



LiveVox Holdings, Inc.

Second Quarter 2023 Conference Call

August 8, 2023

CORPORATE PARTICIPANTS

Alexis Waadt, *Vice President, Investor Relations*

John DiLullo, *Chief Executive Officer*

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

CONFERENCE CALL PARTICIPANTS

Jacob Staffel, *Goldman Sachs*

Parker Lane, *Stifel*

Quinton Gabrielli, *Piper Sandler*

Logan Hennen, *Northland Securities*

Matthew Harrigan, *The Benchmark Company*

PRESENTATION

Operator

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

(Operator Instructions). This call is being recorded on Tuesday, August 8, 2023.

I would now like to turn the conference over to Alexis Waadt, Vice President, Head of Investor Relations. 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 to 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 June 30, 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 may have seen in our press release earlier this afternoon, LiveVox delivered a strong second quarter, which broadly met or exceeded expectations on nearly every key metric. It was a quarter for accomplishments of which we are extremely proud including, most notably, winning more than a dozen new customers, growing our installed base sales, winning three meaningful international orders and exceeding the high end of our guidance for revenue, gross margin and EBITDA.

For these achievements, I'd like to thank our customers, suppliers, partners, our supportive investors, the LiveVox Board of Directors and especially our dedicated LiveVox 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 balance of the year. In the brief time that I have today I'd like to share with you color on our results and progress against our many initiatives.

Our successes in Q2 were punctuated by the achievement of important milestones against our 2023 strategic plan to accelerate growth and to reduce costs. Despite continued uncertainty in the macroeconomic environment, in Q2, our team grew ARR 8.3% year-over-year. Gross margin grew approximately 600 basis points year-over-year and Adjusted EBITDA grew from a loss of \$5.6 million to a gain of \$1.1 million, an improvement of \$6.7 million of quarterly Adjusted EBITDA year-over-year.

As I alluded to above during the quarter, we won 15 new customers. More than half of these wins were outside of our heritage verticals and arose from pronounced sales and marketing efforts to grow both emerging domestic and to overseas channels. Bookings in the quarter were stronger than expected, and we are currently ahead of our internal bookings target. What's more, a combination of aggressive performance management and excellent sales and marketing execution has seen our pipeline grow to record levels and sales attainment is substantially ahead of where it was this same time last year. We entered 2023 with less than 2% of sales deriving from international markets.

Over several quarters, our sales customer success and engineering teams have been working hard to support our international expansion plans. As a result of these efforts, our bookings internationally jumped dramatically last quarter, including winning a \$2 million annual revenue contract in the United Kingdom for a large inbound MSP opportunity, a mixed use inbound and outbound solution in Dubai and the expansion of an existing U.S. based BPO customer into Monterrey, Mexico.

We also enjoyed several important wins from our newly established channel organization. I'm proud to report that we have now onboarded six value added resellers, five cloud service brokers and have in recent weeks engaged our first third-party distributor, Jenne.

Jenne is one of Avaya's largest distributors, and we believe that their extensive reseller network together with our recent admission into Avaya's dev connect program will bring market momentum to our channel efforts. The team has broadly embraced our strategy of opening the aperture and serving the needs of a growing number of prospects anxious to shed themselves of traditional contact center limitations, including costly upgrades, difficult expansions, arcane closed architectures, and rigid old world pricing schemes.

We have been listening to our customers attentively and now offer several new commercial models including agent based pricing, consumption based pricing and simple global contracts for enterprises and BPOs alike that want to reap the performance and economic benefits of moving to our public cloud based CCaaS platform.

Momentum in our go to market efforts is building. Q2 was another record quarter for sales accepted leads and pipeline opportunity creation. Closely watched marketing metrics such as organic website traffic, and social engagement also hit new records year-over-year. In June, we set a record for billable minutes on our Livebox platform and our first half new logo bookings in 2023 have already exceeded the new logo bookings from all of fiscal year 2022. As we head into the second half of 2023, we look forward to normal second half seasonality tailwinds and the potential for a recovery in the consumer credit cycle. We are excited by the energy in our order flow and customer interaction. However it is a structural reality of our business model that bookings acceleration takes a long time to manifest itself in revenue growth. We understand this process well, and continue to be prudent in our investments carefully matching spending with actual revenues.

