

136918256734

Nogin Inc. Conference Call
November 14, 2022

C: Jonathan Huberman; Nogin Inc.; Co-CEO
C: Shahriyar Rahmati; Nogin Inc.; COO and CFO
C: Jan Nugent; Nogin Inc.; Co-CEO

P: Samad Samana; Jefferies; Analyst
P: Unidentified Participant; Stifel; Analyst

+++ presentation

Operator^ Good afternoon. Welcome to Nogin Inc.'s Third Quarter 2022 Earnings Conference Call. (Operator Instructions)

Joining us today from Nogin are Jonathan Huberman, Co-CEO, Jan Nugent, Co-CEO, and Shahriyar Rahmati, COO and CFO. Before we begin, Nogin's management team would like to remind everyone that statements made and or answers that may be given to questions asked on this call are or may contain forward-looking statements that are subject to risks and uncertainties related to future events and/or the future financial or business performance of Nogin.

Actual results could differ materially from those anticipated in these forward-looking statements. Forward-looking statements include but are not limited to Nogin's expectation or predictions of financial and business performance and conditions. The development and adoption of Nogin's platform and cost reduction measures as well as competitive and industry outlook.

Forward-looking statements are subject to risks, uncertainties and assumptions and they are not guarantees of performance. Nogin is not under any obligation to and expressly disclaims any obligation to update, alter, or otherwise revise any forward-looking statements, whether as a result of new information, future events or otherwise except as required by law.

In addition, a description of some of the risks uncertainties that could cause actual results to differ materially from those indicated by forward-looking statements on this call can be found in the risk factors section of our quarterly report on Form 10-Q for the quarter ended September 30, 2022 to be filed with the SEC later today and in other filings with the SEC.

On today's call, we will also refer to certain non-GAAP measures including non-GAAP revenue and adjusted EBITDA that we view as important in assessing the performance of our business. These metrics exclude certain items as discussed in our release under the heading non-GAAP financial measure. Therefore, these measures should not be

considered in isolation or as an alternative to operating income, net income, cash flow from operations or any other profitability, liquidity or performance measures derived in accordance with GAAP.

You should be aware that the company's presentation of these measures may not be comparable to similar titled measures used by other companies. A reconciliation of each non-GAAP measures to the comparable GAAP measure is available in our earnings release and our quarterly report on Form 10-Q for the quarter ended September 30, 2022 on Nogin's Investor Relations page at www.irs.nogin.com.

Finally, I would like to remind everyone that a webcast replay of this call will be available via the link provided and today's earnings release, as well as on our website at www.nogin.com. Now, I'd like to turn the call over to Nogin's co-CEO Jonathan Huberman.

Jonathan Huberman^ Thank you. Welcome, everyone. And thank you for joining us this afternoon on our first earnings call. To begin today's discussion, I'd like to provide a quick overview of our business and review our quarterly highlights before turning the call over to our COO and CFO Shahriyar Rahmati to both discuss our financial results for the quarter and provide our outlook for the rest of 2022 and 2023.

After that, I'll share some closing remarks before opening the call for questions. As retail e-commerce continues to grow and become more sophisticated, there is a large market opportunity to help merchants who need robust e-commerce sophistication, but lack the expertise, capital and personnel to manage it all.

Nogin's commerce as a service platform satisfies this need in a few ways. First, Nogin provides a headless end-to-end technology platform that merchants can plug into instead of paying to integrate multiple technologies. This helps merchants save money, focus on their core business and accelerate their time to market.

Second, Nogin delivers advanced capabilities that are generally too complex and costly for many brands to buy, build or manage on their own. These capabilities include a robust custom form, social commerce abilities, and AI integrations. The benefits of these capabilities allow our customers to uniquely and intelligent engage with their customers or prospects throughout their e-commerce journey, and to increase sales and profitability.

Third, Nogin includes leading edge R&D and innovation as a service so that clients are never required to expand resources on their e-commerce operations. Further, Nogin eliminates the need to re-platform because as we build new features and tools, you're immediately available to our clients. Therefore, as we grow and continue to scale our e-commerce product and service offerings, our client's e-commerce operations are able to scale in parallel.

