Veritone First Quarter 2023 Prepared Remarks

Stefan Norbom, Investor Relations

Thank you, and good afternoon.

After the market-close today, Veritone issued a press release announcing results for the first quarter ended March 31, 2023. The press release, and other supplemental information, are available on 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 answers to your questions may 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, May 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.

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, Stefan.

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

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

We are excited to speak with you today and to provide an update on our first quarter 2023 operations and financial performance.

It is truly an exciting and dynamic time for AI development and enterprise adoption. Veritone, through its aiWARE platform and applications, continues to lead at the forefront of these efforts, supporting hundreds of market-leading and disruptive companies as they transform and extend their businesses, products and services through the scalable and impactful incorporation and deployment of AI technologies and solutions. The recent acknowledgement of these efforts earlier this month, winning the prestigious NAB Product of the Year Award for Veritone's Generative AI solutions, is a testament to our continued focus and passion around building and marketing the most advanced and dynamic artificial intelligence product and services in the markets we serve.

Before turning to the financial results, I'd like to discuss the strategic pillars laid out earlier this year which I believe will unlock the true growth potential of our industry-leading applications and enterprise AI platform, aiWARE.

First is focused execution. Veritone continues to pursue existing markets where we have established clear differentiation and product market fit, resulting in disruptive efficiency and productivity gains delivered to our customers. Integration of our various applications, enabled through aiWARE, offers orchestrated cognitive and generative AI workflows and solutions transforming the verticals we know best: talent acquisition, media and entertainment, sports and government and regulated industries. These are all verticals where we are seeing increased AI adoption with large runways for tremendous growth.

Second, operational excellence. During 2023, Veritone has already implemented a number of organizational initiatives to reshape the company and more efficiently support the needs of our customers. Together, with the executive leadership team, we are pursuing the highest level of excellence in everything we do - from hiring to employee engagement and, of course, product development and sales, the entire Veritone team is doing their part.

Lastly, fiscal responsibility. As we drive Veritone towards profitable growth in the upcoming year, I'd like to reiterate the initiatives we announced earlier this year which include a target of $12-$15 million of annualized cost savings. I am pleased to report that Veritone remains on track to achieve the target range, reinforcing management's commitment to right-size our cost structure and optimize the balance sheet. Mike Zemetra will cover these efforts in more detail during his remarks.

To this end, we have made significant progress on the energy divestiture. I am pleased to share that, as of today, Veritone is no longer incurring any expenses from the energy group, and the divestiture transaction will close by the end of 2Q 2023. The net result of these actions is that Veritone is more capable, focused and efficient in its operations. Our go-to market strategy and engagement with customers and partners is more tightly aligned as we drive value.

Turning now to the financial results:

For the first quarter of 2023, Veritone reported total revenue of $30 million, while delivering new bookings of $15 million, up 57% year over year. Further, we ended the quarter with a record number of nearly 670 total software customers, marking a 19% increase. Gross revenue retention was strong, well above the 90th percentile. Importantly, the customer and bookings strength was balanced across all of our offerings, further diversifying our business.

Our commercial enterprise business, powered by Veritone aiWARE, remains the foundation for our differentiated operating model, providing the majority of the revenues and profits for our company. Our investments in government and regulated industry solutions, or GRI, are also gaining traction as demonstrated by its material growth. The government and regulated sectors are quickly starting to understand how Veritone's applications extract actionable intelligence from disparate data silos to help drive increased operational efficiency and agency yield.

Our strong customer growth and bookings metrics are a direct result from our continued investments in our market-leading aiWARE platform and applications. This includes our focus and efforts on generative AI, which are in production and being leveraged by our customers today. The recent emergence of generative artificial intelligence and large language models are topics of daily conversation and prognostication across the entire country. Experts believe we are on the brink of rapid acceleration in task automation.

A new study from Stanford and MIT has found that AI tools can make entry-level employees up to 14% more productive. In turn, other sources, like Bloomberg, posit that AI may help narrow the gap between highly and lower skilled workers. These studies validate the Veritone strategy. AI will be a productivity accelerator and, ultimately, create opportunities for the broader workforce. Veritone's mission is to augment the human workforce by transforming concepts into industry-leading applications and services.

We have been here for almost a decade working with many of the most well-known enterprises in the world. We are thrilled that AI is becoming part of the fabric of daily conversation, which enforces the importance of Veritone's mission to democratize artificial intelligence across all industries.

Embedding and implementing generative AI tools across the application stack represents an attractive opportunity that Veritone is uniquely positioned to capitalize on. We have led the industry in bringing scalable, AI-powered solutions and applications to market, and that remains true today. Across talent acquisition, sports and law enforcement, generative AI has been integrated into Veritone's applications, and our customers are realizing the untapped potential of their assets. We are excited to announce that Veritone will be hosting a virtual series called "AI in Action" to showcase aiWARE, and our generative AI capabilities to demonstrate how Veritone customers are using these powerful solutions today. We will be sharing additional details later this week. I hope you all can join us.

