Veritone Fourth Quarter and Fiscal Year 2022
Prepared Remarks

Brian Alger, SVP Investor Relations and Capital Markets

Thank you, and good afternoon.

After the market-close today, Veritone issued a press release announcing results for the fourth quarter and fiscal year ended December 31, 2022. The press release, and other supplemental information, is available in the Investors section of Veritone's website.

Joining us for today's call are both the live and digital twin versions of Veritone's CEO and President Ryan Steelberg, and CFO Mike Zemetra, who will provide prepared remarks and then open up the call for a live question and answer session.

Please note that certain information discussed on the call today, including certain answers to your questions will include forward-looking statements. This includes, without limitation, statements about our business strategy and future financial and operating performance. These forward-looking statements are subject to risks, uncertainties and assumptions that may cause the actual results to differ materially from those stated. Certain of these risks and assumptions are discussed in Veritone's SEC filings, including its annual report on Form 10-K. These forward-looking statements are based on assumptions as of today, March 2nd, 2023, and Veritone undertakes no obligation to revise or update them.

During this call, the actual and forecasted financial measures we will be discussing include non-GAAP measures. Reconciliations of these measures to the corresponding GAAP measures are included in the press release we issued today. Also, when we reference pro forma measures, such measures are presented on a combined pro forma basis treating PandoLogic as owned by Veritone since January 1, 2021.

Finally, I would like to remind everyone that not only has this call been produced with Veritone Generative AI, but it is also being recorded and will be made available for replay via a link in the Investors section of Veritone's website at www.veritone.com.

Now I would like to turn the call over to the digital twin of our CEO and President, Ryan Steelberg.

Ryan Steelberg, CEO and President

Thank you, Brian.

Good afternoon (English and Spanish), good evening (German) and good morning (Chinese), everyone.

As Brian noted, I am Ryan's digital twin, powered by Veritone Generative AI.

We are happy to speak with you today and to provide an update regarding our fourth quarter and full year 2022 results.

Given this is my first earnings call as CEO and President, I want to take a moment to discuss the initiatives we will be prioritizing.

Although Veritone will always be driven by our software and technology innovation, we are doubling down on our focus in the markets where we have established clear differentiation and product market fit, resulting in disruptive efficiency and productivity gains for our customers. According to various third-party estimates, these markets already represent tens of billions of dollars in opportunity for our applications, solutions and services and, through focus, we expect to capture greater share and revenue growth.

Entering the third month in my new capacity, we have already implemented a number of operational and organizational changes designed to more tightly align our go to market and technology development with our customers' needs. Together with the executive leadership, I am pushing for operational excellence in everything we do. From hiring, to employee engagement, and of course, product development and sales, the entire leadership team is aligned behind a heightened attention to productivity and operational excellence. We are committed to driving Veritone to sustainable profitability through growth and innovation. While these changes are largely internal and not yet evident to those outside the company, we expect the end result will be improved customer engagement and, consequently, more profitable growth.

For the fourth quarter and full year 2022, Veritone reported revenue of $44 million and $150 million, respectively. Q4 new bookings reached another record of $20 million, up 141% year over year. Our year over year customer count grew 21% to 642 and our Gross Revenue Retention continued to be strong in the high 90th percentiles. As we will detail, our commercial businesses, powered by Veritone aiWARE, continue to be our foundation and clear differentiation in the market, providing the bulk of the revenues and profits for the business. That said, our investments in government & regulated industry solutions outside of Energy, which I will speak to in a moment, are showing signs of more material traction with Q4 2022 GRI bookings growing both sequentially and year over year.

Against a challenging global market in 2022, we have taken a number of actions to set our course and refocus the company for sustainable and profitable growth.

During the fourth quarter, Veritone took the decisive action of buying back $60 million of our convertible debt for a total cost of just over $39 million, substantially improving our balance sheet and signaling high confidence in our business and outlook towards profitability. Post this debt repurchase, we remain well capitalized with $184.4 million in total cash and cash equivalents as of December 31,

VERITONE

2022. We ended the year with unencumbered cash of $91 million and our November 2026 total debt outstanding is now just $141 million.

