



LiveVox Holdings, Inc.

First Quarter 2023 Conference Call

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C O R P O R A T E P A R T I C I P A N T S

Alexis Waadt, *Vice President, Head of Investor Relations*

John DiLullo, *Chief Executive Officer and Director*

Gregg Clevenger, *Executive Vice President and Chief Financial Officer*

C O N F E R E N C E C A L L P A R T I C I P A N T S

Parker Lane, *Stifel*

Vivek Balaji, *Northland Capital*

Jim Fish, *Piper Sandler*

Jacob for Kash Rangan, *Goldman Sachs*

P R E S E N T A T I O N

Operator

Good afternoon, and welcome to the LiveVox First Quarter 2023 Conference Call.

All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key, followed by zero. After today's presentation, there will be an opportunity to ask questions. (Operator Instructions)

Please note this event is being recorded.

I would now like to turn the conference over to Alexis Waadt. Please go ahead.

Alexis Waadt

Good afternoon, and thank you for your participation today.

With me on the call today are John DiLullo, CEO, and Gregg Clevenger, Executive Vice President and Chief Financial Officer.

Before we get started, I would like to remind you that comments made during this conference call and webcast contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, and are subject to risks and uncertainties. Any statement that refers to expectations, projections or other characterizations of future events, including financial projections or future market conditions, is a forward-looking statement. The Company's actual future results could differ materially

from those expressed in such forward-looking statements for any reason, including without limitation, those listed in the Risk Factors section of our SEC filings, including our 10-K filed with the SEC on March 2, 2023. LiveVox assumes no obligation to update any such forward-looking statements.

Please also note that past performance is not a guarantee of future results. Certain information discussed on this conference call was derived from third-party sources and has not been independently verified and, accordingly, the Company makes no representation or warranty in respect of this information.

During this conference call, the Company will discuss non-GAAP financial measures as defined by SEC Regulation G. A reconciliation of each of these non-GAAP measures to the most directly comparable GAAP financial measure can be found in the earnings press release, which is available on the Investor Relations website, investors.livevox.com.

A recorded replay of this call, together with related materials, will be available on our Investor Relations website, investors.livevox.com. LiveVox's earnings release and Form 10-Q for the quarter ended March 31, 2023 will also be available on the Company's website.

With that, I'll turn the call over to John to begin.

John DiLullo

Thanks, Alexis, and thanks to everyone for joining our quarterly earnings call.

As you can glean from our press release earlier this afternoon, we had a strong Q1 that broadly met or exceeded expectations on nearly every metric that we track. It was a quarter full of accomplishments of which we are extremely proud, including, most notably, winning 10 new customers and finishing the quarter with revenue comfortably above the high end of our guidance. For these achievements, I'd like to thank our customers, suppliers, partners, our supportive investors, the LiveVox Board of Directors, and especially our dedicated employees.

In a few moments, our CFO, Gregg Clevenger, is going to share with you more details about our financial results and provide guidance for the current quarter and an update to our full year 2023 outlook. However, in the brief time that I have today, I'd like to share with you color on the tailwinds and, in some cases, headwinds, that we are facing in the market.

In the last 90 days, I visited all our global offices and met with most of our employees and many of our customers. This around the world trip was timed to occur on the heels of the restructuring efforts that we initiated in Q1, in combination with a 16% reduction in force, detailed in our 8-K filed on January 17. After spending time with the team, I feel that our energetic performance in Q1 is a testimonial to the resilience and adaptability of the LiveVox culture and the superiority of our contact center solutions.

Throughout Q1, installations proceeded as expected, open ticket, resolution time shortened, and we improved on our already industry-leading uptime and availability targets. The changes that we undertook in Q1 were transformative, but executed with such precision that they did not meaningfully distract our organization, nor did they jar or disturb our loyal customers. Concerns that we had about potential customer churn or unwanted attrition resulting from our restructuring did not materialize.

I continue to see substantial opportunity ahead, and the four company-wide initiatives that I announced last quarter to preserve, optimize, leverage and expand our performance, remain an ongoing priority for the Company.

