



LiveVox Holdings
First Quarter 2022 Earnings 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*

Louis Summe, *Chief Executive Officer and Co-Founder*

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

James Fish, *Piper Sandler*

Parker Lane, *Stifel*

Jacob Staffel, *Goldman Sachs*

Brett Knoblauch, *Cantor Fitzgerald*

Mike Latimore, *Northland Capital Markets*

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

Operator

Welcome to the LiveVox Holdings First Quarter 2022 Earnings Call.

The conference is being recorded.

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 are Louis Summe, Chief Executive Officer and Co-Founder of LiveVox, 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 limitations those listed in the risk factors sections of our SEC filings. LiveVox assumes no obligation to update any such forward-looking statements.

Please also note that past performance or market information 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 Investors 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 period ended March 31, 2022, will also be available on the Company's website.

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

Louis Summe

Good afternoon, everyone, and thank you for joining us.

My name is Louis Summe and I'm the CEO and Co-Founder of LiveVox. Today I'm pleased to share with you our strong start to 2022 as well as our plans for continued success throughout the year.

I'll begin with summary financial results. Total revenue for Q1 was \$32.1 million, which was at the high end of our guidance. Contract revenue came in above the high end of our guidance, up more than 21% year-over-year. Usage revenue came in at the middle of our guidance range. Gross margin came in above guidance, at 60.4%, and our EBITDA results were at the mid-range of guidance as we continue to see the benefits from completing the migration of our platform and 100% of our customers to the public cloud.

As a result of our Go-To Market investments, and positive dynamics in the CCaaS space, our pipeline is up nearly 40% versus this time last year, and for Q1, new logo wins are up more than 25%. Bookings are setting records as well, with year-to-date bookings up over 30%

We continue to see strong momentum in the number of full enterprise opportunities, which we characterize as customers taking 10 or more of our products, now comprising more than 15% of our customer base. The number of products taken by new customers in Q1 is up 30% year-over-year, which we believe is a testament to our easy to deploy, seamless omnichannel approach.

Net retention revenue improved significantly to 113% in Q1, up from 105% from last quarter. Lastly, our differentiating digital and AI products continue to be in high demand. Digital revenue now represents 20% of our business, up approximately 50% year-over-year, and we signed four new AI virtual agent deals in Q1.

Let's pivot to sales and marketing, and today I want to focus on two key areas of our go-to market strategy. First is our continued traction building relationships with master agents. As a reminder, LiveVox primarily grew in the past through direct sales efforts. Over the past year, we've signed agreements with seven master agent organizations. More importantly, the seasoned team we brought on board to grow

these relationships has made significant progress. We're a top five CCaaS partner at our two largest master agent partners, and the number of partner-driven demos has increased over 60% year-over-year.

We recently announced the launch of ACTivate, our purpose-built channel partner platform that easily enables access to current and prospective partners to sales enablement materials, technical guidance, and competitive incentives to help market and sell LiveVox's blended omnichannel capabilities to new customers. I'm excited to share that we continue to see positive momentum from these efforts. While last year's bookings from master service agent opportunities were approaching 10%, they now represent nearly 15% of our pipeline, and based on recent activity, we anticipate that number to continue to grow.

The second key go-to-market point I will share, which is essentially the next phase of our strategy, is our expanding partnership ecosystem. This includes system integrators, VARs, and strategic alliances, many of whom are technology resellers. LiveVox is in a unique position to become a preeminent partner with resellers looking to add CCaaS to their capabilities or offering, as there are numerous advantages our platform brings to the table.

First, and I shared this on our last call, the LiveVox platform and our customers are 100% in the public cloud, more specifically, Amazon Web Services, or AWS. This gives us and potential partners a number of strategic advantages. It enables us to offer best-in-class reliability through AWS availability zones and an active-active architecture. It enables us to quickly and easily scale horizontally to support the largest contact center organizations.

Second, as the result of being born and bred in the financial services industry, LiveVox's security and compliance protocols, and features and functionality, are unmatched in the industry. This is becoming table stakes for larger enterprises migrating to the cloud, as we have seen with our financial services clients.

Third, LiveVox is an out-of-the-box platform. Comparatively, it's easy to implement, easy to orchestrate, and easy to optimize, with a rich feature set, perfect for partners seeking a platform that's easy to demo, sell, and support.