In January, we announced a number of strategic initiatives that are already in motion, including the addition of key management talent, organizational realignment, various cost reductions and the divesting of the Energy business. The net result of these actions is that Veritone is more capable, focused, and efficient in its operations. Our go to market and engagement with customers and partners is more tightly aligned as we drive value.

With the recent increase in AI awareness from the emergence of Generative AI and ChatGPT, Veritone is driven to continue to innovate and deploy market-leading and trusted AI applications and solutions. In mid-February, we announced Veritone aiWARE's native support of Generative AI models, detailing several use cases where Generative AI is being utilized today in production with our customers. While the advancements and significance of the new public large language models, or LLM's, cannot be overstated, for Veritone, Conversational AI and these LLM's, and domain specific LLM's, as a class, are another set of powerful models for aiWARE to utilize in delivering game changing products and solutions to our customers. We believe Generative AI improves the customer experience and as a result, should accelerate adoption of AI-solutions and services for both new and existing customers.

We have consistently maintained that Artificial intelligence, in good times and bad, will continue to thrive. Our 21% growth in customers and 141% bookings growth are concrete evidence that that belief continues to be valid. Importantly, the customer and bookings strength was balanced across all of our offerings, further diversifying our business.

Now, let's get into more of the operational details of our fourth quarter results.

Kicking off the business review with Commercial Enterprise:

Fourth quarter 2022 Commercial Enterprise revenues of $42.8 million increased 18 percent sequentially but were down 21%, year over year. Excluding Amazon, Q4 2022 Commercial Enterprise Software and Services revenues were up more than 70% Year over year, while Managed Services revenues were up 12%. On the full year, Commercial Software and Services revenues grew over 54% without Amazon and Managed Services revenues grew 17%. Stated more plainly, our 21% year over year growth in customers and otherwise growth in Commercial revenues was strong, as we continue to minimize the concentration risk of one customer.

Our recent deals with The Masters, Candle Media, Fox, Stats Perform and Audacy are all examples of our ability to expand and diversify in this dynamic operating environment. By growing our customer base and continuing to deliver superior product and services, Veritone will grow stronger and less susceptible to the actions of a single customer or even a single end market.

Moving on to Government and Regulated Industries, or GRI:

GRI revenues were relatively flat at $1.2 million in Q4, and $3.8 million on the full year. That said, bookings strength, broad customer engagement and new product and market initiatives indicate that our investments in GRI end markets are gaining traction at an accelerating pace.

At the state and local level, we continue to sign law enforcement agencies near daily. Moreover, our suite of offerings is driving increased product penetration, with virtually no churn. Last quarter we closed a three-year, seven-figure SaaS contract to provide services to a statewide agency, the California Highway Patrol. And, since signing, the contract has already been upsized. In the fourth quarter we introduced Redaction as a Service, which is not only improving our revenue opportunities, but it is also accelerating the sales cycle with numerous agencies that are understaffed and already overwhelmed with content.

In the fourth quarter we also announced the general availability of Veritone Tracker, a unique person-of-interest detection and tracking solution that does not require biometric face identification. It is already attracting interest across our entire government customer base, including Federal, State and Local agencies as well as some of our commercial customers.

Coming into 2023, a primary focus is on growing the business with existing customers and diversifying with new customers in the markets that we have established clear product market fit, and productivity gains for our customers.

Before handing the call over to Mike to go through the financials in more detail, I want to address the difficult decision to divest our energy group. While the potential of the energy market continues to be attractive and growing, our energy business has underperformed. Our decision demonstrates that we are focused on markets with stronger product market fit and traction.