And lastly, Nogin drives identifiably incremental performance for our customers based on insights from our robust proprietary data asset insights unavailable to most outside of

the Nogin platform. Our modern approach to commerce allows brands and sellers to grow more profitably and without upfront costs, while still allowing them to focus their efforts on their strengths instead of on the complicated and resource intensive nuances of e-commerce.

Nogin's business model includes taking advantage of brand e-commerce sales, conducted through our cast platform, which ensures complete alignment between ourselves and our clients. Our growth strategy is rooted in three key pillars, develop and continuously advanced our innovative and scalable e-commerce as a service platform, increased sales and marketing efforts to drive our brand pipeline and expand our client base into new markets and products throughout e-commerce. We continue to make progress on all these fronts as we look to the remainder of 2022 and beyond.

I would now like to take a few minutes to reflect on this past quarter. Overall, our third quarter was an opportunity to improve the performance of the business and strengthen our partner relationships. Since closing our business combination in August, we have begun comprehensive cost reduction and performance improvement initiatives, the results of these are already showing success. As we expect this initiative will enable us to significantly grow our cash business in 2023, while also enabling us to reach EBITDA profitability during 2023.

Our third quarter performance issues were largely driven by two legacy deals that required to purchase inventory, both signed in 2021 during a volatile period of COVID impact and supply chain disruption. While our cast business remain healthy, these anomalous deals had a significant impact on our 2020 results today, due in large part to pandemic induced supply chain issues.

Now that the bulk of the impact is behind us, we expect to return to our previous rates of revenue growth over the next few quarters. And as I said earlier, EBITDA profitability in 2023. As to the platform itself, I'm happy to report that we unveiled version x of intelligent commerce, marking the arrival of machine learning, customer segmentation and smart source merchandising capabilities to the Nogin commerce platform.

We expect that Nogin clients will be able to elevate their customer experience and increase potential profits with new segmentation and merchandising capabilities. We are steadily onboarding customers onto these tools and expect them to drive significantly differentiated performance for new and existing brands.

In addition, our sales efforts are driving a robust pipeline, including eight new brands signed to the intelligent commerce platform during the quarter. In total, we believe that our efforts in the third quarter will allow us to get back to executing effectively on our growth strategy, especially in the current economic environment. Brands are searching for ways to reduce costs while driving improved results. And we believe that our platform is uniquely positioned to help customers do that.

With Nogen, high performance and cost effectiveness are never mutually exclusive choices. We are confident in our technology, our team and our strategy and look forward to generating strong momentum through the fourth quarter and into 2023.

With that, I'll turn the call over to our COO and CFO, Shahriyar Rahmati, to discuss our third quarter financial results and updated outlook in greater detail. Shahriyar?

Shahriyar Rahmati^ Thank you, Jon.

Turning now to our financial results for the third quarter ended September 30, 2022. As Jon mentioned, our net revenue includes product-related revenue that stems from two previous deals that involve sales related to first party inventory purchases, that inventory is sold, generated revenue appears within net revenues and our GAAP results.

Our non-GAAP revenue, however, is generated by the core commerce as a service platform and associated services. We typically view non-GAAP revenue as a more accurate indicator of the business and expect our GAAP and non-GAAP revenues to converge overtime. GAAP net revenue in the third quarter decreased 22% to \$21 million from 26.9 million in the comparable year ago period.

The decrease in net revenue was primarily due to a decrease in net product revenue during the period caused by the aforementioned and non-recurring supply chain issues associated with two of our customer agreements. GAAP net revenue for the first nine months of 2022 increase 20% to 66.5 million from 55.2 million in the comparable year ago period.

The increase in year-to-date net revenue was primarily due to increases the net product revenue and net revenue from related parties during the period which were only included in partial year results in 2021. Non-GAAP revenue and non-GAAP measurement of operating performance decreased 11% to 15.9 million from 17.8 million in the comparable year ago period.