In regards to Veritone's Hiring Solutions platform, we continue to see industry tailwinds that give us confidence amid the current dynamic environment. As a leader in programmatic job advertising, Veritone cost-effectively manages thousands of job listings daily across hundreds of publishers to track results quickly while supporting DEI hiring goals. A study by Gartner demonstrated that highly diverse workforces can improve team performance by up to 30%. Likewise, McKinsey & Company found that the most diverse companies outperform less diverse peers by 36% in profitability. Veritone positions its partners with deeper insights to recruit top quality candidates efficiently and at scale.

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

Kicking off the business review with Commercial Enterprise:

First quarter 2023 Commercial Enterprise revenues of $28.9 million declined 14% year over year. Excluding Amazon, Q1 2023 Commercial Enterprise Software and Services revenues were up 16% year over year, while Managed Services revenues were slightly down less than 1%.

During Q1 2023, Amazon represented 18% of total revenue, down significantly from 31% in the comparable period a year ago. Each quarter, Veritone's revenue base becomes increasingly diversified and less susceptible to the actions of a single customer or end market.

During the quarter, Veritone announced a comprehensive multi-year partnership extension with Augusta National Golf Club, the home of the iconic Masters Tournament. We have served as their official licensing partner and digital asset management platform since 2009, which speaks volumes to Veritone's industry-leading retention rates. We've shown very confidently that when we land customers, we rarely lose them.

Our AI-powered content licensing platform continued to grow during the quarter. Today, we store over five petabytes of actionable content on our platform, partnering with CBS, FOX News, Bloomberg, The Masters and institutions in professional and college sports, among others. This digital content is discoverable and licensable through the Veritone platform, providing a competitive edge as we begin to broaden the reach of our generative AI solutions and capabilities. Whether it is ESPN SportsCenter, Augusta footage or archived footage with the new Michael Jordan and Nike film, *Air*, our content licensing platform continues to flourish with topical content trends.

Moving on to Government and Regulated Industries, or GRI:

Total GRI revenues were $1.4 million, representing a 79% increase year-over-year. We continue to see numerous opportunities on the state and local government side that reinforce our product fit. While revenues in GRI still account for less than 5% of our total revenues, bookings strength and the growing diversity of customers continue to give us confidence in Veritone's strategy with state and local law enforcement, or LEA, end markets.

Focused execution, operational excellence and fiscal responsibility are the three components of Veritone's report card that we have executed against during the year so far. Veritone is on a path to profitability and plans to achieve this growth through organic performance and opportunistic strategy. We look forward to updating you on the progress we are making to unlock long term value for shareholders in the quarters to come.

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

Mike Zemetra, CFO

Thank you, Ryan.

I am excited to report that we made solid financial progress, ending the quarter with great customer metrics and contributions made across software products and services and managed services.

During my prepared remarks, I will discuss our:

- First quarter performance;
- Progress on 2023 cost savings initiatives;
- And our Q2 and fiscal 2023 outlook.

Starting with Q1 2023 performance.

Revenue was $30.3 million, down 12% or $4.1 million year over year, driven largely by Software Products and Services, which decreased 22% or $4.0 million. As we discussed in detail during our last earnings call, our high-volume hiring solutions, including Amazon, returned to pre-pandemic hiring trends this year. Overall, Amazon declined 49% year over year, and represented approximately 18% of our consolidated Q1 2023 revenue versus 31% in Q1 2022. Offsetting this decline was non-Amazon Software Products and Services revenue, which collectively grew by 16% year over year, driven in part by GRI revenue and software customer growth of 79% year over year.

We remain confident in the strength of our hiring solutions platform. During the first quarter, our hiring platform customers grew over 20% year over year. We continue to see our high-volume hiring customers stabilize, with more predictive and less volatile hiring patterns experienced throughout 2022 as they return to pre-pandemic trends. For many industries, including transportation, nursing, retail and hospitality, there is still a massive shortage in the workforce. The resilience of our hiring solutions platform uniquely positions Veritone to increase market share and capitalize in the current volatile market environment.

Our managed services revenue was flat in Q1 2023 versus 2022, led by growth in licensing offset by a slight softness in advertising revenue driven by the current economic environment. As I will discuss later in my prepared remarks, we expect this advertising softness to continue through Q2 2023 and reverse itself into the second half of 2023 given our customer mix and seasonality on spend.

Overall, Veritone's customer pipeline and long-term outlook remain strong. Our partner-driven channel strategy continues to deliver results, with new bookings of $15.0 million in Q1 2023, representing a 57% increase year over year.

As an industry leader, Veritone remains encouraged by the growing number of opportunities as companies seek to boost operational efficiencies given the challenging market. We are seeing meaningful traction from new and existing commercial enterprise and GRI customers that want to benefit from Veritone's industry leading applications, hiring solutions and new offerings, such as cloud based Veritone Redact which accelerates evidence redaction workflows. Our future pipeline remains strong with ample cross-selling opportunities, particularly in GRI where we expect significant growth in the near and long-term.

In Q1, we delivered strong key performance metrics:

- New bookings were $15.0 million, up 57% from Q1 2022;
- Gross revenue retention continued to be in the high 90th percentile
- And, ending Software customers were up 19% year over year.