We believe this additional phase of our go-to market strategy can have significant positive impact on our bookings and revenue as we move into 2023. In fact, in the next few weeks our Salesforce connector will be available in the Salesforce AppExchange, where we've already seen new revenue opportunities. We very recently signed a partnership agreement with Neustar, Inc., a TransUnion company that we believe will be mutually beneficial.

It's important to note that, as we've scaled our sales and marketing efforts in the past year and invested in increasing our overall awareness in the marketplace, we've experienced a clear uptick in partnership interest. As these opportunities continue to emerge, we're poised to leverage our sales and marketing efforts to support growth in this area.

As mentioned, we continue to add significant new customers to the platform, and I want to share a couple of examples. The first is a large vacation/resort management and rental organization. They outgrew the capabilities of their previous vendor and moved to our platform to improve the experience of all three of their contact center areas, including property management, sales and marketing, and receivables management. Their new omnichannel solution includes our native CRM, as well as our quality management and ticketing products.

Next is a State mental health hotline and 911 service. This was one of our fastest deal closes ever. LiveVox was brought in to replace an on-prem solution which did not offer our full functionality. The omnichannel solution they required includes our native CRM, scripting, call recording, and speech

analytics. Of note here is how quickly we were able to implement this customer through our SmartStart initiative mentioned on our previous earnings call.

Next, and this was brought in by a channel partner, is an outsourced marketing and lead generation agency who needed our platform for greater reliability, compliance, and to maximize productivity. Finally, we had three significant upsells in Q1, expanding our relationships with three global BPOs with a combined agent population of more than 50,000 agents. We're excited about these and other wins to date, as they validate our full platform, omnichannel offering across multiple use cases. As noted, our pipeline is more robust than ever, and we're very excited for the coming weeks and months as it relates to bookings.

I'm also pleased to share that our platform and capabilities continue to advance and make digital and AI ever easier to adopt. Most notably our U17 product release that I shared last quarter went GA on schedule. As a reminder, this release offers several new capabilities including an enhanced speech and multichannel analytics platform combined with quality management capabilities. That, incidentally, won Best Innovation in Customer Experience at Enterprise Connect this year.

U17 also includes enhanced ticketing and CRM capabilities, more robust customer and operational analytics, and enhanced digital messaging capabilities to help agents optimally communicate with customers on their channel of choice.

Additionally, we announced the launch of LiveVox Knowledge Center, a powerful self-service and collaboration tool that enable agents and their customers to quickly find answers to product questions while providing valuable insights into customer service trends and opportunities. One of the improvements I'm most excited about is the continued reduction in our implementation times, down by 35% year-over-year. Speed to market means speed to value for our customers, and speed to revenue for us.

In summary, I'm very pleased with our progress year to date. I believe our burgeoning pipeline, strong bookings, 100% migration to the public cloud, and intensified interest from potential strategic partners are validating our product and direction as a Company. I continue to be optimistic that we're well positioned for a strong 2022 and beyond and look forward to our next communication.

I want to thank our team for all their hard work, our Board, and of course our customers.

I'll now turn it over to Gregg Clevenger to review Q1 financials and provide guidance.

Gregg Clevenger

Thanks, Louis, and good afternoon, everyone.

I'll start off by reminding 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 which was filed just before this call.

Our total revenue for the first quarter was \$32.1 million, 15% higher than the first quarter of last year and 1% higher than last quarter, and at the high end of our guidance range of \$31.1 to \$32.1 million. This was supported by continued strength in our contract revenue, which was \$25.2 million for the first quarter, 21% higher than the first quarter of last year, 4% higher than last quarter, and above the high end of our guided range of \$24.4 to \$24.9 million.

Our excess usage revenue in the first quarter was \$6.9 million, down 4% year-over-year and in the middle of our guided range of \$6.7 to \$7.2 million. Our net revenue retention as of the end of the first quarter climbed to 113% after running between 99% and 107% throughout most of the pandemic as the stronger pre-pandemic quarters become less of a factor in this LTM over prior period LTM measure.

New sales bookings have been strong year to date, up over 30% with our current pipeline up over 40% compared to the same period last year. Our adjusted gross margin for the first quarter was 60.4%, an increase of 140 basis points versus last quarter and our previous guidance for this quarter, driven by cost efficiencies we are driving now that we have made the full transition to our public cloud platform on AWS.

