Nogin, Inc.(Q1 2023 Earnings)

May 15, 2023

Corporate Speakers:

- Jonathan Huberman; Nogin, Inc.; President, Chief Executive Officer & Chairman
- Shahriyar Rahmati; Nogin, Inc.; Chief Operating Officer & Chief Financial Officer

Participants:

- Jeffrey Wallin Van Sinderen; B. Riley Securities; Analyst
- Unidentified Participant; Alliance Global Partners; Analyst

PRESENTATION

Operator^ Good morning. Welcome to Nogin, Inc.'s First Quarter 2023 Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded. Joining us today from Nogin are Jonathan Huberman, President and 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 from 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 the forward-looking statements.

Forward-looking statements include, but are not limited to, Nogin's expectation or prediction 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 and uncertainties that could cause actual results to differ materially from those indicated by the forward-looking statements on this call can be found in the Risk Factors section of our annual report on Form 10-K for the year ended December 31, 2022, filed on March 23, 2023.

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 the release under the heading Non-GAAP Financial Measures. 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 the GAAP.

You should be aware that the company's presentation of these measures may not be comparable to similarly titled measures used by other companies. A reconciliation of these each historical non-GAAP measure to the comparable GAAP measure is available in our earnings release on Nogin's Investor Relations page at www.ir.nogin.com.

Finally, I would like to remind everyone that a webcast replay of this call will be available via the link provided in today's earnings release as well as our company's website at www.nogin.com.

Now I would like to turn the call over to Nogin President and CEO, Jonathan Huberman.

Jonathan Huberman^ Welcome. Thank you for joining us this morning for our earnings call. To begin today's discussion, I'd like to provide a quick overview of our business and review this quarter's highlights before turning the call over to our COO and CFO, Shahriyar Rahmati, to discuss our financial results for the quarter. After that, I'll share some closing remarks before opening the call for questions.

At Nogin, we believe that as e-commerce continues to grow and becomes more sophisticated, there's large market opportunity to help merchants who aim to execute at the level of customer expectations who have faced a common dilemma of increasing complexity as they aim to grow and grow profitably. Intelligent Commerce, Nogin's Commerce-as-a-Service platform, provides a headless end-to-end technology platform that merchants can plug into, instead of paying, to integrate multiple technologies, develop complex and difficult-to-execute capabilities and have the ability to augment any capability required to enable the success of their digital commerce channel.

This allows Nogin to deliver advanced capabilities that are generally too complex and costly for many brands to buy, build or manage on their own and will allow them to avoid the distraction these efforts require and instead focus on their core mission with Nogin acting as their trusted partner. These capabilities include full customer data platform; social commerce abilities; AI and ML technologies; and the ability to integrate with a wide variety of systems, including legacy platforms or environments with multiple platforms.

Also, Nogin's leading-edge R&D and innovation is built in as a service so that clients are never required to build development or technology resources on their own. Finally, Nogin eliminates the need to re-platform because as we build features and tools, they are immediately available to our clients, thus the platform is inherently future-proof.

At Nogin, our revenue model is a percentage rate against e-commerce sales conducted through our CaaS platform, which ensures complete alignment between ourselves and our clients. Further, our onboarding methodology includes understanding our clients' strategic and financial objectives and thus, our corresponding efforts are aligned and transparent.

Our growth strategy is rooted in 3 key pillars: one, to develop and continuously advance our innovative and scalable Commerce-as-a-Service platform that makes enterprise digital commerce accessible to the mid-market and lower mid-market; two, to increase sales and marketing efforts to drive our pipeline, including efforts in B2B in addition to our focus on D2C; and three, to expand our client base into new markets and products throughout e-commerce, increasing the ability to execute industry-specific expertise in addition to the set of value-added horizontal services we offer, inclusive of data analytics and consumer insights. We continue to make progress on all these fronts as we look to the rest of 2023.

Looking back with three primary goals for our first quarter. First, with the consistent significant demand we've been seeing for our solutions, we believe it crucial for us to convert our sales funnel and expand our customer base. We continue to ramp up our sales efforts in the first quarter, signing 7 new clients, a record business development quarter for Nogin. We will carry this momentum into the second half of the year and expect to see this trend accelerate further as we continue throughout the year. We firmly believe that we are just scratching the surface of our overall market opportunity.