Those of you who have followed Veritone for a while know that the company's name is derived from Latin, meaning "Truth in the Signal." As we have all witnessed over the past several months, there is a lot of noise around AI. Veritone provides applications, solutions and services to our customers that eliminate the 'noise' and simply improve their processes and outcomes at significant margins to Veritone. Today we are clearly an established leader in delivering AI-enabled results to more than 600 commercial customers. With strong customer growth and retention, we expect to extend that lead not only in our commercial markets, but also with our targeted government and regulated clients as well. The people we have attracted and the technology we continue to develop are the foundational elements for Veritone to capture and dominate our targeted markets.

Now, I would like to hand the call off to Mike Zemetra, our CFO, to go through the financial results and guidance.

Take it away, Mike!

VERITONE

Mike Zemetra, CFO

Thank you, Ryan.

I am excited to report that we continue to make substantial financial progress, ending the year with solid customer metrics and contributions made across our software products and services and managed services. This includes our second time reporting positive non-GAAP income in Q4 2022 and ending the year with a much-improved balance sheet and cash in excess of $180 million.

During my prepared remarks, I will discuss:

- Our fiscal 2022 and Q4 year-over-year performance and KPIs
- Our December 2022 debt buy back
- And, Q1 and fiscal 2023 guidance – highlighting the scalability of our revenue and business, risks heading into fiscal 2023, focus on near term profitability and projected full year results.

Starting with full year 2022 performance.

Revenue was a record $149.7 million, up 30% Year-Over-Year from $115.3 million in 2021. This growth was driven largely by Software Products and Services, which increased $25.1 million or 42%, to a record $84.6 million in revenue, and secondarily from Managed Services which increased $9.4 million or 17%. The increase in Software Products and Services was driven largely from the Q3 2021 acquisition of PandoLogic and 30% organic growth from legacy Software Product and Services revenue, led by growth in commercial media and entertainment.

On a Pro Forma basis, FY 2022 revenue increased slightly by 1% from 2021 pro forma revenue of $148.1 million. Driving this Pro Forma variance was Software Products and Services, which decreased $7.8 million or 8%, offset by the $9.2 million increase in Managed Services. The Pro Forma decline in Software Products and Services was driven by our hiring solutions, which decreased $13.8 million or 19% year over year, offset by the increase in organic Software Products and Services of $6.4 million or 30%. Our hiring solutions revenue declined on a pro forma basis due to a year over year decrease of 38% from Amazon, our largest customer, offset by revenue growth of over 78% from other hiring solutions customers. Apart from Amazon going through its well-publicized post Pandemic changes, our hiring solutions customer growth has been a monumental 80% since we acquired Pandologic through December 2022.

As I will discuss later in our guidance, while we expect a strong jobs economy throughout 2023 including continuing new and existing customer growth across our hiring solutions platform, we are projecting revenue from Amazon to be slightly down year over year as we settle into the post pandemic, higher interest rate and inflationary economy throughout 2023. In 2022, Amazon represented approximately 25% of our consolidated revenue, down from approximately 40% of our pro forma 2021 revenue. We expect customer growth and strong net revenue retention to further reduce the revenue concentration in 2023.

As a percentage of total revenue, Software Products and Services represented approximately 56% of consolidated revenue in fiscal 2022 versus 62% in fiscal 2021 on a pro forma basis.

Full year Non-GAAP gross profit reached $122.3 million as compared to $93.2 million in 2021, improving $29.1 million or 31%. This too was largely driven by the growth across our business, while overall Non-GAAP gross margins improved to 81.7% in 2022, as compared with 80.8% in 2021 driven in large part by the mix of revenue growth in 2022.

Non-GAAP Net Loss was $15.9 million, as compared to Non-GAAP Net Income of $6.8 million in 2021, a decline of $22.7 million, driven by increased investments made in Core Operations, most notably additions of sales and engineering staff made in the first half of 2022, and to a lesser extent, from Corporate investments around new system launches and higher professional fees. This was to support our first year Sarbanes Oxley compliance efforts as we exit Emerging Growth Status in 2022. Partially offsetting this was the year over year improvement in Non-GAAP Gross Margin.

