VERITONE

Veritone Third Quarter 2023 Prepared Remarks

Stefan Norbom, Investor Relations

Thank you, and good morning.

Before the market-open today, Veritone issued a press release announcing results for the third quarter ended September 30, 2023. The press release, and other supplemental information, are available on the Investors section of Veritone's website.

Joining us for today's call are Veritone's CEO and President, Ryan Steelberg and CFO, Mike Zemetra who will provide prepared remarks and then open the call up for a live question and answer session.

Please note that certain information discussed on the call today, including certain answers to your questions, will include forward-looking statements. This includes, without limitation, statements about our business strategy and future financial and operating performance. These forward-looking statements are subject to risks, uncertainties and assumptions that may cause the actual results to differ materially from those stated. Certain of these risks and assumptions are discussed in Veritone's SEC filings, including its annual report on Form 10-K. These forward-looking statements are based on assumptions as of today, November 8, 2023, and Veritone undertakes no obligation to revise or update them.

During this call, the actual and forecasted financial measures we will be discussing include non-GAAP measures. Reconciliations of these measures to the corresponding GAAP measures are included in the press release we issued today. Also, when we reference pro forma measures, such measures are presented on a combined pro forma basis treating Broadbean as owned by Veritone during fiscal year 2022.

Finally, I would like to remind everyone that the call today is being recorded and will be made available for replay via a link in the Investors section of Veritone's website at www.veritone.com.

Now, I would like to turn the call over to our CEO and President, Ryan Steelberg.

Ryan Steelberg, CEO and President

Thank you, Stefan, and thank you, everyone, for joining us today.

Before turning to third quarter earnings, business highlights and results, I want to provide an update on our strategic initiatives and discuss Veritone's positioning in the current operational landscape.

Exactly a year ago, Veritone announced my appointment as CEO and I introduced several strategic initiatives, including focused execution, operational excellence and fiscal responsibility, to accelerate our path to profitable growth and drive long-term shareholder value. I continue to be impressed with our team's progress against this framework. Despite lingering uncertainty across financial and consumer markets, Veritone has made significant strides in streamlining operations and we look to the start of 2024 as an inflection point in our growth trajectory.

Veritone has intensified its focus on the verticals we serve, allocating our resources to established markets where we have demonstrated differentiation and strong product market fit. We took swift action to reshape our organization in pursuit of operational excellence, aligning Veritone's go-to-market strategy and purpose-built applications to solve critical problems for our customers, enabling them to cut costs, streamline operations and boost revenue streams. Even amidst the difficulties posed by the challenging macroeconomic environment, our customers are affirming the value of our services by choosing to extend their contracts. Veritone's recent award by Deloitte as a member of its 2023 Technology Fast 500 class underscores our position as a top innovator and high-growth company in North America across various sectors.

In addition to operational changes, Veritone's dedication to fiscal responsibility resulted in $24 million in annualized savings year-to-date, and we expect to realize more as we progress through the end of the year. As signaled last quarter, Veritone is taking decisive action to improve our liquidity position, restructuring our debt and adding $40 million in net new cash to our balance sheet, while also extending a major portion of our debt to 2027 maturity. Mike Zemetra will provide further information and details on the debt restructuring later. As we approach the conclusion of 2023, I remain confident in our path forward, the strategic value of our products and services as well as the enduring growth potential of our business.

According to Goldman Sachs research, companies involved in the AI ecosystem can be classified into two distinct groups: Enablers, who make cognitive and generative AI possible, or Empowered entities that harness the power of cognitive and generative AI to grow stronger. As enterprises increasingly seek to deploy AI solutions faster than ever before, they face unique challenges in integrating and productively managing the growing sea of disparate data, as well as the AI models they utilize. By leveraging Veritone's proprietary aiWARE platform, our integration capabilities and our established partnerships, we support AI-empowered companies in implementing cognitive and generative AI into their key business lines and work productivity tools. Veritone is an Enabler, and we are committed to advancing human potential by blending human expertise with AI technology, helping organizations solve problems and achieve more than ever before. Next, I'll highlight our progress in each of our core go-to-market verticals - talent acquisition, media and entertainment and public sector industries.