Many of our new customers specifically chose our solution because of the combination of our technology platform and our digital marketing expertise, a testament to our business' ability to provide both a turnkey solution, including creative, fulfillment and customer experience, for some customers and fit-for-purpose configured solution for others, all while driving underlying attractive unit economics. We believe that this mix of services is key to our long-term growth as we're able to combine our suite of features and the analytical capabilities bound within our platform to provide an unmatched user experience for our customers.

Second, we've made our mission to enhance efficiency through a myriad of cost-optimization initiatives. When Shahriyar and I inherited Nogin's customer base, we began reevaluating Nogin's obligations as laid out in some of our legacy customer contracts and quickly realized that a few customers had structures that hampered our profitability. We've worked over the last several months to recalibrate, prioritizing health, profitable revenue growth.

As Shahriyar will discuss further, this recalibration effort has required us to terminate or wind down a few legacy customer contracts, which may cause some revenue headwinds in the short term and cause full year 2023 revenue to come in lower than full year 2022 revenue. However, we are confident that revenue will accelerate rapidly in 2024 given recent customer wins and our robust business development pipeline. We believe that Q1 was a period in which we needed to take these decisions so we can focus on profitable growth ahead.

Even though we've only realized a portion of the benefits of the cost optimization so far, we are already seeing significant benefits to our gross margin, which we expect to allow us to be cash flow positive beginning in Q2 and to be adjusted EBITDA positive for the second half of the year. As discussed last quarter, we expect our initial cost and performance-proven product to drive $15 million to $20 million cost impact for the full year 2023, and we believe we're positioned well to solidify that impact over the next few quarters while realizing further opportunities as well.

And third, it was an important goal of ours in the first quarter to execute a capital raise in order to comfortably manage our business into 2024 and beyond. We successfully completed and oversubscribed a $22 million raise last month, which included material participation from management. In total, we expect that our efforts over the last few months will have us on the right path to drive our preferred long-term operating model, which we believe will help us generate healthy, sustainable revenue growth moving forward, especially in the current economic environment.

Brands are searching for ways to reduce costs while driving improved results, and our platform is uniquely positioned to help customers do just that. With Nogin, high performance and cost effectiveness are never mutual exclusive choices. We are confident in our technology, our team and our strategy and look forward to capitalizing our strong momentum over the rest of 2023.

With that, I will turn the call over to our COO and CFO, Shahriyar Rahmati, to discuss our first quarter financial results in greater detail. Shahriyar?

Shahriyar Rahmati^ Thank you, Jon. Turning now to our financial results for the first quarter ended March 31, 2023. As noted last quarter, our net revenue includes product-related revenue that stems from 2 previous deals that involve sales related to first-party inventory purchase. As that inventory is sold, generated revenue appears within net revenue and our GAAP results. Our non-GAAP revenue, however, is revenue 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 over time.

GAAP net revenue in the first quarter of 2023 decreased 34% to $16.7 million from $25.2 million in the first quarter of 2022. The decrease in net revenue was primarily due to a decrease in product revenue and net revenue from related parties. As Jon noted previously, much of this impact comes from our revenue recalibration efforts, which have involved scaling back from several legacy customers while we prioritize opportunities that will help us drive our profitability metrics moving forward. We believe these adverse revenue impacts to be short term in nature and are confident that our expected long-term profitability will benefit and necessitated these initiatives.

For the first quarter 2023, non-GAAP revenue, a non-GAAP measurement of operating performance, decreased 25% to $13.9 million from $18.5 million in the comparable year-ago period. The decrease in non-GAAP revenues was primarily due to decreases in CaaS and marketing revenues.

Operating loss in the first quarter increased to $12 million compared to an operating loss of $10.1 million in the comparable year-ago period. The increase in operating loss was primarily due to restructuring charges and other onetime items. The expected impact of the company's cost and performance improvement program, based on initiatives already implemented thus far in 2023, is expected to be between $15 million and $20 million. Further, we expect that these activities will be achieved to their full run rate impact before the end of Q2 2023.

Adjusted EBITDA loss decreased to $5.9 million, compared to an adjusted EBITDA loss of $8.9 million in the comparable year-ago period. The decrease in adjusted EBITDA was driven -- EBITDA loss was driven by our cost-optimization efforts as well as the partial period impact of the aforementioned commercial decisions that we expect to continue to materialize throughout the balance of this year and beyond.