Overall, Non-GAAP Net Loss was also down when compared to pro forma 2021 Non-GAAP Net Income of $18.5 million, driven by the aforementioned declines in our hiring solutions revenue coupled with the increased investments in our operations. We opened 2022 with 560 full time employees, ramped up in the first half of 2022 to over 720, and with cost cutting measures that began in the second half of 2022, we are now at approximately 655 full time employees or approximately 9% lower versus our height in mid-2022.

Now more specifically to Q4 2022 performance.

Revenue was $43.9 million, down 20% or $11.3 million from Q4 of 2021 driven largely by Software Products and Services, which decreased 32% or $13.0 million driven by Amazon. Offsetting this decline was other Software Products and Services revenue, which collectively grew by $6.2 million or 60% year over year, driven by overall customer growth, over 120% net retention excluding Amazon and gross revenue retention in the high ninety percentiles.

Overall, our revenue pipeline and long-term outlook remains strong. Our partner-driven channel strategy continues to deliver results, with record new bookings of $20.0 million in Q4 2022 – an increase of 141% from Q4 2021. With increased opportunities around our offerings within commercial enterprise and GRI, newer Generative AI product applications around NLP and hiring solutions, expanded managed services to now include redaction as a service and accelerated cross-selling opportunities across our platform, our future pipeline is at an all-time high, particularly in GRI where we expect to immediately begin realizing significant growth in the near and long-term.

In Q4, we reported solid KPI results.

- New bookings were $20.0 million, up 141% from Q4 2021
- Gross revenue retention continued to be in the high 90th percentile, and
- Ending Software customers were up 21% year over year

In Managed Services, advertising gross billings per active client increased to a record $823,000, up 32% over Q4 of 2021. Overall, Q4 2022 advertising revenue continued to outpace the prior year and exceeded industry growth in large part due to the performance nature of our advertising platform.

Q4 2022 Non-GAAP gross profit reached $37.2 million, declining $11.7 million or 24% from Q4 of 2021 largely due to the decrease in our hiring solutions revenue. Overall Q4 Non-GAAP gross margins were 84.7%, as compared with 88.6% in Q4 of 2021. Software Products and Services Non-GAAP gross margins benefit from the inclusion of our hiring solutions, which generate Non-GAAP gross margins in excess of 90%. As a result the overall Non-GAAP gross margin came down in Q4 2022 as compared to Q4 2021. We expect consolidated Non-GAAP gross margins to continue to exceed 80% throughout fiscal 2023, with sequential improvement each quarter consistent with the seasonality of our business.

Q4 Non-GAAP Net Income was $2.2 million, as compared to $17.0 million in Q4 of 2021 driven largely by the decline in revenue from our hiring solutions, coupled with increased investments in sales and engineering personnel across our Core Operations in order to grow and scale our aiWARE platform and business. Q4 2022 Corporate Operations remained relatively flat year over year.

Turning to our balance sheet, at December 31, 2022, we held cash and restricted cash of $185.3 million, compared to $255.6 million at December 31, 2021. The $70.3 million decrease reflects net cash outflows from financing and investing activities of $74.0 million, offset slightly by net cash inflow from operations of $3.7 million.

During Q4 2022, we used $39.0 million to repurchase $60.0 million or 30% of our outstanding convertible debt, generating a net gain of $21.0 million. In addition, net cash outflows from financing and investing activities included $21.7 million towards acquisitions, including $14.4 million of cash towards Pandologic's 2021 earnout, $9.8 million in net share settlements of equity awards and $4.8 million in capital expenditures.

Net Cash inflows from operating activities of $3.7 million consists of net positive changes in our working capital of $24.9 million principally associated with the growth and timing of payments in our Managed Services, largely offset by our $15.9 million Non-GAAP Net Loss and cash interest and taxes paid in 2022.

Of the total $184.4 million in cash, approximately $93.1 million of our reported cash is essentially held for payment to third parties from our Managed Services.

