



**LiveVox**

**Second Quarter 2022 Earnings Call**

**August 9, 2022**

## 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

**Parker Lane**, *Stifel*

**Quinton Gabrielli**, *Piper Sandler*

**Vivek**, *Northland Capital*

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

### Operator

Welcome to the LiveVox Second Quarter 2022 Earnings Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded.

I'll now turn the conference 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 limitation those listed in the Risk Factor section 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 Investor Relations website, [investors.LiveVox.com](https://investors.LiveVox.com).

A recorded replay of this call together with related materials will be available on our Investor Relations website, [investors.LiveVox.com](https://investors.LiveVox.com). LiveVox's earnings release and form 10-Q 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 Q2 progress as well as our plans for continued success for the balance of the year.

I'll begin with a summary of our financial results. Contract revenue came in at the high end of our guidance at \$26.8 million, up nearly 20% year over year. Usage revenue came in below guidance resulting in total revenue of \$33 million, up more than 14% year over year, but slightly below guidance.

While contract revenues continue to grow as expected, we've consistently noted that we expect usage revenue to return to growth toward the back half of this year as the credit cycle returns to its inevitable more normal state. I'm excited to share that July usage is up significantly over June to levels that we haven't seen in nearly nine months across a wide range of customers.

This usage increase throughout the month and throughout our customer base gives us optimism that we're beginning to see the growth in usage revenue than we anticipated. I'm also excited to share that our non-GAAP gross margin was over 64% and our Adjusted EBITDA came in at negative \$5.6 million for the quarter, both significantly better than guidance.

I want to thank our team for all their hard work and focus on improving margin. As noted previously, much of this can be attributed to moving 100% of our customers to the public cloud. Also of note, our digital revenue continues to expand. Messaging is up 14% sequentially, and all digital products are up 15% sequentially, and now represent approximately 22% of revenue.

While our key financial metrics continue to improve, I do want to share with you an important adjustment to our business strategy. Given current macro and market conditions, we believe it's prudent to accelerate our path to profitability, adopting what we consider a more balanced growth approach.

In past communications, we've indicated we'd reach EBITDA neutral by Q1 2024. Our plan now has us reaching EBITDA positive by Q4 of 2022 and EBITDA positive for the Full Year 2023. Over the past several months, we have taken decisive actions to optimize our business to ensure we return to EBITDA positive. Starting in 2021, we made significant investments in our go-to-market activities.

As part of our go-forward balanced growth approach, we've analyzed each investment and have reduced or eliminated investments that have proven less efficient and maintained or increased our investment in the areas that have been more productive. There are a couple of key areas I'd like to emphasize.

First, we're maintaining our investment in building out the channel and our overall partner ecosystem. We continue to see this as a strong source of new logo acquisition and future growth. Second, we see tremendous opportunity for growth within our existing customer base, and this will be an increasingly important area of focus for us. We continue to see an approximate \$2 billion in upsell opportunity with our existing customers, and that number continues to grow as we add customers and roll out new AI and digital products.

Furthermore, our customer acquisition cost for upsells is 50% of what it is for new logos. In addition to potentially adding new seats, we're seeing significant momentum adding new products, such as messaging, virtual agents, our knowledge centre, speech analytics with quality management, and much more. As are most contact centers, our customers are looking for ways to increase productivity and improve the agent and customer experience.

LiveVox offers numerous out-of-the-box solutions to do exactly that. For clarity, we continue to have a very strong pipeline for new logos. However, our near-term growth is likely to be more weighted toward existing customer expansion. The macro environment has led to a somewhat longer sales cycle for new logo sales, whereas upsells to existing customers have shorter cycle times. This strategic approach may temper our overall growth slightly, but our growth will be much more cost effective. The net effect will be a faster path to positive EBITDA, and a more balanced growth operating model.

I'd now like to share some examples of new customer wins and notable existing customer expansions. The first is a new logo national Medicare agency that is an enterprise deal through the channel. Once onboarded, it has the potential for 400 agents. This customer is heavily focused on customer service and satisfaction through high-touch education. They contracted for 12 products including Blended Voice, UCRM, Speech Analytics, and Workforce Management Solutions.