Moving to our outlook for 2023. As of today, and based on our progress year-to-date, we expect to drive growth via both existing customer sales as well as new customer agreements, both of which will have a positive impact on our ability to increase revenue over time. Additionally, based on the initial results of our cost reduction and performance improvement program, we expect to improve our operational efficiency, increase adjusted EBITDA and generate significantly increased operating leverage in the future.

Therefore, we're providing the following financial outlook for our full year 2023: we expect net revenue to range between $70 million and $75 million and expect non-GAAP revenue to range between $60 million and $65 million. We're also setting our financial forecast for the 2024 calendar year for non-GAAP revenue and adjusted EBITDA margin. For the full year 2024, we expect non-GAAP revenue growth to be greater than 40% compared to our full year 2023 results and adjusted EBITDA margin to be greater than 10%.

Our margins are expected to continue to improve as we realize the benefits of the aforementioned initiatives, realize operating leverage associated with the revenue growth and favorable mix driven by certain key customer wins that will have larger components of technology revenue. As we execute against our strategy over the course of this year, we expect to drive improved results and look forward to providing incremental updates going forward.

That completes my summary. I'd now like to turn the call back over to Jon.

Jonathan Huberman^ Thanks, Shahriyar. Ultimately, as we grow and continue to scale our product and service offerings, our clients' e-commerce operations will scale in parallel. Our modern approach to commerce allows brands and sellers to grow more profitably and without upfront cost, while still focusing their efforts on their core businesses instead of the resource-intensive nuances of e-commerce. With our focus on cost optimization over the past few months, we believe that we've positioned ourselves to grow profitably as well.

Here 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. And with our expanding pipeline of business across a number of industries that are interested in our solution, we are confident in our road map for sustainable growth in the coming quarters.

Operator, please open the call for Q&A.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Now our first question will come from Jeff Van Sinderen with B. Riley.

Jeff Van Sinderen^ Wonder if you can speak a little bit more about -- I know you had a record number of new customer wins this quarter. But maybe just talk a little bit more about the pipeline of that new business, maybe what it looks like in terms of concentration of various components that you offer, how much is the full CaaS service and perhaps variation thereof. And then maybe you could give us a little more on the timing of when those new clients that have signed will convert to meaningful contribution to revenues.

Jonathan Huberman^ Sure. I'll take the first part, and Shahriyar, you take the second. So in terms of the pipeline, it's a very strong pipeline we have currently. The coverage of our forecast is pretty significant and a lot of near-term opportunities, so it gives us the confidence in the projections we've made.

In terms of concentration on two fronts: one, industries and, two, product. So on the industry side, historically, we've been a fashion apparel dominant. That is changing. It's not that we're not being successful there, we are. And a big -- a sizable portion of our pipeline is in that space. But we've diversified out dramatically from just that space, fashion apparel, into both D2C, as you've seen with some of our recent wins like Giordano's, HeartBrand Beef in the food industry, but also into -- plays into B2B, which you'll -- you've seen some deals that we've discussed and others that are being signed soon.

On the B2B side, we're a little bit more -- it's more difficult for us to get our customers to help to allow us to put up press releases on those because they see us as a competitive differentiation. And so they prefer to keep it quiet, who they are and what they're doing. But we're seeing a tremendous amount of opportunity, and closing rate is pretty high on the B2B side.

In terms of the suite of products that we offer, all of our customers going forward are buying at least a CaaS. And historically, we -- for those who don't understand, we had one set of offerings that was combined between our Commerce-as-a-Service, the technology platform that is the marketing services and fulfillment services. Historically, you had to buy all of it. We've disassociated that where you -- we will allow people to, of course, buy our CaaS software. All of our deals come with the CaaS.

And then the marketing fulfillment, most people are buying -- the vast majority are by marketing and most are buying fulfillment. The ones who aren't buying fulfillment come in 2 flavors. One, the B2B guys who have very strong fulfillment arms, but also places where they've fulfillment needs that are somewhat specialized. So for instance, Giordano's Pizza, they use co-packers with the cold chain space to do -- in the cold chain space to do the fulfillment, which clearly is not something we want to invest behind.

So Shahriyar, do you want to answer the second half of the question?

Shahriyar Rahmati^ Sure. So with respect to the customers that we signed, there are a group of them that will begin to contribute to revenue in Q2 because meaningfully at close to full run rate, if not full run rate, because of the nature of those agreements and the time to onboard them and have them running on our platform.

And the -- and another group of those customers are nearly evenly split in terms of number that will be onboarding throughout Q2, but whose revenues will be more material in Q3 and in Q4. And the customers that fall into that category have disproportionately large revenue potentially than even relative to many of our existing customers.