We ended December 31, 2022 with 36.3 million shares outstanding and convertible debt of $141 million principal, 1.75% interest due November 2026. Looking ahead to Q1 2023, I want to point out one-time cash and stock items. As a reminder, in the second half of 2022, we negotiated a settlement on Pandologic's 2022 earnout of approximately $8.0 million in cash and 135,000 of Veritone stock, payable in Q1 2023. When aggregated, the final consideration paid for the Pandologic acquisition was approximately $115.0 million in total, or $35 million less than the target price of $150 million. If we average the last two years of revenue, this comes to a price around 1.8 times revenue.

Turning to Financial Guidance for Q1 and Fiscal 2023. Fiscal 2023 is shaping to be a challenging year, with the backdrop of a possible recession given inflationary and interest rate pressures. Taking these macro factors into consideration, we approached our 2023 planning with a very conservative approach on revenue, with heightened discipline around costs as we march towards profitability. In February this year, we announced $12-$15 million of annualized cost savings initiatives, which included cutting back on certain operating expenses, headcount reductions and, finally, the divestiture of our energy group, which we are tracking to finalize in the first half of 2023. I am happy to report that we've executed on approximately $7.5 million of annualized savings through today, or approximately 50% of the high-end of our stated range and expect to continue to update you on further progress when we announce Q1 earnings in May 2023.

With that backdrop, we are guiding:

Q1 Revenue to be between $29.5 and $30.5 million, representing an 11% decrease year-over-year at the midpoint. Driving this decline is our high-volume hiring solutions, including Amazon, who have returned back to non-pandemic hiring trends in Q1 2023 versus Q1 2022. As a result, we expect our Q1 2023 hiring solutions revenue to be down as much as 50% year over year in Q1 2023, returning back to more seasonal trends in Q2 and in the second half of 2023. Offsetting this will be GRI, which we expect to improve at or above 100% in Q1 2023 versus Q1 2022, driven by new and existing customer growth. Our managed services is expected to be fairly flat in Q1 2023 versus 2022, with expected advertising revenue to remain comparable in the first half of 2023 versus 2022 given the current economic environment. Risks to our Q1 revenue guidance include execution on new Enterprise deliverables, namely across GRI, which can be unpredictable, and our concentration of Amazon, which usage of our hiring platform can vary.

And,

Q1 quarterly Non-GAAP Net Loss to be between $8.5 million and $9.5 million, which is down by $3.8 million versus Q1 2022 driven by the previously discussed year over year decline in our hiring solutions revenue. As a reminder, Q1 is our seasonally lowest performing quarter, as the majority of our costs are fixed and payroll driven.

For Full Year 2023, we expect:

Revenue to be between $158.0 million and $168.0 million, representing a year-over-year increase of 9% at the midpoint. As a reminder, and given current economic outlook, we are forecasting our revenue conservatively in 2023, including a year over year decline of approximately 10% from Amazon, certain one-time software sales revenues in 2022 that are not recurring in 2023 and the disposition of our energy revenue and group in the first half of 2023. If we exclude the impact of these, our revenue guidance would be over 20% improvement in 2023 versus 2022. Risks to our annual revenue guidance include the macro economy and the result of continued inflation and higher interest rates on our customers, execution on new Enterprise deliverables, namely across GRI, and continued customer growth and retention metrics from our Software Products and Services.

We expect full year Non-GAAP Net Loss to improve substantially in 2023 and be between $7.0 million and $1.0 million, as we continue to progress towards profitability. At the midpoint, this represents a 75% improvement when compared to fiscal 2022 Non-GAAP Net Loss.

Before I close, we will be speaking at the following investor conferences:

- The JMP Securities Technology Conference, in San Francisco on March 7^{th} and
- The 35th Annual ROTH Conference in Dana Point on March 13th and 14th.

That concludes my prepared remarks. Operator, we would like to now open up the call for questions.