Improving COGS and controlling expenses have both been a major focus for the team. You may have noticed that in Q2, we successfully hurdle the 70% non-GAAP gross margin milestone for the first time in the Company's history. Similarly, we enjoyed a dramatic improvement in our Adjusted EBITDA margin, which surged from negative 17% of revenue in the second quarter of last year to positive 3% of revenue this quarter.

Last quarter I reported that we had retired version 13 of our product. I am happy to say that we are equally close to retiring version 15 of our product as well. Each time we retire a platform, it has a profound impact on COGS and support costs. Maintaining fewer releases has been a centerpiece of the efforts that brought us nearly 1,000 basis points of margin improvement in the last five quarters.

As I detailed in last quarter's call in the early days of Q2 one of our SMS text aggregators unexpectedly notified us of their decision to significantly reduce delivery of messages originating on the LiveVox platform. Although this issue did have a meaningful impact on our Q2 results, most of our customers have now been migrated to other carriers or aggregators, SMS traffic modestly improved in both May and June and the business disruption from this unexpected event appears to be stabilizing.

Lastly, we continue to enjoy a brisk tailwind in pipeline growth from enquires related our newly introduced AI solutions and have been characterized as an AI beneficiary by several industry analysts. Our recent platform upgrade to release 19 introduced to our base new transcription capabilities automated call wrap services, real time sentiment analysis, virtual agents, and proactive agent assist features. Many of our customers continue to struggle from persistent staffing shortages.

LiveVox's usage based AI pricing model, hardened API integrations, and auto scaling cloud infrastructure provides purpose built easy access to these transformational AI technologies. It is virtually impossible to

leverage AI tools in legacy on premises contact centers, and we believe that the popularity of ChatGPT, large language models and other similar tools will only serve to accelerate migrations to our public cloud based solution.

The macro trends that LiveVox enjoys are powerful and enduring. Innovations in AI, the market's acceptance of our new leading capabilities and our commercial flexibility have created a catalyst for success in the potential migration of more than 10 million competitively held legacy contact centers fees. Together with our committed employees and our obsession for customer success, we believe the future for LiveVox is very bright.

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

Thank you, 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-Q. I'll start off with a recap of a very solid second quarter, before moving on to guidance for the third quarter and the full year '23.

Revenue for the second quarter was \$35.4 million, 7% higher than the second quarter of last year, and \$400,000 above the high end of our guided range of \$34 million to \$35 million. ARR, which is annualized total revenue for the quarter minus all nonrecurring revenue was \$140.3 million, 8.3% higher than \$129.6 million of ARR in the second quarter of 2022. Net revenue retention stayed steady at 111% versus 112% less quarter and improved from 108% in the second quarter of last year.

Adjusted gross margin for the second quarter was 70%, an increase of 170 basis points versus last quarter and nearly 600 basis points better than the second quarter of last year. Adjusted EBITDA for the quarter was a positive \$1.1 million also well above the high end of our guided range. GAAP earnings per share for the quarter were a negative \$0.05 on both the basic and diluted basis versus negative \$0.11 per share last quarter and a negative \$0.12 in the second quarter of last year. CapEx for the quarter totaled only \$50,000 reflecting the capital light nature of our 100% public cloud product platform.

Lastly, we ended the quarter with \$53.9 million of debt and \$61.4 million of cash and cash equivalents in marketable securities.

Let's turn now to forward looking guidance. We expect third quarter revenue to be between \$35.5 million and \$36.5, 1% to 4% growth over the third quarter of 2022. We expect our adjusted gross margin in the third quarter to be at least 70% and we expect our Adjusted EBITDA to be between \$1 million and \$1.5 million.

In terms of full year revenue guidance for 2023, we are increasing our previously provided revenue guidance to \$145 million to \$148 million for the full year, which implies that our fourth quarter revenue growth rate is expected to accelerate to 4% to 10% year-over-year versus the 1% to 4% growth in our third quarter revenue guidance.

Lastly, we are increasing our previously provided Adjusted EBITDA guidance to \$5 million to \$7 million for the full year.

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

Operator

Thank you. (Operator Instructions). Your first question comes from Kash Rangan from Goldman Sachs. Kash, please go ahead.