Our Adjusted EBITDA for the quarter was in the middle of our guided range at a negative \$8.3 million, down \$1.3 million from last quarter, driven by \$1.9 million of increased operating expense offset by a \$600,000 of improvement in adjusted gross margin, all consistent with the construct of our previous guidance.

Our GAAP earnings per share for the quarter were negative \$0.14 per share on both a basic and diluted basis versus a negative \$0.06 per share in the first quarter of last year.

Our Capex for the first quarter totaled \$500,000, \$300,000 higher than the first quarter of last year, and higher than normal due to the additional \$400,000 of refurbishment expense for our office in India that, as you may recall, also impacted our fourth quarter Capex expense. Lastly, we ended the quarter with \$54 million of debt and \$80 million of cash and cash equivalents and current marketable securities.

With that, let's pivot to forward-looking guidance, and I'll start first with the second quarter revenue guidance. We expect second quarter total revenue to be between \$33.2 and \$34.2 million, 15% to 18% growth over the second quarter of 2021. We expect contract revenue to be between \$26.3 and \$26.8 million, 18% to 20% growth over the second quarter of last year, and we expect excess usage revenue to be between \$6.9 million and \$7.4 million, 5% to 13% higher than the second quarter of last year.

We expect our adjusted gross margin in the second quarter to be around 61.5% for the quarter, about 110 basis points higher than the first quarter, and we continue to expect that this will trend up towards the mid-60s by the fourth quarter of this year as we continue to optimize our AWS costs and scale on the public cloud infrastructure.

We expect our Adjusted EBITDA to be between negative \$6.7 million and negative \$5.7 million in the second quarter, a \$2.1 million sequential improvement over last quarter based upon the midpoint of this range, and we continue to expect to trend towards Adjusted EBITDA breakeven by the beginning of 2024 as we laid out on the call last quarter.

In terms of full year guidance for 2022, we are reaffirming all aspects of our previous guidance except Adjusted EBITDA, which we are improving by \$2 million.

To recap, we continue to expect our total revenue for the year to be between \$140 million and \$142 million, or 17% to 19% growth over 2021. We continue to expect contract revenue for the year to be between \$109 million and \$111 million and our excess usage revenue to be between \$29 million and \$34 million. We continue to expect our adjusted gross margin to be in the mid-60s percent by the fourth quarter of this year, and with the \$2 million increase in our Adjusted EBITDA guidance, we now expect to be between negative \$22 million and negative \$24 million for the full year and to trend towards Adjusted EBITDA breakeven by the beginning of 2024.

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

Operator

Thank you. The first question is from James Fish from Piper Sandler. Please go ahead.

James Fish

Hi, guys. Great quarter. Thanks for the questions here.

I did want to go back to something you said, Louis, on those two significant upsells into BPOs. Just want to get a sense to what share you have of those plus 50,000 agents of those versus what you had before, just to try to understand kind of what upsell you're getting with some of these large contact centers essentially as you move towards getting a greater penetration over the next couple of years.

Louis Summe

Yes. Thanks, Jim.

I would say that our market share with these larger BPOs is still relatively small, and our expansion with them is incremental, but consistent. These are large organizations. So, it's a nice additional source of growth for us.

James Fish

Understood. You've seen some other contact center vendors report including Avaya this morning, and you're seeing larger contact center opportunities, refreshing to the cloud over the next few years, especially in the financial services vertical. It's something, Louis, you were alluding to in your remarks.

I guess, how is LiveVox looking to go after these larger opportunities, when historically it was more of a departmental sale and kind of expand from there? Or are we now kind of decoupled from that and moving into a full, let's go get the entire piece of the pie at this point? Specifically, what are you also seeing with large contact center pipelines for LiveVox specifically in regards to that up 40% pipeline you're discussing? Thanks, guys.

Louis Summe

Yes. I think that we're happy to get a departmental sale. We obviously would rather have a full enterprise sale. But we often start the conversation on a departmental level. Then in the course of the demo, more people get involved, more people see what's there, and it starts to spread across the organization. So as the market starts to look more and more as a cloud-first market and as LiveVox's suite of products become broader and more robust, then the situations where people pivot from a departmental sale to a more of a full enterprise sale increases.