Jonathan Huberman^ One thing I'd like to add, especially for those who don't understand our -- how we take people live, our -- we generally take someone live within 60 days of signing. That's in contrast to typical e-commerce solutions if someone's looking to do something on their own, which can take 1 to 2 years.

That said, this quarter, Q2 that we're in, you'll be reading shortly about a customer we've won that is a very large sophisticated omnichannel customer that we managed to take live in less than two weeks, I think it was 10 days, from start to finish. So I think our ability to get someone up and running is, frankly, unparalleled in the industry.

Shahriyar Rahmati^ Maybe just one last point there, if I may, Jon, is just along the lines of your question there, Jeff, with respect to pipeline is that in previous calls, we mentioned a partnership that we were working on with a global technology consulting firm. And we're happy to say that we have signed that agreement and, again, expect to be -- and did so just days ago and expect to be able to announce that in the near term. And I think you'll have a good sense of how that partnership connects with advancement in the marketplace.

Jeff Van Sinderen^ Okay. Great to hear. And then just as a follow-up to that, since you mentioned the digital marketing component, maybe you could just touch on the new partnership with Hawke and the benefits of that going forward.

Jonathan Huberman^ Shahriyar, do you want to take that?

Shahriyar Rahmati^ Sure. So as we have a platform that has incredibly robust analytical insights and consumer insights around what our -- both visitors and returning customers are doing on site, we've really been seeking the best set of tools to magnify and monetize the value of those and the related investments in those. And we've had familiarity with Hawke and known them and worked with them in various capacities in the past and sat down to discuss a more strategic approach.

They're working together to really maximize the acquisition marketing side of efforts given the combination of their scale and capabilities and team in that regard and the operating -- the leverage they can provide with respect to the size of their platform to the efforts that we're conducting there. We have our team, which was transferred over to their business. So it's the same group of people that we're working with in Nogin previously. However, that's just been augmented tremendously by additional expertise and staff and scale within their organization, which has come to us with nominal incremental cost and actually expect that, that potentially even at no incremental cost over time.

The other thing that, that partnership gives us is the ability to demonstrate working with a top-tier digital agency, whereby Nogin's offering the platform that we have and the data that we make available for acquisition and retention marketing creates a new channel for us, whereby we can work very closely with the strategic partner to prove the thesis and get the plumbing of those dynamics worked out and then scale that to the dozens of other large national agencies that operate potentially as channel partners for Nogin.

Jonathan Huberman^ Yes. Just to add one more thing. As we discussed in the prepared remarks, we expect we're going to be growing pretty dramatically. And a lot of that growth is driven by our pipeline that you asked about. On the performance marketing side where Hawke helps us out, that requires scale, and they can provide the scale very quickly. And as they need to hire more people, it's, I think, more effective for them to do it given that's their core business than for us to try to build that up as sort of an ancillary piece of our business. And so the -- that's one of the concerns we had is, are we able to keep up with our growth if we don't do something like this? And so hence, we did.

Operator^ (Operator Instructions) Our next question comes from the line of Brian Kintslinger with Alliance Global Partners.

Unidentified Participant^ This is [Steven] on for Brian. So congratulations on adding those 7 new brands. That's really great to hear. Could you quantify your total customer count and where you expect it to be at year-end?

Jonathan Huberman^ Yes. So our customer count, we don't normally give exact numbers because it fluctuates here and there. We're -- when we inherited the business, we were at about 2 dozen. We are now roughly double that. And if you look at the number of deals, we -- as we discussed in previous -- on our previous call, we expected to sign 8 new deals between mid-March and early April. Obviously, we talked about the 7 we signed in mid-March because that's when the quarter ended. We did sign additional -- we did sign at least 1 more past that in that time frame.

I suspect if you look at the quantification, doing 8 to 10 new deals a quarter, new brands, is probably a good way to look at it. So basically, keeping up the pace we're on, if not accelerating it. As Shahriyar mentioned, we clearly, over the weekend, signed the relationship with the large consulting company that we've previously discussed, and will be coming -- the name and our relationships will be coming public shortly, more public.

We honestly, with the pipeline we have talked to you about, doesn't include anything from them. So I expect that's what we've been doing organically and our organic is accelerating. Whatever we bring is incremental to that. And obviously, we have pretty high expectations from them. Otherwise, we wouldn't have spent as much effort getting them signed. So that's sort of where we are today. If you ask me in another quarter, hopefully, it would be even a bigger number.