The decrease in non-GAAP revenue was primarily due to decreased product revenue through the platform in the quarter driven by previously noted supply chain challenges. Non-GAAP revenue over the first nine months of 2022, increased 15% to 53.1 million from 43.5 million in the comparable year ago period. The increase in non-GAAP revenue was primarily due to an increase in cost, shipping and marketing revenue.

Operating loss in the third quarter increased to 11.9 million compared to an operating loss of 2.3 million in the comparable year ago period. Operating loss for the first nine months of 2022 increased to 27.6 million, compared with an operating loss of 5.4 million in the comparable year ago period.

The increase in operating loss over both periods was primarily due to an increase in operating costs and expenses. This increase was largely driven by the losses associated with the previously mentioned product deals from 2021 that were adversely affected by

supply chain challenges as well as discounted pricing in Q3 2022. The company expects fourth quarter GAAP net loss to range between negative 4.5 million to negative 6.5 million and for adjusted EBITDA to improve to range between negative \$3.0 million to \$5.0 million.

Before I turn the call back over to Jon, I'll now take a few minutes to provide an update on our financial outlook for 2022.

Moving forward, Nogin expects to provide annual guidance for net revenue, non-GAAP revenue and adjusted EBITDA. We expect the company's financial results in the fourth quarter to be positively impacted by existing customer sales, new customer agreements and the initial results of a comprehensive cost reduction and performance improvement program.

Our cost and performance related initiatives are expected to produce meaningful results in Q4, including an approximate \$2 million benefit to adjusted EBITDA. The goal of the cost and performance improvement program is to drive continuous efficiency throughout our business while simultaneously achieving or exceeding internal and customer KPIs. In addition, we're providing the following financial outlook for our full year 2022.

We expect net revenue to range between 93 million and 96 million and expect non-GAAP revenue to range between 72 million to 74 million. We're also updating our financial forecast for the 2023 calendar year.

We now expect net revenue to range between 97 million and 100 million and non-GAAP revenue to range between 88 million and 95 million which would imply 18% to 25% year over year growth. We also expect net income to improve and adjusted EBITDA to be positive for the full year 2023. We anticipate that the impact of the company's cost and performance improvement program for the full year 2023 will be between \$15 million and \$20 million and expect to have the majority of initially identified initiatives complete by the end of the 2023 first quarter.

While this program will initially include a combination of cost actions and operating efficiencies, and is key to achieving our 2023 adjusted EBITDA guidance, its benefits are expected to continue beyond 2023 and allow us to grow with the benefits of significantly increased operating leverage in the future.

We look forward to updating you on the status of these specific efforts and activities in the quarter ahead. That concludes my summary. I'd now like to turn the call back over to Jon.

Jonathan Huberman^ Thanks, Shahriyar. At Nogin we are excited about the future and confident in our ability to execute against our growth strategy moving forward. Our traditional commerce as a service business is strong. We believe that growth of e-commerce combined with our expanding pipeline of business across a myriad of industries interested in our solution, positions us well for future growth and profitability.

With that said, Operator, please open the call for Q&A.

+++ q-and-a

Operator^ Thank you. (Operator Instructions)

Our first question comes from Samad Samana with Jefferies, your line is open.

Samad Samana^ Thanks. And good to see your first public quarter as a company and glad to get to know Nogin better. So maybe a couple of questions. Just as I think about the new deal sign in the quarter, as you mentioned, there's a challenging macro backdrop, so just, how should we think about maybe the size of those deals versus what you're expecting? And just what's the imperative that's driving customers to still re-platform in this type of environment?

Jonathan Huberman^ All right. Shahriyar, you mentioned the size and Jan, why don't you talk about how we're getting these wins.

Shahriyar Rahmati^ Sure, happy to. The customer size ranges from deals that are in the single-digit millions to deals that are a bit larger than that and the complexion of those in terms of industries and markets is a bit more diversified, than some of our historical wins with the onboarding of customers that are in the consumer product, industry as well as some of those that are in our more historical fashion apparel sector.