Regarding the first tenet, preserve, I'm proud to say that the team executed very well last quarter. Our calling volumes remained constant throughout the quarter despite Q1 seasonality trends, which can be unpredictable. Our largest new logo win of the quarter was a \$4.2 million three-year transaction with a top

15 U.S. bank. This win was especially insightful as it demonstrated that even large, regulated financial institutions are now embracing our cloud-native CCaaS solutions.

Serendipitously, this large U.S. bank had gained experience with our product when one of its outsource BPO partners deployed LiveVox to support a small regional contact center. After experiencing our reliability, secure Zero Trust architecture, and the superior productivity that their agents would enjoy with our platform, the bank standardized on LiveVox.

As a reminder, consumer finance markets became quite challenging for us during the pandemic, as lenders enacted forbearance, forgiveness and payment deferral programs. Normalization of the consumer credit cycle is a potential long-term tailwind for LiveVox, and wins, such as the one I highlighted earlier, indicate that the tide may be turning in the segment.

One of the faster growth areas for us has been sales of omnichannel solutions that leverage our unified Agent Desktop and CRM integration capabilities, including the integrated delivery and management of SMS messages.

On April 3, one of our largest SMS text aggregators unexpectedly notified us of their decision to significantly reduce delivery of messages that lacked explicit consent or were otherwise deemed undesirable. Securing messaging consent and determining the appropriateness of SMS content is an evolving practice, but we remain committed to the greater public good of prohibiting nuisance and spam messaging and of eliminating noncompliant traffic without exception.

LiveVox experts routinely help our customers navigate the evolving needs and preferences of consumers and SMS carriers, and we believe that our customers' traffic was compliant with current regulations. Nevertheless, this decision will have an impact on our Q2 and full year SMS revenues while we redistribute this traffic to other aggregators.

We expect the disruption from these changes to be temporary in nature and, as Gregg will share in a few moments, they should not impair our previously provided annual guidance.

We also continue to execute on the second tenet of our action plan, to optimize our ongoing operations. I'm happy to report that we recently sunset our legacy release, Version 13, and have accelerated the migration of workloads and customers from Version 15 to Version 17. These actions promise to fuel future gross margin expansion as workloads migrate to newer versions of our product that better exploit auto scaling.

As I mentioned last quarter, we continue to leverage our lower cost centers of excellence in Bangalore and Medellin, Colombia extensively, and have also tasked our leadership team to accept expanded responsibilities to improve our employees per manager ratios worldwide. All these efforts are expected to provide long-lasting economic benefits.

The third tenet of our action plan is to leverage and to better utilize partnerships and channels to streamline internal processes and accelerate our go-to-market efforts.

Today, nearly 15% of our current sales pipeline is derived from channel marketing efforts and partner engagements.

In Q1, we began activating four new value-added resellers, each of which has deep expertise and well established contact center practices.

In Q1, we also became a member of CGI's Vendor Integration Program. CGI is one of the largest IT and business consulting services firms in the world, with more than 90,000 consultants and professionals and a highly complementary practice in the deployment of financial management software.

Working collaboratively with partners like CGI, we expect to meaningfully improve our lead generation and sales productivity for many quarters to come.

The last tenet of our four element strategic initiative is to expand and grow. LiveVox operates in a market replete with opportunities outside of our historically narrow focus areas of domestic, outbound consumer, finance, credit and collections. We have exciting opportunities to grow in international markets, to participate more in the midmarket customer segment, to adapt and certify our products for use in the government sector and to improve adoption of our products in more traditional care segments.

Although our efforts to open the aperture of our go-to-market engine are just beginning, we are making great progress. One of our many Q1 new customer wins offers a glimpse into the impact of these efforts. We were selected by a U.S. automotive retailer to automate its inbound customer care center, a \$500,000 annual contract value win. In this case, the LiveVox solution will provide the ability to improve efficiency and productivity by directing overflow inbound calls to personnel in any one of its 70 retail locations, while maintaining the ability to record, store, score and index every customer interaction.

This win highlights how LiveVox's cloud-based platform, flexible deployment capabilities and AI-powered transcription services can help customers simultaneously cut cost, gain invaluable customer insights and improve agent productivity.

We have made other significant strides in our go-to-market efforts in Q1, in addition to the launch of our new brand messaging and website. Q1 was a record quarter for sales accepted leads and pipeline opportunity creation. Key marketing metrics, such as organic website traffic and social engagement, also continue to grow substantially year-over-year.

