

SeaChange International, Inc.

Fiscal Third Quarter 2021 Conference Call Script

Thursday, December 10, 2020 at 5 p.m. ET

YOSSI ALONI – CEO

Thanks, operator. Good afternoon and thank you for joining our third quarter of fiscal 2021 conference call. It is great to have this opportunity to speak with you today and I hope everyone remains safe and healthy during these extraordinary times.

The dramatic shift in service provider spending since the onset of the pandemic has impacted the near-term demand for our Framework video delivery platform. For those that follow our industry closely know, COVID-19 forced many service providers to invest heavily in technology infrastructure and reduce or eliminate investment in video platforms such as our Framework. On the other hand, content owners are now *accelerating* their content distribution strategies and investments to deliver high-quality content directly to consumers.

I'm incredibly encouraged by our team's ability to quickly *and* successfully adapt to this changing landscape. In late October, we strategically pivoted to addressing the immediate needs of content owners who are looking to develop an effective over-the-top, direct-to-consumer strategy to stay competitive, monetize content, and build deeper levels of engagement between audience and brand. SeaChange's new Video Apps service directly addresses the market's accelerated shift in spending and changing consumer behavior by enabling content owners to quickly launch TV and video applications directly through Smart TVs and connected platforms Roku, Amazon Fire TV, Chromecast, and Apple TV.

Before I dive deeper into our strategic pivot, I would like to turn the call over to our CFO Mike Prinn to walk you through our numbers for Q3, which should provide additional context as to the rationale behind the pivot. Afterwards, I'll come back on to share more about the Video Apps service and the massive opportunity in front of us. Then our CTO Marek Kielczewski will discuss how we were able to quickly launch the new platform from a technology perspective. Our CCO Chad Hassler will then share with you the traction we're achieving in the market. Afterwards, I will share our outlook and then open

the call to questions.

Mike?

MIKE PRINN – CFO

Thanks, Yossi, and good afternoon everyone.

Looking at our financial results for the fiscal third quarter ended October 31, 2020...

Total revenue for fiscal Q3 2021 was \$5.0 million, which was flat from the prior quarter and down from the \$20.5 million in Q3 of last year. As Yossi alluded to, the year-over-year revenue decrease was primarily due to lower product and services revenue in the period as we continue to see the impact of the global pandemic.

Product revenue for fiscal Q3 2021 was \$1.0 million, or 21% of total revenue. This compares to \$1.1 million, or 21% of total revenue, in the prior quarter, and \$13.5 million, or 66% of revenue, in the same year-ago period.

Service revenue for fiscal Q3 2021 was \$3.9 million, or 79% of total revenue, which was flat on a sequential basis and down from \$7.0 million, or 34% of total revenue, in the same year-ago period. The decrease in service revenue was due to lower revenue from both professional services and support revenue from customers related to legacy products. As we have mentioned on prior calls, these declines are consistent with our expectations as we transitioned legacy customers to new Framework arrangements and transitioned our professional services organization to our customer engineering organization as we completed legacy professional services projects.

Revenue from our international markets in fiscal Q3 2021 was \$3.6 million, or 72% of total revenue, which compares to \$3.3 million, or 67% of total revenue in the prior quarter, and \$10.1 million, or 49% of total revenue, in the same year-ago period.

Revenue in our U.S. market for fiscal Q3 2021 was \$1.4 million, or 28% of total revenue, which compares to \$1.7 million, or 33% of total revenue in the prior quarter, and was down from \$10.4 million, or 51% of total revenue, in the same year-ago period. The decrease in revenue from both the U.S. and

international markets was due to a reduction in bookings, primarily attributable to the pandemic.

Looking at our margins...

Gross profit for fiscal Q3 2021 was \$2.8 million, or 56% of total revenue, compared to \$1.8 million, or 36% of total revenue from the prior quarter, and from \$15.7 million, or 76% of total revenue, in the same year-ago period.

Product gross margin for the fiscal third quarter of 2021 was 58%, compared to 26% from the prior quarter and 97% in Q3 of last year. Service gross margin was 55%, compared to 39% from the prior quarter and 38% in Q3 of last year.

Looking at our expenses...