Jan Nugent^ And I think in terms of motivation -- this is Jan -- there's still a large segment of the market that needs to continue their growth, and they're stalling out on the level of functionality that they may be had in the SMB. And the ability to upgrade to enterprise with nothing upfront instead of \$1 million to \$2 million in being able to get live in 60 to 90 days instead of 12, 18 months, is rather compelling. So it allows them to kind of do more, accelerate growth but with less upfront capital personnel, and less complexity.

Jonathan Huberman^ And I'll just add one other thing, Samad, and we alluded to this in the commentary is that with the impending recession and people looking to cut costs and drive higher margin, our solution helps people drive their sales to the -- as usually their highest margin channel, which is around e-commerce platform, and typically lower costs by virtue of the -- the way our platform works, as well as the reduced need for folks to manage that on the customer side.

Samad Samana^ Great. Maybe just a follow up question for the team. Just -- you provided an updated outlook for 2023. Just maybe how are you thinking about whether it's -- what's the embedded assumptions around [CASA's] contribution versus marketing and shipping? And I guess what gives the comfort around a 2023 guidance at this stage considering that there's a lot of uncertainty out there?

Jonathan Huberman^ So Shahriyar, why don't you to talk about the first piece, I'll talk about the second.

Shahriyar Rahmati^ Sure. So in terms of the complexion of the incoming business, I think it looks similar to the profile of the split that we have that you see today, from a non-GAAP perspective as those new deals don't involve, obviously, any product revenues. Their GAAP and non-GAAP impacts will be the same. And Jon?

Jonathan Huberman^ Yes. So the question, Samad, is how confident are we. Well, a very large chunk of that growth. We expect to come from our current customers and we have relatively high confidence in that. And then in terms of the incremental for new customers, we also think that it's eminently doable, let's put it that way.

Jan Nugent^ And I think to clarify, Jon's statement, our business -- the deals that we have signed, let's say over the last six months, we may have only received one to two months or three months of revenue, whereas, next year we will get a full 12 months of revenue. So you can think of that in terms of the growth of existing clients year over year as well as clients that this year we only got a few months of revenue and next year we'll get the full 12.

Samad Samana^ Great thanks for taking my questions.

Jan Nugent^ Thank you.

Operator^ Thank you. One moment. Our next question comes from Parker Lane with Stifel, your line is open.

Unidentified Participant^ Hi, this is [Matt], check around for Parker. Thanks for taking my questions. First off, I'm curious -- what trends are you seeing in e-commerce versus brick-and-mortar sales over the last 12 months? And has any trend there force you to change your three to five-year expectations for how large e-commerce could grow over that timeframe?

Jonathan Huberman^ Jan, you want to answer that one?

Jan Nugent^ Sure. So we continue to see that the rate in the e-commerce channel is growing and we don't see sort of physical stores opening up negatively affecting online store sales. I think from a segmentation standpoint, now there's a portion of the market where there are lots of goods and services when people are back to work and sort of in the saddle and go into the malls where they purchase, they become a new customer file and it feeds e-commerce. And it creates a flywheel effect that doesn't have us changing sort of what we see is possible online for the next three to five years.

Unidentified Participant^ Okay, great. And then secondly, regarding the new brands that you signed this quarter, was there any change in your go-to-market strategy that led to that success? And how is your marketing changed at all since going public?

Jan Nugent^ Yes, it's a great question. I think the reality is because it's been so recent that we have gotten public, we're really scaling up those efforts now. And the incremental benefits of scaling up those efforts is significant. And we're just getting in terms of that.

For us, really, the shift is from sort of expanding beyond a single vertical to selling in to multiple verticals. And what's exciting is a fair number of our new shingles are in those new customer verticals.

Unidentified Participant^ Okay, terrific. Thank you very much.

Jonathan Huberman^ Thank you.

Jan Nugent^ Thank you.

Operator^ At this time, this concludes our question and answer session. I'd like to turn the call back over to Mr. Huberman for his closing remarks.

Jonathan Huberman^ Well, thanks again, everyone, for joining us today. It is truly an exciting time to be with Ngin. I especially want to thank our dedicated employees for their ongoing contributions, as well as our investors for their continued support.

Operator?

Operator^ Thank you for joining us today for Ngin's third quarter 2022 earnings conference call. You may now disconnect.