First, Veritone's hiring platform. Last quarter, our strategic acquisition of Broadbean further solidified our positioning in the talent acquisition industry. These solutions offer substantial customer improvements to hiring performance, resulting in higher ROI and accountability, while also enabling faster and more efficient hiring processes. In Q3, we made substantial progress integrating Broadbean with Veritone and expect to complete this integration in early 2024, and, subsequently, start realizing anticipated synergies in the first half of 2024. To that point, I am excited to report that we have successfully integrated the sales and marketing organizations and have begun upselling Veritone programmatic solutions to the legacy Broadbean customer base.

We remain committed to diversifying our customer and revenue base, and the notable increase in subscription-based customers this year has contributed to greater stability in revenues and earnings, reducing vulnerability to the actions of a single customer or market segment.

Turning to Media and Entertainment. Veritone remains at the forefront of driving AI innovation in the Media & Entertainment sector. Our comprehensive range of services spans content and advertising analytics, asset management, licensing and bespoke cognitive and generative AI solutions. By equipping content organizations and their teams with these powerful tools, we facilitate the swift and efficient management, creation, monetization and innovation surrounding their proprietary data sets, enabling our customers to meet the ever-growing demand for personalized content and boost their organizations' revenue streams.

Despite the turbulent environment impacting consumer behavior and the active SAG-AFTRA and recently settled WGA strikes, our customer retention and engagement metrics in Media and Entertainment remain resilient. During the third quarter, we signed and renewed contracts with leading talent agency CAA, United States Tennis Association, NBC Universal, A&E Networks, HBO and Augusta National. Recently, on the heels of the Women's World Cup, we renewed and extended our longstanding AI and monetization partnership with the U.S. Soccer Federation. Together, we will continue our efforts to oversee licensing rights and optimize content management and monetization with U.S. Women's and Men's National Teams, Youth National Teams and Extended National Teams. Lastly, I am proud to state that we renewed our flagship partnership with iHeartMedia, providing the largest audio media company with Veritone's market-leading AI-based applications and solutions, to enable them to continue to drive consumer engagement and ROI for their advertisers. Our media and entertainment platform is well-positioned to capture market share as blue-chip customers turn to Veritone to unlock the unrealized value from unstructured data sets and supercharge human outputs.

Finally, I would like to comment on Veritone's Public Sector business. Our Q3 wins with the Veritone Public Sector suite of solutions across State & Local agencies, Education, U.S. Fed Civilian and U.S. Fed DoD/Intel showcase our value, focus and passion for providing AI-powered solutions to address the unique challenges faced by government agencies and legal organizations. As of the end of Q3, Veritone is actively supporting over 325 law enforcement agencies, we are engaged in a new project with a law enforcement organization of a major DoD agency and we have started a project with a Fed Civ agency with significant potential that utilizes the Veritone Public Sector Product Suite. We are thrilled that Former Anaheim Police Chief Jorge Cisneros will act as a Law Enforcement Advisor to Veritone Public Sector, working alongside our team to empower law enforcement agencies with the latest AI-driven tools to accelerate investigations, protect personally identifiable information and improve public safety.

In addition, this past quarter, we were selected by the U.S. Department of Justice for a $15 million sole-contractor Blanket Purchase Agreement that can be used by all organizations within the DoJ, which will facilitate access to Veritone software and services. Specifically, Veritone will enable DoJ personnel to greatly improve their productivity and proficiency as they investigate, review and redact unstructured data, including digital documents, audio and video files. During the third quarter, we also launched a new product, Veritone Evidence, to manage, protect and share digital evidence amongst and across government agencies. As of last year, more than half of 100-plus state and local law enforcement agencies were using cloud-based digital evidence management systems or plan to implement these solutions within the next three years. We look forward to growing our public sector customer base as government agencies seek out solutions that rapidly extract actionable intelligence from their diverse data sources. Our pipeline continues to grow significantly, and we expect Veritone Public Sector to deliver nearly 75%-100% year-over-year growth in 2023, and continue to contribute a greater share of revenue through 2024.

