

## SeaChange International, Inc.

### Fiscal First Quarter 2021 Conference Call Script

Thursday, June 11, 2020 at 5 p.m. PT

#### YOSSI ALONI – CEO

Thanks, operator. Good afternoon and thank you for joining our first quarter of fiscal 2021 conference call.

It's been nine weeks since we held our last earnings call. As we all know now, early April marked the initial stages of the global pandemic. At the time of the call no one could have predicted the intensity, duration and ultimate impact to the world economy. On that call, I talked about how COVID-19 created uncertainty and reduced visibility for SeaChange in the near term, but also how the pandemic was dramatically transforming the TV and video industry. COVID-19 has also accelerated the industry's shift in how content is being consumed at home, which has resulted in a robust pipeline of opportunities and continued interest in our Framework solution as operators look to preserve their revenue and reduce operating expenses. Both secular drivers remain very much intact and bode well for SeaChange's business over the medium- and long-term.

Unfortunately, the negative effects of COVID-19 have been longer lasting than we initially expected, with many of the countries in which our prospective customers are based continuing to be in various stages of government-mandated lockdown. This dynamic significantly slowed customer engagement with the new remote work environment. At the same time, many customers are focusing their resources on remote networking support and servicing the growing demand for bandwidth due to higher network usage caused by COVID-19 confinement. As a result, several of our current and prospective customers temporarily paused their technology purchasing and deployment decisions of our Framework solution. But, to be clear, our pipeline remains robust, and we have not lost any business. Our customers have simply delayed making a final decision regarding their planned engagements and deployments, pending the return to a more typical operating environment.

In the face of the intensifying COVID crisis, we are remaining focused on employee safety, ensuring

business continuity and supporting customers. We have also taken immediate actions and institute a plan to manage the business through the crisis and implementing additional cost-savings measures. These decisive moves have allowed us to shift to a leaner, more focused operation, as well as better align our strategy with current market demands without impacting our go-to-market motions. Combined with our cash position of nearly \$10 million, these actions provide us with enough resources to execute our growth strategy. We are confident in our business and remain committed to our long-term strategy.

Despite the headwinds we experienced in Q1 and continue to experience in our current quarter, we are encouraged by our initial success securing our first Framework win that included our new Ad Insertion module. As I've talked about, monetizing unsold ad inventory during this difficult time is a tremendous value-add that our Framework platform can provide. Research firm Magid recently reported that TV stations experienced a 40% to 60% loss in advertising revenue in April and May due to COVID. And Broadcast and linear TV hasn't been the only platform effected. Conviva, another industry analytics and research firm, found that nearly 50% of all streaming ads represented in April and May missed opportunities due to unfilled ads or ad failures.

SeaChange's new Ad Insertion module addresses these issues by integrating a demand side platform to source ad buyers and a supply side platform to define ad placement and then programmatically filling unsold advertising slots in real-time. The model of auctioning unsold ad spots has existed for years but has been used exclusively online. Now SeaChange is making it available to our customer base for linear, OTT and VOD. This workflow eliminates the need for sales teams to seek out the ad buyers themselves. An unsold spot that is auctioned at a discount minutes before airing is better than allowing the spot to generate no revenue at all. With SeaChange's technology, a lucrative new revenue stream is opened. and the value of a TV provider's ad inventory increases. We believe our early success selling our Ad module reflects industry's unmet need for such a unique solution.

Before I continue, I am now going to turn the podium over to our Chief Commercial Officer Chad Hassler to provide a brief overview on our Framework wins in the quarter. Then, our Chief Financial Officer Mike Prinn will walk you through our financial results. Afterwards, I will share our outlook and then open the call to questions.

Chad?

## CHAD HASSLER – CCO

Thanks, Yossi, and good afternoon everyone.

As Yossi mentioned in his opening remarks, the health crisis presented significant headwinds to our sales and business development activities in the first quarter. Nevertheless, we were able to secure two new wins with multi-year commitments for our Framework video delivery platform. These two wins brought our total win count for our Framework solution to 28 at quarter end. Framework's total contract value at quarter end exceeded \$60 million, of which nearly 20% represented business with global Tier 1 operators, which demonstrates our platform's robustness and enterprise-grade functionality.

As Yossi also mentioned, we secured our first Framework win that included our ad insertion module in the quarter. The win was with a Tier 1 international TV provider that services more than five million subscribers globally. This new customer selected Framework because of the platform's value-based engagement model, ease-of-use and innovative features that enable the customer not only to reduce its operating costs but also drive new revenue streams. This is an exciting opportunity for SeaChange because we not only benefit from the recurring revenue associated with the Framework sale, but we also receive a portion of the ad revenue this customer generates using our ad monetization module. As you can tell, we're really excited about this win and eager to leverage it as a case study with our existing Framework customers and prospective customers as well.

As we've talked about on prior calls, one of the most impactful differentiators for SeaChange is our technology. The \$250 million in investment in our technology over the last five years combined with our disruptive value-based go-to-market strategy has established SeaChange as *the video delivery platform leader*. Our team is committed to not only maintaining this position but furthering it as well. Through partnerships with industry leaders like Amazon Web Services, we can cost-effectively leverage other best-of-breed technologies and tools to augment the Framework offering.

A good example of this is our recently expanded partnership with AWS that expands functionality for our customers. The Framework Predictive Analytics algorithms leverage AWS' machine learning services to help TV providers better understand user engagement. The platform identifies patterns that suggest whether a user is at risk of churning, which prompts the TV provider to launch targeted retention actions. Understanding user behavior such as channel lineup utilization, video on demand catalog engagement, and promotion effectiveness can also improve the accuracy of advertising campaigns. With

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predictive analytics from AWS, Framework is the ultimate tool for TV providers to reduce subscriber churn and increase revenues through better monetization of advertising inventory.