In Managed Services, Q1 advertising gross billings per active client increased to $771,000, up 13% from Q1 2022. Overall, gross advertising revenue remained relatively strong despite a challenging macro environment, driven by the performative nature of our platform.

Q1 2023 GAAP loss from operations was $23.4 million as compared to $20.8 million in Q1 2022, a decline of $2.6 million driven by our non-GAAP gross profit, offset by improvements in our operating cost structure.

Q1 2023 non-GAAP gross profit reached $23.5 million, declining $4.0 million or 15% from Q1 of 2022 largely due to the decrease in our hiring solutions revenue. Overall Q1 non-GAAP gross margins were 77.5%, as compared with 79.9% in Q1 of 2022. Software Products and Services non-GAAP gross margins benefitted from the inclusion of our hiring solutions, which generated non-GAAP gross margins in excess of 90%. As a result, the overall non-GAAP gross margin came down in Q1 2023 as compared to Q1 2022. We expect consolidated non-GAAP gross margins to return to and exceed 80% throughout the remainder of fiscal 2023, with sequential improvement each quarter consistent with the seasonality of our business.

Q1 non-GAAP net loss was $9.6 million, as compared to $5.2 million in Q1 2022 driven largely by the decline in revenue from our hiring solutions, which negatively impacted our Core Operations. Q1 2023 corporate operations remained relatively flat year over year.

Turning to our balance sheet, at March 31, 2023, we held cash and restricted cash of $139.7 million, compared to $184.4 million at December 31, 2022. The $44.7 million decrease reflects net cash outflows from operations of approximately $33.8 million, driven principally by the timing of payments in Managed Services and by our Q1 2023 $9.6 million non-GAAP net loss. In addition, we had net cash outflows from financing and investing activities of $10.9 million, driven by deferred purchase price consideration of $9.3 million paid in Q1 2023 largely from Pandologic's 2022 earnout and certain 2022 acquisitions.

Of the total $139.7 million in cash, approximately $67.9 million of our reported cash is essentially held for payment to third parties from our Managed Services, down from $93.1 million at December 31, 2022. The $25.2 million decline in cash held for third parties is partially reflective of the seasonality of our advertising services coupled with certain catch-up payments made in Q1 2023 from delayed payments as we migrated onto our new Oracle ERP system in the second half of 2022.

We ended March 31, 2023 with 36.8 million shares outstanding and convertible debt of $141 million principal, 1.75% interest due November 2026.

Turning to our cost savings update. In February of this year, we announced $12-$15 million of annualized cost savings initiatives, which included optimizing our cost structure along with the divestiture of our energy group. I am happy to report that we've executed on approximately $10.8 million of annualized savings through today, or approximately 72% of the high-end of our stated range. We remain on schedule to divest our energy group in Q2 2023.

Turning to our financial guidance for Q2 and Fiscal 2023. Fiscal 2023 continues to be a challenging year, with increased uncertainty amplified by recent banking developments. We maintain our conservative 2023 outlook, with heightened discipline around costs as we march towards profitability.

With that backdrop, we are guiding:

Q2 revenue to be between $32.0 and $34.0 million, representing a slight decrease year-over-year at the midpoint. Driving this decrease is the loss of certain one-time software revenue across our media and entertainment SaaS platform, offset by:

- An improved hiring solutions outlook, including Amazon, which is returning to more seasonal trends in Q2 and in the second half of 2023, and
- GRI, which we expect to improve substantially in Q2 2023 versus Q2 2022, driven by new and existing customer growth.

Our managed services business is expected to be flat in Q2 2023 versus 2022, with expected advertising revenue to remain comparable to the first quarter of 2023 versus 2022 given the current economic environment. Risks to our Q2 revenue guidance include the execution of new Enterprise deliverables, namely across GRI which can be unpredictable, and our concentration of Amazon, as usage of our hiring platform can vary.

And…

We expect Q2 quarterly non-GAAP net loss to be between $6.5 million and $8.5 million, which is relatively flat versus Q2 2022 at the midpoint. As a reminder, Q1 and Q2 are our seasonally lowest performing quarters, as the majority of our costs are fixed and payroll driven.

For full year 2023, we are tightening our revenue outlook to be between $158.0 million and $166.0 million, representing a year-over-year increase of 8% at the midpoint. As a reminder, and given the 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 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 more than a 20% improvement in 2023 versus 2022. Risks to our annual revenue guidance reflect the macro economy and the results of continued inflation and higher interest rates on our customers, execution of 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 $2.0 million, as we continue to progress towards profitability. At the midpoint, this represents a 72% improvement when compared to fiscal 2022 non-GAAP net loss.

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

- The EF Hutton Inaugural Global Conference in New York on May 11th;
- The Needham Technology & Media Conference in New York on May 16th, 17th and 18th;
- The Stifel Cross Sector Insight Conference in Boston on June 6th and 7th and
- The Bank of America Global Technology Conference in San Francisco on June 6th, 7th and 8th.

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