As Veritone executes its long-term strategy and embarks on its next phase of growth, I am thrilled to announce the addition of Michael Zilis as an independent director to our Board. Michael, who is currently serving as EVP and CFO of Ingram Micro, is an accomplished company executive and dynamic leader who shares Veritone's mission of delivering highly targeted solutions to help companies through technology to unlock operational efficiencies and productivity gains. His financial and international operations expertise will bring a valuable perspective to Veritone's pursuit of operational excellence to prioritize the artificial intelligence needs of our customers while driving value for our shareholders. We welcome Michael to the Veritone team.

Overall, customer growth, bookings strength and an increasingly diverse revenue base, demonstrate that Veritone is resilient and poised to accelerate its growth. We anticipate the company-wide financial advantages will become increasingly evident in 2024 with one-time integration and transaction costs behind us. Veritone is on a clear path to profitability and we look forward to updating you on the progress we are making to unlock long-term value for shareholders in the quarters to come.

Now I would like to hand the call off to Mike Zemetra, our CFO, to go through the financial results in more detail. Over to you, Mike.

Mike Zemetra, CFO

Thank you, Ryan.

I am pleased to report Veritone made material progress in the third quarter headlined by the announced new debt structure, improving our balance sheet heading into 2024, increased annualized cost savings through Q3 of over $24 million and the integration of Broadbean all while closing the quarter with solid customer and operating metrics.

I would like to highlight a few items before I begin. With the June 2023 acquisition of Broadbean, our key software customer metrics are presented on a pro forma basis, which assumes that we owned Broadbean since the beginning of fiscal year 2022.

During my prepared remarks, I will discuss our:

- Third quarter financial and operating performance on a GAAP and pro forma basis;
- Progress on 2023 cost savings initiatives;
- Q3 cash flow and liquidity sources, including our new $77.5 million debt facility
- And, our Q4 and fiscal 2023 outlook and projected improvements in our cost structure heading into fiscal 2024

Starting with Q3 2023 performance.

GAAP Revenue was $35.1 million, down 6% or $2.1 million year over year, driven primarily by a $1.6 million decline in Managed Services and a $0.5 million decline in Software Products. The Q3 2023 decline in managed services was driven in large part by advertising, which declined $1.0M or 9% year over year primarily driven by the lower ad net revenue contribution, due in part to the challenging macro environment coupled with customer deferral of budgeted ad spending to future periods. In Q3 2023, average billings per customer dropped 15.7% to $630,000 as compared to Q3 2022 of $747,000.

As previously discussed, advertising softness began to reverse itself into the second half of 2023, due largely to our customer mix, new customer activation, seasonality on spend and slightly improved economic outlook. We expect Q4 to continue to be down versus Q4 2022, but improved versus the first half of 2023. In addition, licensing declined by $0.6 million, or 11%, to $4.8 million principally due to the deferral of certain planned deals from Q3 to Q4 2023 as a result of the pending writers' and actors' strikes.

The Software Products and Services decline was largely attributed to a lower consumption across our Veritone Hire solution's customer base, including Amazon, offset by the addition of Broadbean in Q3 2023, which contributed $8.7 million of revenue in Q3 2023, and increases in both GRI and legacy Media and Entertainment revenue. During Q3 2023, Amazon represented less than 10% of our consolidated revenue, down sequentially from 14% in Q2 2023 and from 31% during Q3 2022. Each quarter, Veritone's revenue base is becoming increasingly diverse.

On a pro forma basis, Q3 revenue of $35.1 million declined $9.9 million or 22% largely due to lower consumption of our legacy Hire solutions, which was largely driven by the decline in Amazon spending year over year, coupled with the decline in Managed services, as previously discussed. In addition to the year-over-year increases in GRI and legacy media and entertainment, Broadbean increased 12.2% as compared to Q3 2022.

As a reminder, during 2022, and the first half of 2023, Broadbean focused a lot of its efforts on moving existing customers off its legacy CareerBuilder platform in preparation to be sold. This effort shifted sales focus on maintaining existing customers versus acquiring new customers, particularly in North America. Despite this challenge, Broadbean revenue did grow slightly year over year, which highlights the stability of its subscription-based business. During Q3 2023, a little over 100 customers associated with this effort were removed from the Broadbean platform, the revenue impact of which was immaterial to both ARR and financial results looking forward.