The next new logo is a 250-agent insurance provider that works with auto dealerships. In addition to inbound service capabilities, they're using our platform to drive lead generation to grow their business.

The next example is a significant client upsell for one of the country's largest non-bank mortgage and servicing companies. This customer who has 1,200 agents is migrating its IVR to our AI virtual agent capability. They anticipate a significant decrease in their agent cost as a result. We will see a significant revenue increase. This is one of many such migrations we're seeing with existing customers in the past quarter.

Finally, we had another significant upsell to an existing BPO customer with 600 agents. While this customer was already using LiveVox for outbound services with their clients, they had an opportunity to pitch a new client with 100 agents focused on inbound customer care. By leveraging our virtual agent technology to show reduction in agent cost, they were able to win the business by offering better pricing by using fewer agents.

Again, we're seeing significant traction in both new logos and customer upsells with our digital and virtual agent products as well as our full omnichannel platform. We're excited about these wins and continue to have a robust pipeline for the balance of the year.

Next, I'd like to provide a brief update on our technology and platform capabilities. As I've mentioned before, but it's worth emphasizing, moving 100% of our customers to the public cloud has had the positive impact on expense and gross margin that we expected. It's a significant contributor to our expedited path to profitability. This is in addition to the benefits of faster development and deployment cycles, and even more importantly, the increased reliability and uptime of our platform.

One of the technology achievements I'm most excited about is the continued evolution and customer adoption of our AI virtual agent and digital messaging capabilities. Virtual agents are increasingly becoming an incestual component for modern contact centers as they improve productivity and create a better experience for the customer. A great example of this is an auto parts distributor, who recently enlisted our virtual agent platform to help customers find the right location and the right parts without having to speak to a live agent.

Another example is a large BPO who is turning to our virtual agents to deliver important disclosures before the customer reaches a live agent. Not only is this ensuring compliance, but it's doing so at a third the cost. We believe our 100%-plus quarter-to-quarter growth in this area is driven by our relative ease, cost, and deployment time, resulting in an expedited time to value and ROI for our customers.

Messaging also continues to grow as a vital channel in the contact centre. While not new, messaging is grown in complexity as it can be used as both a conversation and campaign tool. Our recently released messaging products help improve deliverability while helping customers navigate TCPA and other regulatory requirements, which continues to be a core strength of our Company.

Our clients have found numerous use cases where these channels have been tremendously helpful. Clients focused on improving sales have seen an increase in their opportunities to convert as well as further promote self-service tools like chatbots. Leading retailers have adopted our messaging tools as a preferred customer service channel, improving servicing neat speeds and net promoter scores. And several financial service customers have converted traditional mail expenses to a digital format, helping them reduce costs up to 80% while improving speed of delivery and payments collected.

As mentioned earlier, AI virtual agents and advanced messaging continues to contribute to our overall revenue growth, while becoming a larger percentage of our overall revenue. While we're very happy with customer response to our latest U17 release, we're even more excited about our upcoming U19 release. It will feature more collaboration tools, additional messaging features, and even greater platform reliability and uptime through an enhanced active architecture. I'll share more details on our next call.

In summary, I believe we've made significant progress in Q2. Through the combination of our public cloud migration and refinement of our go-to-market strategy, we are on a clear path to deliver balanced growth and profitability to our shareholders. We're already seeing evidence of this through improved gross margins and improved EBITDA performance. I continue to be enthusiastic about LiveVox 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 our CFO Gregg Clevenger to review Q2 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 as well.

Our total revenue for the second quarter was %33 million, 14% higher than the second quarter of last year and 3% higher than last quarter, and \$200,000 below the low end of our guidance range of \$33.2 million to \$34.2 million. Our contract revenue was strong for the second quarter at \$26.8 million, which is

20% higher than the second quarter of last year, 6% higher than last quarter, and at the high end of our guided range of \$26.3 million to \$26.8 million.

However, our excess usage revenue in the second quarter was softer than we expected at \$6.2 million, down 5% year over year and down 10% from last quarter, and below the low end of our guided range of \$6.9 million to \$7.4 million. While we saw an unexpected dip in call volumes and excess usage revenue in May and June that negatively impacted our excess usage revenue in the quarter, we have experienced broad-based strength in call volumes since the beginning of July, consistent with the directional improvements we expected to occur in the second half of the year, which formed the basis of our previous revenue guidance for the year, which I'll get to later in the call.