And I am particularly proud to share that this past quarter, we made our debut in the Forrester CCaaS Wave.

In the last 60 days, we installed a new senior vice president of sales with extensive customer care, CCaaS and channels experience. Subsequently, we hired a new VP of channels with global experience managing large multitier channel programs, and a new VP of sales engineering from a competitive contact center provider. All together, this new team combines extensive pedigrees from competitive brands as well as time spent in channels, channel operations and legacy contact center customer environments of all shapes and sizes.

On the product front, I'm happy to announce that several important features have recently entered early release status, including support for the ITU International Public Telecommunications Standard, E.164. Introducing this capability opens nearly all of the \$10 billion international contact center addressable market to LiveVox. This feature package includes the ability to support, schedule international callbacks, to initiate automated and predictive supervised international filing, international agent scheduling, and support for Spanish and French for both agents and system administrators.

I am also excited to report that we are participating in the Open.AI Alpha Program for integration with their Whisper platform, which promises to further enhance our Agent Assist offering and quality management tools. Also, our AI-powered Agent Assist automated wrap summary and Sentiment Analysis tools are currently being demonstrated to and considered by many of our existing customers.

We are already enjoying a tailwind in pipeline growth from enquiries related to our AI solutions. These technologies hold the promise of making agents more productive and significantly enhancing self-service capabilities, reducing the cost of interactions, and improving the customer experience. It is extremely difficult to leverage emerging AI tools in a legacy on-premises contact center, and we believe that the popularity of ChatGPT and other similar tools can only serve to help accelerate the movement of contact center workloads to the public cloud.

In Q1, we also celebrated the beta release of our LiveVox Connect product. With so many agents still working from home, the energy and collaborative synergies of the traditional tightly packed contact center are often difficult to replicate in a distributed work environment. LiveVox Connect introduces a Facebook-like collaborative chat window on to the agent's desktop that emulates in many ways the dynamics of being together and in person by enabling notifications of major wins, best practice sharing, real-time requests for help, and other critical social functions important to maintaining agent morale, engagement and retention.

As I've said before, the macro trends that LiveVox enjoys are powerful and enduring, and we are well positioned to capitalize on the opportunity created by the movement of legacy contact centers to the cloud. This, together with our committed employees and obsession with customer success, forms the foundation of the growth we expect to enjoy in future periods.

Thanks again for your time today. It's my pleasure now to introduce Gregg Clevenger, our Chief Financial Officer, who will walk us through the numbers. Gregg?

Gregg Clevenger

Thanks, John, and good afternoon, everyone.

I want to remind you that all non-GAAP financial figures that I discuss on the call today are reconciled in a presentation posted on the Investor Relations section on our website, in our press release issued just prior to this call and in our 10-K.

I'll start off with a recap of a very solid first quarter before moving on to guidance for the second quarter and the full year '23.

Total revenue for the first quarter was \$36.9 million, 15% higher than the first quarter of last year and \$1.9 million above the high end of our guidance range of \$34 million to \$35 million. Our revenue this quarter had more non-recurring revenue than is typical for us, about \$1.1 million or 3% of total revenue, driven by the recognition of some lower margin project-related revenue.

ARR, which is annualized total revenue for the quarter minus all non-recurring revenue, was \$143 million, 14% higher than \$125.7 million of ARR in the first quarter of 2022.

Net revenue retention stayed steady at 112% versus 113% both in the first quarter of last year, as well as last quarter.

Adjusted gross margin for the first quarter was 68.3%, an increase of 20 basis points versus last quarter and nearly 800 basis points better than the first quarter of last year. Our adjusted gross margin performance this quarter was negatively impacted by the higher amount of lower margin non-recurring revenue recognized in the quarter, without which our adjusted gross margin would have been over 69%.

Adjusted EBITDA for the quarter was a positive \$825,000, also above the high end of our guided range.

Our expenses this quarter included some non-recurring legal expenses, as well as an unusually high bad debt expense related to a particular customer, all totaling nearly \$600,000, without which our Adjusted EBITDA in the quarter would have been in the range of about \$1.4 million.