Jacob Staffel

Hey guys, this is Jacob on for Kash. Thank you for taking the question. A couple of questions. First, very good quarter. I wanted to touch on ARR. I noticed that it was up 8% year-over-year, but it was down sequentially roughly 2%. Is there anything to call out around that?

Gregg Clevenger

Yes, Jacob, this is Greg. That's the impact of the SMS issue that we talked about last quarter, where we guided that we were going to have an impact of \$3 million to \$4 million of revenue over the remainder of the year. Obviously, that's going to have an impact on our ARR as well.

Jacob Staffel

Okay, understood. Then can you maybe touch on, how you're seeing the macro and maybe sales cycles in Q3 thus far versus what you saw in Q2? Any additional color you can provide around that?

John DiLullo

Sure Jacob, this is John DiLullo here. We're off to a pretty good start, I would say in Q3. It does feel to us like there's a good energy in the business. I mentioned last quarter that we had seen a slight improvement in the sale cycle times. I think we've seen that persist into this quarter as well. We're seeing generally good energy and momentum in the business. I would say it's similar to prior quarters, but there doesn't seem to be anything terrifically broken and customers continue to buy and we're continuing to develop nice momentum and expansion in our pipeline and in our order volume.

Jacob Staffel

Awesome. Thank you so much. I appreciate the color and the time guys.

John DiLullo

Thank you.

Operator

Your next question comes from Parker Lane from Stifel. Parker, please go ahead.

Parker Lane

Yes, hi, guys. Good afternoon. Thanks for taking the questions. John, really interesting to see the three international deals here, in the UK, Dubai and Mexico, I know that's an area that's been leaning in on since you, became CEO here. What do you think that's driving force was behind, those three particular deals this quarter? Where are we in terms of brand recognition? Just how's the go to market team structured, on an international basis so far?

John DiLullo

Hey, Parker. It's great to hear from you. Thanks for the question. Each of those transactions is a snowflake and they're all a little bit different. But I would say one thing that they had in common was we didn't do them with a lot of in country sales support. We really haven't started to build out our international sales support teams, although we are doing some sales support now in Latin America and Colombia, some sales support in India as well.

These are mostly the migration of either existing relationships or existing customers that knew our product that wanted to embrace it. In the past, we just weren't ready to support. You may remember that I announced in Q1 that we had launched our EU1 cloud platform. This is, I think, the recognition of that from our customer base and getting access to the workloads. There's just a lot of interest internationally from our installed base and that's going to be the springboard and then as needed, we'll make on the ground investments.

Parker Lane

Got it. Got it. Then maybe it's a slight fall to last question. but I think you signed something like 30 customers last year. You won 15 this quarter. It seems like there's a decent pickup in sales momentum here. Is that just a testament to some of the sort of internal changes you've made in the organization? Are you finding that, there's more receptiveness out in the market right now?

John DiLullo

I'd say, Parker, I'd say it's both. I do think there's there is a lot of energy there's—our capabilities in AI, our consumption based model, our pricing there's a lot of interest in moving off of the legacy infrastructure right now and that's been a great tailwind for us and a lot of those are new logos. But I would also say that we've and I use the phrase in the earnings narrative, open the aperture, but we are opening the aperture to new types of customers. Obviously, the two of the three international customers were net new logos, but we've also—we continue to enjoy just by inviting more people to come in and enjoy and explore the product and being more open to the types of customers we're engaging and investing a little bit differently in marketing. We're getting a lot more looks as people get an experience with our product that's resulting in more sales.

What I would say is I really do think this is something persistent. If I look at the pipeline, if I look at the funnel, if I look at the transaction volume, I think this is an area where we could continue to win new logos for quite a while yet.

Parker Lane

Makes sense. Appreciate you had taken the question. Thanks.

Operator

Your next question comes from Jim Fish from Piper Sandler. Jim, please go ahead.

Quinton Gabrielli

Yes. This is Quinton Gabrielli on for Jim Fish. Thanks for taking our question, guys. Maybe following up on the last one. The pipeline sounds about as good as it's ever been. I think we've talked about record levels here. Can you talk about who you're seeing the most from the competitive side what's, what's really driving some of this? Is it that that they're seeing and wanting the AI products that you're offering? They want to move to the cloud, is it some of the kind of compliance offerings that you're bringing? Maybe just

give us an idea of, what is one or two of the biggest reasons why this pipeline is so much bigger than what we've seen in the past?