Our net revenue retention as of the end of the second quarter was 108% versus 105% in the second quarter of last year and 113% last quarter, negatively impacted sequentially by the softness and excess usage revenue that I just described as well as the effect of some of the contract resets we did earlier this year in response to the CFPB rule change in December that we talked about on our March call. Our adjusted gross margin for the second quarter was 64.2%, an increase of 380 basis points versus last quarter and 270 basis points above our guidance for the quarter, driven by accelerated cost efficiencies now that we have transitioned 100% of our customers to the public cloud.

Our Adjusted EBITDA for the quarter was a negative \$5.6 million, a \$2.8 million improvement from last quarter and better than our guided range of negative \$6.7 million to negative \$5.7 million, driven by \$1.8 million of sequential improvement and adjusted gross margin and \$1 million of sequential improvement in operating expenses as we actively manage our cost structure to drive towards a more balanced growth model, as Louis described earlier.

Our GAAP earnings per share for the quarter were negative \$0.11 per share on both a basic and diluted basis versus a negative \$1.08 per share in the second quarter of last year, which was significantly impacted by the expenses associated with the closing of the merger with crescent acquisition (phon) when we became a publicly traded company.

Our Capex for the second quarter totaled \$236,000 for a total year-to-date Capex of \$772,000, reflecting the highly capital efficient nature of our 100% public cloud product platform and helping us to manage our cash utilization for the quarter to only \$3 million, resulting in a quarter ending balance in cash and cash equivalents and marketable securities of \$77 million versus \$80 million at the end of last quarter. Lastly, we ended the quarter with \$55 million of debt, essentially flat versus last quarter.

With that, let's talk about our forward-looking guidance. As Louis mentioned earlier, and as you all know, we've made significant investments in our go-to-market organizations over the past year and a half or so to drive more bookings and higher revenue and revenue growth. And as Louis also mentioned, we have carefully analyzed the productivity and efficiency of those investments and determined that the optimal pathway to profitability while maintaining a strong top-line growth rate is to shift more of our go-to-market resources towards the \$2 billion or so of white space revenue we believe exists in our current customer base.

Why have we determined this? Our first half new logo pipeline coming into this year was roughly 50% higher than the new logo pipeline for the first half of last year, reflecting our success at driving more new opportunities as a result of our increased go-to-market investments. However, we're still not benefiting from that strong new logo pipeline to the extent that we expected as the current market environment has resulted in sales cycles extending over the last few months as customers are taking longer to get to buying decisions. As a result, the conversion of those opportunities into new logo bookings in the first half of this year is taking longer than expected and has resulted in overall first half bookings being softer than

previously forecasted. This has made our land motion through our hunter organization less cost efficient than we had previously planned.

In terms of our expand opportunities driven through our farmer organization, we believe the opportunity to drive more revenue per customer within our existing customer base has increased significantly with our current release of U17 and the soon to come U19. We now have 30-plus products on a single integrated platform to offer our customers, allowing us to penetrate deeper into our existing customer white space which has a lower cost for incremental bookings, which we believe will enable us to drive to Adjusted EBITDA and free cash flow positive faster than we had previously planned.

We are realigning our go-to-market head count to where we see the best opportunities to grow our revenue stream cost effectively. This realignment includes investing in more resources in our farmer organization to penetrate deeper into our existing customer base with our expanded product offerings, optimizing the resources in our hunter organization while more aggressively developing our partner ecosystem to be a key driver of new logo growth going forward, and streamlining our internal sales processes, which will enable all of our salespeople to become more productive.

We've taken a hard look at our sales and marketing organizations and made changes that positively impact our run rate cost structure and our cost structure going forward while we believe increasing our bookings capacity, essentially, improving our bookings capacity, but at a lower revenue acquisition cost going forward. This strategic shift results in the following guidance for the remainder of the year. I'll start first with the third quarter.

We expect third quarter total revenue to be between \$35 million and \$36 million dollars, 15% to 18% growth over the third quarter of 2021. We expect contract revenue to be between \$27.5 million and \$28 million, 19% to 21% growth over the third quarter of last year. We expect excess usage revenue to be between \$7.5 million and \$8 million, 1% to 7% higher than the third quarter of last year.

