…

Jill Klindt

Thank you, Julie.

For our call today, I will be discussing the financials and key metric highlights for the fourth quarter and full year 2023. Following that, I will provide commentary and guidance for Q1 and full year 2024, before opening the line for questions.

I'm pleased to report that we have exceeded our Q4 revenue guidance by $2.0 million dollars. This beat was driven by strong subscription revenue growth, as well as higher than expected services revenue.

We also beat our guidance on Q4 operating results -- generating $12.7 million dollars of operating profit, a 430 basis point improvement vs Q4 '22. Stronger revenue, improved efficiency and productivity, and lower travel expenses drove the beat, reflecting our focus on growth and improved operating leverage.

We generated total revenue in the fourth quarter of $166.7 million, delivering growth of 16% from Q4 2022.

- Subscription revenue was $148.8 million in Q4 2023, up 18% from Q4 2022. Once again this quarter, a combination of new customers and account expansions contributed to our strong revenue growth. New customers added in the last 12 months accounted for 47% of the increase in subscription revenue.
- Professional Services revenue was $17.9 million in Q4 2023, down 37 basis points compared to the same quarter last year. A decline in set-up and consulting revenue was mostly offset by growth in XBRL services.

As I have previously mentioned, we are currently working on shifting our lower margin setup and consulting services to our partners. We are actively implementing this plan and anticipate that the revenue from setup and consulting services will continue to decrease throughout 2024.

Moving to our performance metrics. We added 89 net new customers in Q4 for a total customer count of 6,034, a growth of 370 customers from Q4 2022.

Our gross revenue retention rate of 98% was well ahead of our 96% internal target metric.

And, our net revenue retention rate increased to 110% for the fourth quarter of 2023 compared to 109% for Q4 2022.

For Q4 2023, 64% of our subscription revenue was generated from customers with multiple solutions. This compares to 62% reported in Q4 2022.
This account expansion trend is also reflected in our large contract customers. In the fourth quarter of 2023, we had 1,631 contracts valued at over $100K per year, up 21% from Q4 the prior year. The number of contracts valued at over $150K totaled 915 customers in the fourth quarter, up 27% from Q4 2022. And, the number of contracts valued over $300k totaled 311, up 32% from Q4 2022.

Moving on to our operating metrics -- gross profit totaled $130.7 million in Q4, up 18% from the prior year. Gross margin improved year over year by 130 basis points, increasing to 78% in Q4 2023. This was driven by improved leverage on both compensation and cloud computing costs vs the same quarter a year ago.

Operating expenses increased 11% from Q4 2022, driving 300 basis points of our margin improvement vs. the prior year. Improved productivity resulting from process automation and efficiency efforts drove margin improvement, along with a favorable variance in R&D cloud computing costs compared to Q4 2022.

We posted an operating profit of $12.7 million in Q4 2023, a continued improvement compared to the Q4 2022 operating profit of $4.8 million. We were pleased with the leverage we delivered in Q4 and in the second half of 2023. The operating profit beat in Q4 was driven by revenue outperformance, disciplined investments, and managing controllable expenses including travel.

At December 31, 2023, cash, cash equivalents, and marketable securities increased $31 million sequentially to a balance of $814 million.

Operating activities in Q4 2023 resulted in cash provided of $24 million compared with a use of cash of $1M in the same quarter a year ago.

Moving to our milestones and key takeaways for 2023

- Although 2023 brought with it a tough macro environment, we finished the year strong.
- For the full year 2023 we generated $630 million in total revenue, beating the high end of the full year revenue guidance we provided in both Q3 and back in February 2023.
- Our year over year subscription revenue grew by 20%.

- We also improved operating leverage with operating expenses growing by only ~11% - the lowest growth rate since 2020.
- We finished the year with 15% of our revenue coming from outside the Americas - an improvement of 317 basis points compared to year end 2022. Subscription revenue grew at 50% outside of the Americas.
- For 2023, we generated $71 million in operating cash flow, the strongest in Workiva's history.

Turning now to our guidance for Q1 and the full year 2024. While we remain encouraged by our opportunities to drive growth over the longer term, it still remains an uncertain macro and a measured customer buying environment. As such, we continue to remain prudent with our guidance assumptions.

For the first quarter of 2024

- We expect total revenue to range from $173 million to $175 million.
- We expect services revenue to be flat compared to Q1 2023. This is a result of the shift I discussed, moving our low margin setup and consulting services to our partners.

- We expect Non-GAAP operating income to range from $4.0 million to $6.0 million, a net income of $0.15 to $0.19 on a per share basis. Our share count will be approximately 55 million weighted average shares.
- As a reminder, Workiva has historically shown some seasonality in our numbers in Q1.
    - On the new business side, Q1 is historically one of our lowest quarters for new bookings as many of our customers are heads down working on year end reporting.
    - Q1 deferred revenue has historically been flat or declining compared to Q4 balances, driven by the same seasonality of our bookings.
    - Also, as we have discussed in the past, Q1 has several front loaded expense items including the timing of employee raises and our 401k match.

For the full year 2024

- We expect total revenue to be between $718 million and $722 million.
- We expect total Services Revenue to remain flat.

  - We expect XBRL Services revenue to 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 16% at the midpoint.
- We are setting our guidance for non-GAAP operating income to range from $17 million to $21 million or a net profit of $0.56 to $0.63 on a per share basis. Our share count will be approximately 55 million weighted average shares.
- We believe we will post a positive free cash flow margin of 10% for the full year 2024.

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

- **First,** we are optimistic about the opportunities that lie ahead of us. We have a large and untapped TAM, and our platform provides immense value to our customers.
- **Second,** we exceeded our Q4 guidance on revenue and operating margin, and look to carry that momentum into 2024.

- **And finally,** we see an opportunity to drive durable, profitable growth over the longer term.

In conclusion, I want to echo Julie's message of gratitude to our incredible Workiva team. It's an honor to work alongside you, and together we can achieve great things. I'd also like to thank you, our shareholders, for your continued support of Workiva, and we look forward to speaking with you at our upcoming events. With that said, we're now ready to take your questions. Operator, please begin the Q&A session.