When you look at our pipeline, which I mentioned was up 40% over last year, there are a number of large companies inside of that, a substantially more number than there were last year at this time. So, I think that the maturity of the market and the maturity of the product are driving that.

Operator

Next question is from Parker Lane from Stifel. Please go ahead.

Parker Lane

Yes, hi. Thanks for taking the questions here.

I wanted to look at the excess usage revenue guidance for the year. Obviously, there's a little bit larger range there than on the contract revenue side. So two part question here. One, when you look at the full enterprise deals, is there any larger or smaller share of usage revenue that's associated with those customers? Then two, when you look at that guidance for the year, how have some of the dynamics that drive excess usage for these customers been playing out here? How much confidence do you have with that ending up at the higher or lower end of that range? Thanks.

Louis Summe

Yes. There's not really a meaningful distinction between the departmental level sale and the full enterprise sale in terms of the split between contracted and usage. That could emerge in the future, but that's not something that we've really seen as a distinct trend as of yet. As far as what our projection is, or what our forward view is, around usage revenue, I mean, I think you can see in our numbers that we haven't really received a strong usage recovery. I think that people that have followed us know that our usage is connected tightly to the credit cycle.

As we look at information and data points from the Federal Reserve and from Moody's, just to name a couple, on how credit originations are going up and how service activities are flowing into the credit cycle, we definitely see that there's a lot of activity picking up in the early stages of the credit cycle, but we have not yet seen that flow into the middle or back part of the servicing activity yet. So we think that's still in the future and possibly something that we would experience in the back half of '22.

Gregg Clevenger

Yes. Just to add to that, you can see that the multiplier in the first quarter, 1.27, and that's what we've guided to basically at the midpoint of the range for the second quarter. So we're not assuming that we're going to have a recovery here in the near term. But, like Louis said, all the things that we monitor will tell us that we do expect a recovery more in the back half of the year. We're hearing it from customers that we talk to as well and how they're preparing for their business. So that's what's reflected in the full year number as well in terms of our guidance.

Parker Lane

Makes sense. Then looking at the enterprise business, pipeline seems to be very strong right now. Obviously, the macro is very uncertain. Is there anything from your conversations with your sales teams and customers to suggest that sales cycles could potentially elongate, or are you seeing a lot of consistency from where we were, let's call it, 90 days ago? Thanks.

Louis Summe

I would say that a year ago or a couple of quarters ago, there was more talk about the pandemic and the more talk about how the pandemic had interrupted and changed operations. Obviously, that's less of a conversation now and people are getting back to more of a new normal. However, with that said, the new normal definitely is a cloud-first market, and people that are looking at their contact center infrastructure, they're not thinking about if they're going to move to the cloud, they're thinking about when they make their change, they will move to the cloud. So because that's kind of the dynamic, the pipeline has remained strong and is up again over 40% year-over-year.

Parker Lane

Great. Thanks again.

Operator

The next question is from Jacob Staffel from Goldman Sachs. Please go ahead.

Jacob Staffel

Hi, guys. This is Jacob Staffel. I'm part of Kash's team over at Goldman. Thanks for taking my question.

I wanted to ask a couple of questions here. First one being, I believe, one of the goals mentioned was to double direct sales headcount by the end of this year from 35 to 70. So one, kind of where are we at with that hiring? Two, any color on how doubling that headcount is going to relate to operating margins and how it modified operating margins come end of the year?

Gregg Clevenger

Yes. We still expect to be, as we have said, doubling our go-to-market quota-carrying heads by the end of the year. That's still in the plan. That is factored into the guidance that we've given. So it all remains consistent with what we have guided to previously in terms of how we're going to ramp the go-to-market.

Jacob Staffel

Awesome. Then one more—excuse me, sorry. Any color on—I think that you all mentioned that you expect customer engagement to account for 73% of revenues by 2022. So any color on where we're at there? Is that consistent? Or has that been adjusted or whatnot?

Gregg Clevenger

We have not adjusted that. What we talked about in the last call was collections, which had been 36%, 37% of our revenue in 2020, being 33% last year. That's a trend that is continuing. It's a trend that's been going for a very long time. The proportion of our new bookings that is driving that evolution is continuing. So collections is just a much smaller proportion of our new bookings. So we expect that that trend is going to continue the way that it has been.