Shahriyar Rahmati^ I think also to add to that, as you see us going throughout the year, I think you'll see that some of the brands that we'll be signing and some of the relationships that we'll be developing will be larger in size and scale than some of the clients that we've had historically. So in addition to the ordinal numeral value of the clients, where we can, we'll give as much color as to some of those larger relationships.

Jonathan Huberman^ Yes. One space that I mentioned earlier, talking about branch out of food and B2B, another space that we've signed but have not announced yet is in consumer electronics as well, which could be a very interesting channel for us.

Unidentified Participant^ Great. One other question. Given the challenging economy, are customers generally reluctant to move forward with a direct-to-consumer strategy? Do you see pressure from the area or is the process of a high-margin direct channel appealing to help offset likely pressured sales?

Jonathan Huberman^ No, it's the latter, not the former. Yes. Obviously, in a market like this where people are -- our clients are challenged in the retail segment, having high profit, easy-to-target direct-to-consumer and [easy to begin] because they outsource to us and we do it for them, so they're not -- it's completely -- it's all OpEx. There's no CapEx. It's scalable. So as we take -- as mentioned, we take a percentage of revenue, so it's just of the e-commerce of what we do, so it's all incremental for them. There is huge demand.

And as people look to cut costs -- and on OpEx, on their side in terms of head count, this is a way for them to drive a revenue stream that's, again, inexpensive for them to do and very additive to their top and bottom line. So I think it's -- the market -- and we talked about this, I think, 6 months ago. We said if we head into a recession or recession-like environment, that we believe it's going to be positive for us overall, even though at some level somewhere, if overall consumer spending comes down, that may hit individual customers at each individual level, but it will bring so many more customers to us and that additive nature is going to help us dramatically. I think we're seeing that.

Shahriyar, do you have anything to add?

Shahriyar Rahmati^ I think one of the customers that we signed this quarter actually became profitable by virtue of the agreement with us. And so the amount of cost savings that they were able to realize in their brand not only would bring them revenue growth, but would actually bring them immediate profitability. And when I say immediate, I mean that within a 60-day time frame, so perhaps short term.

And the other channel to think about is one that -- as we've mentioned B2B recently, to unpack that for a quick second here, it's manufacturers, distributors, companies that have not a first-party relationship to their end-to-end customer are ones where the incrementality of the profit and the margin associated with the revenue stream that is created and the nuances that they're able to execute, whether it's E&O disposition, whether it's new product launch acceleration or, frankly, whether it's just without 1 or 2 more parties in the chain consuming margin, those companies in economic -- economically challenging environment or volatile environment see D2C, as we've explained and shared with them, as an attractive hedge or an additive vector to their aggregate profitability.

And we've had that conversation directly with companies. That conversation has also resonated profoundly and rapidly with private equity firms as a channel who viscerally understand all dimensions of that equation.

Jonathan Huberman^ Yes. And Shahriyar, you missed my -- we didn't talk -- I didn't mention this earlier when talking about the pipeline. You may just want to talk about the success we're having in private equity.

Shahriyar Rahmati^ Well, we have -- some of the customers that we've signed this quarter have come from the private equity channel. In addition, we have a material number of opportunities in the pipeline that are coming from private equity, both mid-market firms as well as some larger firms where they seek to build a digital commerce channel within their portfolio companies but don't want to incur the onetime cost, the management distraction, the uncertainty around success, frankly, not have the best practices and all of the associated things that come with that, coupled with, obviously, a time-constrained holding period.

And so at the moment, we've reached out to a small group of firms to be able to scale and test and hone our strategy there. The results have been fantastic, near overwhelming and where we've built and are building the ability to really scale there because, honestly, we've seen no ceiling and what's available in that channel, and we see incredibly rational, incredibly sophisticated folks in that industry that, by virtue of their ownership and engagement with the C-suite and ourselves, also have a very short time to revenue in building D2C or B2B commerce.

Jonathan Huberman^ And one of the beauties of the private equity channel is because of the tight relationship between ownership and management, our sales cycle is, in order of magnitude, shorter.

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

Jonathan Huberman^ Okay. Well, thanks, everyone, for joining us. I appreciate it and look forward to talking again soon. Have a good day.

Operator^ Thank you for joining us today for Nogin's first quarter 2023 earnings conference call. You may now disconnect.