John DiLullo

Hi (inaudible), it's great to hear from you and thanks for the question. We are I would say a lot of the interest, the people that we're seeing are generally the legacy on premises customers that are deployed not leveraging cloud. Now what they want to do and what they're—I think there's a lot of hype right now around AI and that is driving those customers to explore what they can do with AI. There's also a lot of pressure on people right now from just staffing challenges and turnover challenges and the wage cost and all of that is driving the legacy customers, the on premises customers to explore what their options are. I think they very quickly realized that the old world players can't really bring AI solutions to bear with quite the nimbleness that we can and that's a big differentiator.

I would also say if you look at the continuum of somebody that we want to be on cloud. We want to leverage AI. We like your consumption based model, and we have very unique inbound and outbound care and maybe different sales applications or different types of customer support requirements. We really offer solutions across that entire gamut. I think it's a think it's a couple of things. AI is certainly fanning the flames. People want to leverage our products there. They realize they need to move their workloads to the public cloud to take advantage of that. Then also the completeness of our product and the flexibility of our commercial offers seems to be helping us to win as many deals as we are.

Quinton Gabrielli

Yeah. That makes a lot of sense. Then, maybe more looking at the collections and the usage side, the trends all seem like we're moving in the direction and default rates are up balances or up saving rates are low. More looking at a timing perspective, is there a level here where your customers have told you yet this triggers kind of some of our usage needing to come back, or should we think about this more of a slow build as we work through some of this consumer credit cycle? Thank you.

John DiLullo

Thanks, Quint. I don't think we've seen a—see change with a group of customers that all of a sudden want to consume a lot more. I think we're seeing gradual movements in that direction where we're seeing the jump ups in backlog and the jump ups in bookings and in new logo acquisitions seem to be the majority are in emerging use cases are in a lot of care and customer support use cases. It does not seem, for instance, that there's a huge amount of building momentum just yet around normalization of the credit cycle and all of the consumer credit companies that I think we have relationships with.

Their business is doing well, but it's not certainly—doesn't feel quite yet like it's back to pre-pandemic levels. But I think we've engineered for growth and sustainability in other ways. If that comes back, even more power to us, but it's a good quarter on its own merits and the second half, as I telegraphed in the calls, looking also very energetic.

Quinton Gabrielli

All makes sense. Thank you.

Operator

Your next question comes from Mike Latimore from Northland Securities. Mike, please go ahead.

Logan Hennen

Hi. This is Logan on for Mike. Thanks for taking our question. could you guys talk about kind of initial deal sizes than what you're seeing if they're growing, shrinking, are staying the same. Do you anticipate changes in deal size moving forward? Thank you.

John DiLullo

Hey, Logan. It's good to, good to hear from you and, hi to Mike as well, of course. I think it's about the same the same as in prior periods. Of course, it seems like every quarter we have a one or two anchor deals just like we did this quarter, but that's pretty common for us. I haven't really noticed a big change. As I mentioned earlier though, I am noticing the energy coming from all the excitement around AI the acceleration of workloads of people moving off of their traditional on premises into the public cloud. It does feel, I guess our brand is getting out there as our name is getting bigger as our customer list is growing that people are more quickly closing transactions and working with the teams very constructively on implementation plans. We're just getting better and better as a company every day on that. I'm optimistic that not only will we continue to see bookings velocity, but I think we'll also just get better and better at implementing these customers and bringing them to revenue faster as well.

Logan Hennen

Perfect. Thank you. Then, with the interest in AI being up, is there any use cases that you guys would like to highlight or you guys are excited about?

John DiLullo

I think we're excited about all of the use cases. I think the big issue in this industry is that you do at some level rely on people and it's very hard right now to keep the contact centers fully staffed. But also there's the underlying demographic that when you run a contact center, about 10% of the total cost of operating a contact center is the technology, about 90% is the people. The opportunity is enormous to arbitrage some of that cost of running the contact center, of which 90% is the people. When you think about like the average customer success rep, for instance, or a customer service rep or technical support rep, they may spend as much as 30% of their time wrapping up the call. Leveraging large language models as we have in our agent assist product, which is out in release 19, you can see that we can reduce wrap in some cases by 50%.