Jacob Staffel

Awesome. Thank you so much. That's all for me.

Operator

The next question is from Brett Knoblauch from Cantor Fitzgerald. Please go ahead.

Brett Knoblauch

Hi, guys. Thanks for taking my questions.

First, any updates as to what you guys referred to as headwinds last quarter with regard to the new regulations that went in place for your debt to collection customers and how frequently they can contact, I guess, their users? Has that been a headwind in Q1 as well? Have you had to renegotiate additional customer contracts? Any update on that?

Gregg Clevenger

I wouldn't say it's been a headwind, no. It's been a consistent kind of recovery since it happened. I don't recall us having any contract negotiations that took place since our last call. We are seeing volumes picking up for most of those customers and also diversification away from voice and a greater utilization of digital as a channel to reach out and contact creditors. So it is evolving and basically the way that we alluded to a couple of months ago on our last call, it was kind of a fast and furious impact and is largely back to normal now.

Brett Knoblauch

Perfect. Then just on the headcount, I see a decline in kind of go-to-market headcount and total headcount. Was that just kind of employee attrition? Or is that a more focused kind of streamlining of cost or rationalization cost in the quarter?

Gregg Clevenger

It's a little bit of both, I would say. I mean, attrition has picked up, like it has for everyone across the board. We still are well below what industry averages are, especially for tech, but it is running higher. We are being very, very diligent about how we backfill and how we add new positions. We're very actively involved, Louis and I, across the whole executive team and their teams, around ensuring that when we do backfill, we do add positions that it's justified across the entire business. So I would just say we're just being a lot more hands on about headcount than perhaps we were in the high-growth phase that we've been at in the past year or so.

Brett Knoblauch

Understood. Thank you. Really appreciate it, guys.

Gregg Clevenger

Yes.

Operator

The next question is from Mike Latimore from Northland Capital Markets. Please go ahead.

Mike Latimore

Thanks, and nice to see the strong bookings and gross margin outlook there.

In terms of the—I think you said there were four deals in the quarter with IVAs. Was that an anomaly? Or is there a general trend here? How does the pipeline look for IVAs?

Louis Summe

Yes, the pipeline looks strong. I would say that that's the progression, or that's the trajectory. I mean it's kind of become a standard part of pretty much every conversation. Now by the way, just because people are using it to some degree, doesn't mean they've used it in a broad way across their operations. So I think the conversation with the AI virtual agents in terms of getting started with them and testing them is mature. I mean, a lot of people want to do that.

As far as really tapping it in terms of its full potential and spreading it across the operations, I think we're still in the early stages there.

Mike Latimore

Okay. That makes sense. Then, the revenue expansion rate was up nicely. Should that continue to sort of inch up throughout the area, the expense rate?

Louis Summe

Net revenue.

Gregg Clevenger

Yes. I would think so. We've been saying for a while that the pandemic and what's happened particularly on the collections has been—is what really took us from where we had been in the high-teens before the pandemic. Now we're at the point where those early data points are kind of rolling off the pre-pandemic quarters. So we're comparing against, as every quarter goes by, by a pandemic impacted set of numbers. So yes, we do expect that that's going to continue to trend up.

Mike Latimore

Right. Then I guess just lastly on the sales hires, it sounds like you're confident of hitting your goals. I mean, how is the pipeline of talent? Where are you getting it from? Are you having to pay a little more to get them on board? Just kind of some color there would be great.

Louis Summe

Actually, we're doing pretty well there. We continue to recruit people that are experienced selling into the space. I would say refining our profile a little bit. I mean, I think that as we've made a lot of go-to-market investments, we're able to focus the AEs kind of more on the specific account development models and competencies. So I think that, yes, it's absolutely competitive. But our go-to-market investments are, frankly, giving us an opportunity to refine our profile where we can be more successful. So I think we feel pretty good about that.

Mike Latimore

Okay, thank you.

Louis Summe

Thank you.

Operator

This concludes the question-and-answer session. I would like to turn the conference back over to Louis Summe for any closing remarks.

Louis Summe

Right. Well, thanks, everybody for joining. I really appreciate it. Again, thanks to our employees and thanks to our Board and thanks, of course, to our customers for all of their support in pulling together our quarter, and I look forward to future communications with all of you. Thank you.

Operator

This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.