Non-GAAP operating expenses for the fiscal third quarter of 2021 decreased 5% to \$6.6 million from \$6.9 million in the prior quarter and decreased 38% from \$10.5 million in Q3 of last year. The decrease reflects the continued cost-savings initiatives related to the reduction of third-party costs and elimination of non-essential internal costs throughout our organization. As we have communicated previously, in response to the COVID-19 pandemic, in late April we shifted our business operations to further reduce our operating expenses and to better align our strategy with current market conditions. These actions included establishing additional cost-optimization measures in addition to the ones we made last year.

GAAP loss from operations for fiscal Q3 2021 totaled \$4.6 million compared to \$6.2 million in the prior quarter, and GAAP income from operations of \$2.3 million in the same year-ago period. As a percentage of total revenue, GAAP loss from operations for the third quarter of fiscal 2021 was negative 92%, which compares to negative 124% in the prior quarter and GAAP income from operations of 11% in the year-ago period.

Non-GAAP loss from operations for fiscal Q3 2021 totaled \$3.8 million, or a loss of \$(0.10) per basic share, compared to \$5.1 million, or a loss of \$(0.14) per basic share in the prior quarter, and a gain of \$5.2 million, or a gain of \$0.14 per fully diluted share, in the same year-ago period. As a percentage of total revenue, non-GAAP loss operations was negative 76% compared to negative 102% in the prior

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quarter and 25% in Q3 of last year.

GAAP net loss for fiscal Q3 2021 totaled \$5.1 million, or a loss of \$(0.14) per basic share, compared to a net loss of \$5.8 million or a loss of \$(0.15) per basic share in the prior quarter, and net income of \$2.1 million, or a gain of \$0.06 per fully diluted share, in the same year-ago period.

Non-GAAP net loss for fiscal Q3 2021 totaled \$4.3 million or a loss of \$(0.12) per basic share, compared to a net loss of \$4.7 million or a loss of \$(0.12) per basic share in the prior quarter, and a net income of \$5.1 million, or a gain of \$0.14 per fully diluted share, in Q3 last year. As a percentage of total revenue, non-GAAP net loss was negative 87% compared to 25% in Q3 of last year.

Turning to the balance sheet...

We ended the quarter with \$6.2 million in cash and cash equivalents and marketable securities. We expect to end the year with at least \$8.5 million in cash, giving us sufficient liquidity and runway to execute our growth strategy.

In summary, the decisive measures we have implemented since March and continue to execute on, have optimized our cost-structure, enhanced our liquidity position and resources, and positioned us to ensure SeaChange emerges from the pandemic in a strong financial and operational position.

This completes my financial summary. For a more detailed analysis of our financial results, please refer to today's earnings release as well as our 10-Q, which we filed this afternoon.

Yossi?

YOSSI ALONI – CEO

Thanks, Mike.

As our financial results illustrate, COVID-19 has greatly accelerated service providers investments in the infrastructure layer and away from video platforms, where we have seen spending dramatically decline. Alternatively, content owners, particularly independent and smaller owners, are aggressively looking for ways to seamlessly deliver and monetize their rich content libraries. This is where SeaChange comes in.

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The launch of our new Video Apps service could not have been timelier. Video Apps addresses the burgeoning demand from content owners to deliver high-quality TV and video content directly to consumers through Smart TVs and connected platforms such as Roku, Amazon Fire TV, Google Chromecast and Apple TV. eMarketer forecasts that connected TV usage in the U.S. alone will surpass more than 200 million viewers this year. Roku devices lead the category with approximately 44% of viewers, followed by Amazon Fire TV, Google Chromecast, and Apple TV. While these stats are impressive, the point is that SeaChange and our Video Apps service is right at the epicenter of the exploding demand for high-quality direct to consumer content and the devices the content is delivered on.

From a content owner perspective, our service provides a 'one stop shop' to enable them to quickly and easily deploy and monetize their content. Video Apps leverages our proprietary Ad Insertion module to automatically source ad buyers, define ad placements, and programmatically fill advertising slots in real-time. With SeaChange's Ad Insertion module and rich data analytics, content owners can have greater insights into their audiences and generate higher advertising revenue right away.