We expect our adjusted gross margin in the third quarter to be around the same 64.2% as the second quarter with continued baseline improvement in the quarter, dampened by unusually large relatively low margin project that we're implementing on behalf of a customer. But we expect that to be an anomaly on an otherwise steady progression of improvement, and in fact we now expect our adjusted gross margin to reach 66% in the fourth quarter versus the mid-60s that we had previously guided to as we continue to optimize our AWS and Telco costs and scale on the public cloud infrastructure.

Just to be clear, with the investments that we've made to be 100% in the public cloud and the cost optimizations that we still have in front of us, we expect our adjusted gross margins to continue to improve throughout next year as well, albeit, at a lower rate of improvement than this year, with the fourth quarter adjusted gross margin we achieved this year as the starting point for 2023.

We expect our Adjusted EBITDA for the third quarter to be between negative \$3.6 million and negative \$2.6 million, a \$2.5 million sequential improvement over the second quarter based upon the midpoint of this range, and we now expect to achieve Adjusted EBITDA positive results by the fourth quarter of this year, as Louis mentioned earlier, about five quarters sooner than we had previously guided. For the full year, in light of the current macro conditions, we're updating our full year total revenue guidance to a range of \$138 million to \$140 million.

In terms of the components of revenue, we're updating our full year contract revenue to \$108 million to \$109 million, and updating our range of excess usage revenue guidance to a \$28 million to \$31 million, again, based upon the softness we experienced in the second quarter although assuming the same pathway of improvement that we built into our previous guidance and supported by the strong usage activity of our customers that we have seen since the beginning of July. We expect to achieve a 66%



adjusted gross margin in the fourth quarter of this year, and we are improving our Adjusted EBITDA guidance for the year by \$7 million to a range of negative \$17 million to negative \$15 million, and we expect to achieve positive Adjusted EBITDA results in the fourth quarter of this year.

Then lastly, given the Adjusted EBITDA trajectory we are now forecasting, coupled with our relatively small interest in Capex burden, we expect to be free cash flow positive by the second quarter of 2023 while maintaining a minimum cash balance of at least \$60 million.

With that, Operator, please open the line for Q&A.

**Operator**

Thank you. The first question is from Parker Lane with Stifel. Please go ahead.

**Parker Lane**

Yes, hi, guys. Thanks for taking the question.

I fully understand the emphasis on expansion versus new logo sales given the lower customer acquisition costs, but curious if you could talk about the appetite for expansion and some of the end markets you serve and what some of the core drivers are that are getting customers across the goal line with the expansion activity.

**Louis Summe**

Yes, absolutely. I mean, I think the themes have been pretty consistent, and they remain consistent. People are absolutely interested in AI. They're absolutely interested in digital. They view these as opportunities to increase their automation while improving their customer experience. These are long-term journeys, long-term digital transformation journeys. It takes time.

Pretty much all of our customers have dipped their toes into the water on this, but all of this remains at the early stages and is a journey that they're all on and looking for the right partner to join them on that journey as they transform their businesses.

**Parker Lane**

Got it. And then, Gregg, for you on the net revenue retention side, I know there's some moving parts there with excess usage and the contract restructuring. But with this greater emphasis on expansion activity, how should we think about that trending from the 108% level this quarter through the back half of the year into '23? Thanks.

**Gregg Clevenger**

Yes, we do expect that it will improve. It was actually, though, the 108% was lower than we expected it to be this quarter. It's really driven the variation that we saw largely by the softer excess usage revenue, but you're right. As we place more emphasis on the opportunities through our existing customer base, then that metric should improve as we go forward.

**Parker Lane**

Understood. Thanks again for taking the question.



**Louis Summe**

Yes, thank you.

**Operator**

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

**Quinton Gabrielli**

Hi, guys. This is Quinton on for Jim Fish. Thanks for taking our questions.

Maybe first, how should we think about the number of customer seats actually on the LiveVox platform? Are customers still net adding seats at this point, or have total seats contracted and really that's being offset by the higher adoption of things like AI of digital messaging or like the use CRM product?