If an agent is spending 30% of their time wrapping up calls and you can reduce that by 50% or more, you've given back time to the contact center, which essentially you've given back costs or you've made them more productive or you've required them to hire less people for burst times. We think, AI is a—it's a very broad brush and there's a lot of noise in general right now, but it is just going to help us immensely and help our operators, the people that are running the contact centers to be much more efficient with their people and also to make their jobs a lot more fun and hopefully that would drive us let's turn over, better training, all of these, all of these great things. We just think there's an incredible, virtuous connection between AI and the task that we have in providing technology solutions for contact center operators. It's all good and it's just getting better every day.

Logan Hennen

Perfect. Thanks for taking my questions.

Operator

Your next question comes from Matthew Harrigan. Matthew, please go ahead. Hi, Matthew. You're on the line now.

Matthew Harrigan

Oh, I'm sorry. I never, have gaffs with the mute button, but I just did. Could you update us on the FedRAMP process, the timeline and the benefits. Also, I know much of this is the province of AWS, but just what you're seeing in the cyber security environment? Thank you.

John DiLullo

Matthew, would you repeat, the second part of your question, would you mind repeating that?

Matthew Harrigan

I know AWS is responsible for much as your security, but which is what are you seeing with the cyber security environment right now if it's a particular interest of ours? Thank you.

John DiLullo

Okay, excellent. Those are great questions. I didn't talk about, FedRAMP in my prepared comments, but it is a very interesting segment for us. As there are very large government agencies, for instance, different departments—Department of Commerce, Department of Treasury—all of these, they have a gigantic contact centers and that's a big opportunity, but you need to be FedRAMP compliant. This is a journey that we started a while back and we've made substantial progress on it.

In fact, I'll commit today to giving you a good date a quarter from now. But we're making a lot of progress there and are optimistic that we'll be able to submit soon for FedRAMP approval. I do think that—we do expect from that a halo effect with other segments such as state and local government, education, civilian, and there are more and more people in the financial segment these days that are also embracing FedRAMP. We think this is a good investment. We're excited to be making it. It's not a huge burden on us, but it does open up probably 10 or 20—I don't know the exact number, but it's a significant amount of more domestic TAM.

As far as the security part of your question, this is an area that I really believe not only have we continued to make strides, but also our architecture is just inherently more secure than anything you're going to put in a traditional contact center environment or someone hosting their own contact center on their own infrastructure in a private type of a cloud. The reason for that is as they have to do tons of updating of infrastructure and images and operating systems. That is—where whenever you get involved in that type of business, you open yourself to a lot of errors.

We don't have to do any of that because we are on AWS and AWS maintains such a hardened environment and is so diligent about updating operating systems and patching infirmities when they're discovered. Now in addition to that, I would say, as we have a large number of customers, major enterprises that are in the in the finance vertical. They have also been quite demanding in our security posture and making sure that we embrace a zero trust security architecture. We have and this is one of the strongest selling points of our product when we introduced this to our customers that we encrypt all of our API traffic. We encrypt every single voice communication.

Think about a legacy contact center where in the old days, you could just jack in and listen to what was happening in the contact center. All of our voice communications are encrypted. All of our data at rest is

encrypted, all of our data in motion is encrypted. All of our APIs are encrypted and all of our API traffic between microservices within the AWS infrastructure is also encrypted.

Many of our API calls are doubly encrypted. I feel like we have, heralded or I should say, hurdled, a level of—we've advanced to the nth (phon) degree our zero trust architecture. We think that we're providing among the most secure platforms available for deploying contact center solutions with the way that we've approached it.

I can't tell you how much I appreciate the question because people don't ask about it a lot. It may not be, top of mind. but it is top of mind for us and for our customers. I think, working together with AWS, we have a very secure product.

Matthew Harrigan

Thanks. Nice quarter.

John DiLullo

Thank you.

Operator

There are no further questions at this time. I'll turn it back to John for closing remarks.

John DiLullo

Thank you very much and I do want to thank everybody for their great questions. Thanks for continuing to stay with us as partners and investors and genuinely appreciate your time here this afternoon, and look forward to talking to you more over the coming days, weeks, months. Thank you very much.

Operator

Ladies and gentlemen, this concludes your conference call for today. We thank you for participating and ask that you please disconnect your lines.