GAAP earnings per share for the quarter were a negative \$0.09 on both a basic and diluted basis versus negative \$0.14 in the first quarter of last year, and were a negative \$0.05 a share when adjusted for the \$4.2 million of one-time restructuring costs in the quarter related to our January headcount reduction and the closure of some of our underused U.S. office space.

CapEx for the quarter totaled only \$90,000, reflecting the capital light nature of our 100% public cloud product platform.

Lastly, we ended the quarter with \$54 million of debt and \$63 million of cash and cash equivalents and marketable securities. We had a relatively high but expected use of about \$6 million of cash during the quarter, driven by cash payments associated with our January restructuring, the seasonal prepayment of certain annual vendor obligations and the payment of employee performance bonuses that were achieved and accrued for in 2022. Our \$63 million of cash at the end of the quarter remained well above the \$60 million cash low point we guided to for the quarter.

So, let's turn now to forward-looking guidance.

As John mentioned earlier, the disruption to some of our SMS traffic will have a negative impact on our second quarter revenue and profitability, and will have a longer-term impact on our messaging revenue from collections customers. In total, we expect this to have a (audio interference) million impact to our revenue in the remaining three quarters of this year with a disproportionate amount of it experienced in the second quarter. While this is not an issue that is expected to have a material impact on our business, it does come at an important inflection point for the business in terms of profitability and free cash flow, especially in the second quarter.

So, with that context, we expect second quarter total revenue to be between \$34 million and \$35 million, 3% to 6% growth over the second quarter of 2022. We expect our adjusted gross margin in the second quarter to exceed 69%, and we expect our Adjusted EBITDA to be between zero and \$500,000, a little lower than the first quarter due to the lost profit contribution from the impacted SMS traffic.

In terms of full year guidance for 2022, we are maintaining our previously provided revenue guidance of \$143 million to \$148 million for the year. We continue to expect our adjusted gross margin to trend towards 70% by the fourth quarter, and we are increasing our Adjusted EBITDA guidance by \$1 million to now be between \$4 million and \$7 million for the full year, with an Adjusted EBITDA margin approaching 10% in the fourth quarter.

With that, Operator, can you please open the line for Q&A?

Operator

(Operator Instructions)

The first question comes from Parker Lane with Stifel. Please go ahead.

Parker Lane

Yes, hi guys. Thanks for taking the question. John, good to hear about the ramping that you had begun with the new VARs here. I think you said it was four during the quarter. Would that 15% figure pipeline driven by the channel, where do you anticipate that goes as you bring on more and more of these VARs and start to emphasize that as a new go-to-market motion?

John DiLullo

My hope, Parker, and thanks for joining the call. My hope is that that continues to climb. I'd like to see as much as 50% of our leads that we originate coming through different channels, whether those be MSPs or SIs or VARs. But we're really excited about the progress so far and the quality of the customers and the types of opportunities they bring. So I think it's blue skies ahead on that front.

Parker Lane

Yes, great to hear. Gregg, as far as that (inaudible) million impact is concerned related to messaging, can you give us a sense if this is a dynamic that has been felt across the customer base, if that impact is particularly isolated to a subset of customers? Is there any opportunity to potentially recapture revenue from customers going to another channel, whether it be voice, OTT messaging, etc.?

Gregg Clevenger

Yes. Parker, the impact was felt across a particular aggregator that chose to not carry our traffic anymore based upon the consent that they wanted our customers to recertify consent. We have been working diligently to do that and to move that traffic on to other aggregators. So it will have an impact in the second quarter largely, and then we expect that it will continue over the rest of the next third and fourth quarter as well.

Parker Lane

Got it. Appreciate the color.

Gregg Clevenger

Yes. Parker, also, to the second part of your question there. Also, I suppose, there's a potential that if those customers are not able to send SMS messages that it may increase their voice traffic but we're not really banking on that nor have we included any of that.

Parker Lane

Understood. Okay, thank you.

Operator

The next question is from Vivek Balaji with Northland Capital. Please go ahead.

Vivek Balaji

Hi. I'm Vivek on for Mike Latimore. I have a couple of questions with me. The first one is how is (audio interference)

John DiLullo

Operator, we lost audio.