In Q3, we delivered strong key performance metrics, on a pro forma basis:

- ARR of $98.6 million, including over $47 million from subscription versus consumption-based customers. While our subscription-based ARR grew 8.7% year over year, our overall ARR declined given the trailing twelve-month pull-back in consumption spending principally from Amazon. We expect this trend of consumption based ARR declining in Q4 2023 vs. 2022 given Amazon pull back on spending over the trailing twelve months;
- Total New bookings were $15.5 million, up 85% sequentially from Q2 2023, but down year over year largely due to Amazon's reduced spend. The sequential improvement in bookings was largely driven by our hiring solutions and GRI.
- Gross revenue retention continued to be in the high 90th percentile
- And, Total Software Products & Services customers of 3,536, which were down slightly year over year principally due to previously discussed run-off of legacy CareerBuilder customers transitioning off of Broadbean's platform, which had a minimal impact as overall ARR at Broadbean on a standalone basis improved 7% year over year.

We remain encouraged by the growing number of opportunities that come from companies seeking to boost operational efficiencies given the challenging market. We continue to see meaningful traction from new and existing commercial enterprise and GRI customers that want to benefit from Veritone's industry-leading applications, hiring solutions and newer offerings, such as cloud-based Veritone DMH which accelerates unstructured data and workflows. During the quarter, we closed several large deals, including a deal with the U.S. Senate and a blanket purchase agreement with the DOJ. Our future pipeline continues to grow with ample cross-selling opportunities, particularly in GRI where we expect significant growth in the near and long-term.

As previously discussed, Q3 managed services gross billings per active client of $630,000 declined 15.7% from Q3 2022. While the macro environment remains challenging, gross billings per active client did improve 9.4% sequentially from Q2 2023. Given our performance and bookings through today, we expect advertising revenue to be relatively consistent in Q4 versus Q3, but down year over year as customers continue to delay spend to future periods. However, and as of today, our advertising operations have the highest gross spend planned in 2024 since our inception, coming from existing and new customers, including Mint Mobile.

Q3 2023 GAAP loss from operations was $23.1 million as compared to $3.6 million in Q3 2022, largely driven by the decline in non-GAAP gross profit, coupled with a non-recurring non-cash benefit of $14.3 million in Q3 2022 associated with a change in the estimated value of contingent purchase price consideration.

Q3 2023 non-GAAP gross profit reached $27.9 million, down $2.2 million or 7%. The decline was largely driven by the reduction in higher margin consumption-based revenue in Q3 2023 versus Q3 2022, offset by the addition of Broadbean in Q3 2023. Q3 Non-GAAP Gross Profit margin of 80% was relatively flat when compared to Q3 2022. During Q3 2023, Broadbean contributed approximately $8.2 million of non-GAAP gross profit as compared to $7.5 million in Q3 2022. We expect consolidated non-GAAP gross margins to remain near 80% in Q4 2023.

Q3 non-GAAP net loss was $7.9 million, as compared to $5.7 million in Q3 2022 driven largely by the decline in revenue and corresponding non-GAAP gross margins, which negatively impacted our Core Operations, coupled with the addition of Broadbean operational expenses in Q3 2023 offset by the various cost reductions enacted through Q3 2023. On a pro forma basis, Q3 2022 non-GAAP net loss was approximately $2.8 million.

Turning to our balance sheet, at September 30, 2023, we held cash and restricted cash of $72.9 million, compared to $185.3 million at December 31, 2022. The $112.4 million decrease reflects net cash outflows from operations of approximately $48.1 million, driven principally by the timing of payments in Managed Services and by our non-GAAP net loss. In addition, we had net cash outflows from financing and investing activities of $64.2 million, driven by the net $50.2 million acquisition of Broadbean in June 2023 and deferred purchase price consideration of $10.5 million attributable to Pandologic's 2022 earnout and certain 2022 acquisitions.