Industry analysts are predicting that programmatic ad budgets will surge with the rise in connected TV streaming as well as advancements in technology that is bringing linear inventory into digital buying workflows. SeaChange's revenue revenue-share model allows us to meaningfully participate in the growing OTT market ad spend, which according to eMarketer, is expected to exceed \$14 billion globally by 2023.

I would like to invite our CTO Marek Kielczewski to share how our technology enabled us to successfully pivot and successfully launch a new service in a matter of months.

Marek?

MAREK KIELCZEWSKI – CTO

Thanks, Yossi, and good afternoon, everyone.

For those that have followed our company know, SeaChange has a rich history of technology innovation. We invested in award winning products and continue to invest in R&D to deliver amazing solutions using

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our best-in-breed technology. Whether it be our Framework platform, our Advertising Solutions, or our cloud back office orchestration and analytics tools, our collective suite of products is unrivaled in the industry.

This year, in response to the changing industry landscape due to COVID, we adapted and modified our cloud technology portfolio to directly address the needs of content owner and the desire to deliver content directly to consumers. Historically, for content owners to launch a Direct-to-Consumer video service, the process was overly complex, costly, and involved disparate technologies and vendors. With SeaChange's Video Apps service, content owners can now quickly and easily start operating their own streaming service while maintaining a direct relationship with the consumer. We enable rapid deployment in the cloud, elastic scaling, managing the promotional campaigns and user experience while fully controlling the app lifecycle. All of this using over 20 different app platforms to reach over 95% of the market. Not only does this new approach enhance content owner margins, it also creates greater long-term business value by enabling full control over the service, data and customer relationship.

I'll now turn the call over to Chad to discuss our sales momentum and pipeline.

Chad?

CHAD HASSLER – CCO

Thanks, Marek, and good afternoon everyone.

As the team has shared, it's been an exceptionally busy and productive period in our company's evolution, particularly since our strategic pivot last month. We've secured 10 new customer wins since August, spread across our offering suite. including Framework, Advertising Solutions and our new Video Apps platform.

During Q3, we secured six (6) new customer wins, including 'Framework' Video Platform wins, Video Apps services; and an Advertising Solutions (formerly 'Unsold') win. We have built on this momentum in our current quarter, signing four (4) new customers wins, including Advertising Solutions, and wins for Framework Video Platform with Video Apps services. Collectively, since we launched the Framework platform in March 2019, we have secured 39 wins worth an aggregate total contract value of

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approximately \$63 million.

In early Q4, we secured the most meaningful win in Company history with one of the largest mobile network operators in the world for SeaChange's Advertising Solutions. Following a successful six-country pilot deployment in Central America, the new customer selected our Advertising Solutions, previously referred to as Unsold, for deployment across its entire video offering of linear, OTT and VOD delivery channels.

As one of the largest telecom companies in the world, this customer represents the most well-known and referenceable endorsements for the quality and capabilities of SeaChange's technology. Their organization put our tools to the test, and we're proud to have exceeded their high standards and earned this major, multi-country win as a result. The aggregate potential revenue opportunity over the next three years is approximately \$100 million based on the customer's annual unsold ad inventory and the revenue share SeaChange would receive to monetize it.

I'll now turn the call back over to Yossi for his closing remarks.

Yossi?

YOSSI ALONI – CEO

Thanks, Chad.

While the pandemic has impacted our near-term financial results, we are well positioned to enable the industry's ongoing direct-to-consumer movement. Video Apps is providing content owners with the platform to capitalize on the exploding demand in high-quality streaming content and the growing advertising OTT ad spend.

The market opportunity and need for such a solution is validated by the strong customer demand we're seeing and the robust pipeline we've built for Video Apps. Since the launch of the platform in November, we have secured four (4) wins for Video Apps and are engaged in discussions with approximately 50 content owners, who are in varying stages of the sales cycle. As we secure new wins, we plan to keep the investment community apprised of our progress and traction through a more regular cadence of press release communications.

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Over the next five years, we expect *thousands* of direct-to-consumer TV Apps will be launched with a need for a built-in ad monetization strategy. Similar to how Wix enabled mass production of websites for small to medium businesses, SeaChange's Video Apps service will look to play a major role in powering and capitalizing on the massive direct-to-consumer TV apps revolution.

That concludes our prepared remarks. We're ready to open the call for questions.

[Q&A SESSION]