Operator

Yes. I'm so sorry. I am going to have to ask Jim Fish to get back into the queue, and I will put Vivek on the podium right now. Thank you.

Vivek Balaji with Northland Capital, you are on the podium now.

Vivek Balaji

Hi there. Am I audible now?

John DiLullo

Yes, we can hear you.

Vivek Balaji

Yes. I'm Vivek on for Mike Latimore. I have a couple of questions with me. The first one is, how is the pipeline in the government vertical?

John DiLullo

I think what you're asking was how is our pipeline in the government vertical. Is that right?

Vivek Balaji

Yes.

John DiLullo

I would say of all of our initiatives, that one is probably the most slow in coming, and it's growing. We certainly have a couple of opportunities that we're looking at but we're still not counting on anything in this fiscal year from that segment.

Vivek Balaji

All right. My second question is, what is the sales headcount and are you adding more this year?

John DiLullo

Yes, we don't disclose the actual headcount of sales, but we're actually are adding sales headcount over the course of the year. We're focusing our resources on areas of growth that we've outlined, which are around the channels and international and as you touched upon on government. Those are kind of the growth vectors we see going forward. So that's where we're investing resources.

Vivek Balaji

All right. That's it from my side. Thank you.

John DiLullo

Thank you.

Operator

(Operator Instructions)

The next question is from Jim Fish with Piper Sandler. Please go ahead.

Jim Fish

(Inaudible)

John DiLullo

Hey Jim. There you go.

Jim Fish

Can you hear me?

John DiLullo

Yes, we can hear you Jim.

Jim Fish

All right. Perfect. Great to hear about the large bank win in the quarter. Obviously, that's a sector that investors are a little bit worried about just given some of the pauses that have been going on with spending. Can you maybe talk about what you're seeing from your broad financial services exposed customers? Did they have a pause kind of in Q1, what their spending's kind of trended like and anything to call out in terms of paused spending or any sort of changes there?

Gregg Clevenger

Yes. Jim, I hate to be boring with my response but we didn't really see anything dramatically different. We continue to see the pipeline build. We remain optimistic about a potential recovery and the normalization of the credit cycle. But I'd say we performed just about as we expected in the financial vertical in Q1.

Jim Fish

Got it. That's really helpful. Maybe looking forward from the NRR metric, is this a metric that you're looking at potentially bottoming here in '23 and then we can kind of work off of that base as we work into '24 and beyond, or is this something that's going to slowly trickle down over time until we see some sort of renewal in the credit cycle?

Gregg Clevenger

I think in the longer term it should trend higher, but it is pretty steady, meaning, it is 112 as we reported this quarter, but the fact is is 3 more basis points it would have been 113, which is what we were last quarter, which is what we were last year. So it's relatively steady at this level. And yes, to the extent that there is a kind of credit cycle recovery that we expect at some point, given all the metrics out there, then that will help to drive it ever higher. As you know, we continue to invest a lot of resources around penetrating white space within our existing customer base, which will help on that metric as well.

John DiLullo

Yes, and the collection of new logos. We're doing—Jim, I would say we're doing real well with new logos. And I shared with you one, an auto services retailer. But we're seeing a lot of activity in other verticals and segments as well, and particularly in the care segment.

Jim Fish

Yes, that makes a lot of sense. Thanks guys.

John DiLullo

Thanks Jim.

Operator

The next question is from Kash Rangan with Goldman Sachs. Please go ahead.

Jacob:

Hey guys. This is Jacob on for Kash. I appreciate taking the question. I just wanted to touch on quickly, and I apologize I hopped on a little late, but can you touch on maybe sales cycles in the quarter and how those might have differed from last quarter. It sounds like the government vertical, there's not much activity going on there, but anything else that you might call out?

John DiLullo

Thanks Jacob. We had—like I say, the quarter proceeded pretty—at a fairly orderly way, and we actually saw a slight improvement in sales cycles and sales cycle time. So, that's encouraging. Not clear if that's going to persist in the coming quarters, but we were excited about pipeline creation in the quarter and like I say the predictability and even the slight improvement in the cycle times.

Jacob:

Awesome. Okay, that's helpful. Thank you so much.

Operator

This concludes our question-and-answer session. It also concludes the conference. Thank you for attending today's presentation. You may now disconnect.