Of the total $72.9 million in cash, approximately $60 million of our reported cash is essentially held for payment to third parties from our Managed Services, down from $93.1 million at December 31, 2022. The decline in cash held for third parties is partially reflective of the seasonality of our advertising services coupled with certain catch-up payments made in Q1 2023 from delayed payments as we migrated onto our new Oracle ERP system in the second half of 2022.

Turning to our liquidity.

During the first half of 2023, we were approached by a highly regarded PE firm to sell one of our non-software-based assets for total consideration in excess of $100 million in cash. In late Q3 2023, we terminated discussions with the PE firm due in large part to the uncertainty around timing to close coupled with macroeconomic challenges. That said, we may elect to run a formal banking process for this asset in mid-2024.

I am happy to report that in Q4 we committed to a four year, $77.5 million senior secured debt facility, which will replace our previously announced AR credit facility. Key terms of the debt facility include a rate of SOFR plus 850 basis points, amortization of payments of 2.5% per quarter beginning on the 6-month anniversary of the loan, 10% warrant coverage, a minimum liquidity covenant and the ability to pay down the debt with equity at certain price points prospectively. $37.5 million of proceeds from the debt facility will be used to repurchase existing convertible debt at 75% of par, with the remaining $40.0 million to be used for general and corporate purposes. We expect the deal to close in the fourth quarter of this year. On a pro forma basis, we project to have approximately $37.0M of unencumbered cash post-deal, which includes direct fees associated with the deal. Post deal, our consolidated proforma debt will be $168.5 million, including our legacy November 2026 Convertible Notes of $91 million, down from $141 million at September 30, 2023. Additional information regarding the term loan facility was included in our earnings release today and more information will be included in our 10-Q filing.

We ended September 30, 2023 with 37.0 million shares outstanding and convertible debt of $141 million principal, 1.75% interest due November 2026.

Turning to our cost savings update. In February of this year, we announced $12 to $15 million of annualized cost savings initiatives, which included optimizing our cost structure along with the Q2 2023 divestiture of our energy group. In August, we announced that we were targeting an additional $10 million in annual cost savings. To date, we have executed over $24 million of annualized savings, well above our initial range. As these cost reductions flow through the P&L, we expect they will have a much larger impact in 2024, which will be when Veritone pivots back towards vertical growth from existing software and services, with a clear path toward profitability. To put this into perspective - assuming no revenue growth in 2024, on a pro forma basis, and we were able to hold our exiting 2023 operating structure relatively flat, our non-GAAP net loss, or our projected cash burn, would improve greater than 50% over projected 2023. And, if we grew pro forma 2023 revenue by approximately 20% year over year, we would be close to breakeven. This is a substantial improvement over our baseline 2023 operating structure.

Turning to our financial guidance for Q4 and Fiscal 2023. Fiscal 2023 continues to be a difficult year, with increased uncertainty amplified by Fed rate increases, inflation, writer and actor strikes, wartime events in Israel and customer-impacting decisions – including Amazon's recent Q2 2023 decision to reduce spending. While we remain more efficient operationally, and continue to progress on longer-term initiatives, the consumption side of our business – including our advertising and legacy HR Solutions products – continues to be challenged.

With that backdrop, we are guiding:

Q4 revenue to be between $33.0 and $34.5 million, down flat year-over-year at the midpoint. Included in this is Broadbean, which is expected to contribute $8.0 to $8.5 million in revenue in Q4. Excluding Broadbean, organic revenue is expected to decline overall largely driven by our conservative outlook on Amazon spend in Q4 2023, coupled with a projected decline in advertising, offset by continued improvement in GRI and other services.

Risks to our Q4 revenue guidance include the execution of new enterprise deliverables, namely across GRI which can be unpredictable, advertising concurrent with the current economic environment and the variability of usage across our hiring platform.

And…

We expect Q4 quarterly non-GAAP net loss to be between $5.5 million and $6.5 million as compared to a $2.2 million non-GAAP gross profit in Q4 2022.

In summary, our efforts in 2023 have been focused on streamlining operations to build a strong foundation for Veritone's next phase of disruptive growth. Despite external challenges in the current environment, we are excited by the improvements we have made year-over-year.

That concludes my prepared remarks. Operator, we would like to now open up the call for questions.

Operator?

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