**Louis Summe**

Yes, I mean, the number of seats that are inside of our customer base continues to expand at actually a pretty strong clip. The primary force behind that is when we sell a new logo, we are typically selling into a department inside of a bigger organization. That drives up the number of agents that are inside of our overall customer base, and, of course, LiveVox has probably tapped around 10% of what we estimate to be 600,000 agents of potential inside of our customer base.

Again, a lot of potential to realize the upsell both on a per agent basis and on a per product basis, and that number, that 600,000 number, we expect that to continue to expand at a pretty good clip as we continue to sell into departments of larger organizations.

**Quinton Gabrielli**

Got it. That's helpful. Maybe our second question. Can you help me understand the puts and takes between kind of the lower overall usage guide versus the stronger usage trends that you guys are seeing—I get it's still early, but seeing so far in Q3? Is the full year guide inclusive of kind of continuations of usage we've seen in Q1 and Q2, or are we already baking in kind of the upside that we're seeing in July? Basically I'm asking should we think of this as a conservative estimate in the underlying usage for the full year, with potential for upside if kind of this strength continues?

**Louis Summe**

Yes, so when we initially gave guidance, Quinton, we talked about kind of first half being relatively flat in terms of that usage multiplier, and that our full year revenue guidance was more. If you penned that out, you would have to assume that we were believing that there would be at least the beginning of a recovery starting in the in the back half of the year, and that timing and that kind of shape of the curve is still very much intact from our perspective, both in terms of the guidance that we have given as well as what we're seeing in the activity of our customers.

We did have a little softness in a couple of the months of the second quarter lower than what we had expected, but as we both mentioned, the pickup in usage in July all the way through today has been very strong and very broad based, and that's consistent with what we had previously assumed that the beginning of an improvement in that pretty important piece of our revenue stream was beginning. So it's all consistent with what we had assumed when we initially gave guidance for the year.

**Quinton Gabrielli**

Awesome, make sense. Then last one from us. Obviously, the gross margin uplift is nice to see and makes sense, given that kind of shift to cloud. Can you talk about the Opex buckets and what levers you guys still have to pull to get to this kind of improved EBITDA outlook? It seems like the sequential decline came more from R&D; but moving forward, fair to assume that more of the levers was going to be in the sales and marketing side? Thanks.

**Louis Summe**

I would say that the levers on Opex have been pulled at this point, and so we are at a run rate today, not necessarily what you're seeing in the second quarter, because some of the some of the changes that we have made in the business weren't fully affected for the second quarter results that you see, but we are at a run rate today that will actually improve a bit over the course of the year before starting to increase kind of in the normal course as we get into next year. The levers that we need to pull have been pulled in order to make the kind of positive EBITDA statement that we've made in the fourth quarter.

**Quinton Gabrielli**

Makes sense. Thank you.

**Operator**

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

**Vivek**

Hi. I'm Vivek on behalf of Mike Latimore. I have a couple of questions with me.

The first one is given the economic stress, do you expect collections usage volume to improve by year end?

**Gregg Clevenger**

Yes, that's actually, as I mentioned previously, is built into the excess usage guidance that we've given for the remainder of the year, is an improvement in that piece of our revenue stream, and that is consistent with what we're seeing with all the external metrics that we follow in terms of Moody's and Federal Reserve data around credit card balances and originations and delinquencies and all of the statistics that we're able to correlate with our own business activity. And so, yes, we do expect that there will be some improvement over the back half of the year.

**Vivek**

Okay. My second question is, are there any verticals particularly strong or weak?

**Louis Summe**

Yes, I mean, LiveVox, historically, has done well with financial services enterprises, also done well in hospitality, travel, and retail, and those continue to be important verticals for us.

**Vivek**

All right. My last question is, are there any seven-figure deals in the pipeline currently?

**Louis Summe**

Yes, there's a lot of seven-figure deals in the pipeline. Our pipeline's very strong.

**Vivek**

Okay, thank you.

**Louis Summe**

Thank you.

**Operator**

As there are no more questions, I will turn the conference back over to Louis Summe for any closing remarks.

**Louis Summe**

Great. Well, thank you all for joining, and thanks again to our employees for a great quarter, for our board for all their help, and, of course, to our customers for their continued partnership. Everyone, thanks, and have a great day.

**Operator**

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