In terms of our current operating environment, we are starting to see business activity pick up as stay-at-home orders are lifted and offices re-open. We believe that our industry-leading solutions, disruptive value-based go-to-market strategy and new advertisement revenue-share business model will enable us to capitalize on the disruption-in-process and the accelerating demand for streaming services.

Framework is one of the most effective tools for TV operators and content owners to improve their customer experience, while reducing their operating cost and enabling them to generate incremental revenue through advertising. We believe our differentiated position in the market will translate to a strong second half of fiscal 2021 and giving us good momentum entering fiscal 2022.

With that, I'll turn the call over to Mike to walk us through our financial performance for fiscal Q1 2021.

Mike?

### MIKE PRINN – CFO

Thanks, Chad, and good afternoon everyone.

Looking at our financial results for the fiscal first quarter ended April 30, 2020...

We entered the first quarter with \$21.8 million in total backlog, excluding legacy maintenance and support. We booked \$4.1 million of new business during Q1 and ended the quarter with backlog of \$21.5 million.

Total revenue for fiscal Q1 2021 decreased 19% to \$6.9 million from \$8.5 million in the same year-ago period. The year-over-year revenue decrease was primarily due to lower legacy services revenue, partially offset by higher product revenue in the period. As Chad and Yossi mentioned, we signed two new Framework deals in the first quarter of this year, which compares to one new Framework deal signed in Q1 of last fiscal year, and the eight deals we averaged per quarter in Q2, Q3 and Q4 of last fiscal year.

Product revenue increased 163% to \$3.1 million, or 45% of total revenue, from \$1.2 million, or 14% of

revenue, in the same year-ago period. The increase in product revenue was driven by a \$2.3 million increase in Framework revenue.

Service revenue decreased 48% to \$3.8 million, or 55% of total revenue, from \$7.3 million, or 86% of total revenue, in the same year-ago period. The decrease in service revenue was due to lower revenue from both professional services and support revenue from customers related to legacy products. As we've mentioned on prior calls, these declines are consistent with our expectations as we transitioned legacy customers to new Framework arrangements and transitioned our professional services organization to our customer engineering organization as we completed legacy professional services projects.

Revenue from our international markets was \$4.6 million, or 66% of total revenue, which compares to \$5.1 million, or 60% of total revenue, in the same year-ago period.

Revenue in our U.S. market was \$2.3 million, or 34% of total revenue, which was down from \$3.4 million, or 40% of total revenue, in the same year-ago period. The decrease in revenue from both the U.S. and international markets was due to a reduction in bookings, primarily attributable to the COVID-19 pandemic.

In terms of customer concentration, we had two customers that accounted for 15% and 13% of our total revenue compared to one customer in Q1 of last year that accounted for 16% of our total revenue.

Looking at our margins...

Gross profit decreased to \$2.5 million, or 36% of total revenue, from \$2.9 million, or 34% of total revenue, in the same year-ago period. The 34% gross margin last year was a result of the transition from legacy to Framework, as we focused on completing a number of professional services projects and lower margin work. The 36% gross margin in the fiscal first quarter of 2021 was a result of only closing two Framework deals during the period. Our business model and cost structure have the ability to drive gross margins in the low-70%'s and above, as you saw in Q3 and Q4 of last year. However, in order to achieve that margin level, we need to generate more product revenue from Framework deals than we did in the first quarter of this year.

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Product gross margin was 49%, compared to 23% in Q1 of last year. Service gross margin was 26%, compared to 36% in Q1 of last year.

Looking at our expenses...

Non-GAAP operating expenses decreased 26% to \$7.7 million from \$10.4 million in Q1 of last year. The decrease reflects the continued cost-savings initiatives related to the reduction of third-party costs and elimination of non-essential internal costs throughout our organization. In response to the COVID-19 pandemic, in late April we shifted our business operations to further reduce our operating expenses and to better align our strategy with current market conditions. These actions included instituting additional cost-optimization measures in addition to the ones we made last year.

GAAP loss from operations totaled \$6.3 million, an improvement from a loss of \$8.7 million in the same year-ago period. As a percentage of total revenue, GAAP loss from operations for the first quarter of fiscal 2020 was negative 91%, which compares to negative 102% in the year-ago period.

Non-GAAP loss from operations totaled \$5.2 million, or a loss of \$(0.14) per basic share, an improvement from a loss of \$7.5 million, or a loss of \$(0.20) per basic share, in the same year-ago period. As a percentage of total revenue, non-GAAP loss operations was negative 75% compared to negative 88% in Q1 of last year.

GAAP net loss totaled \$6.5 million, or a loss of \$(0.17) per basic share, a significant improvement from a loss of \$10.8 million, or a loss of \$(0.30) per basic share, in the same year-ago period.

Non-GAAP net loss totaled \$5.4 million or a loss of \$(0.14) per basic share. This was an improvement from a loss of \$9.7 million, or a loss of \$(0.26) per basic share, in Q1 last year. As a percentage of total revenue, non-GAAP net loss was negative 78% compared to negative 114% in Q1 of last year.

Turning to the balance sheet...

We ended the quarter with \$9.8 million in cash and cash equivalents and marketable securities and had no debt. In addition, in early May we qualified and received a little more than \$2.4 million from the Payroll Protection Program. We currently believe that our liquidity position coupled with the recent cost

reduction measures I just mentioned, enable us to execute our growth strategy.

Deferred revenue at quarter end was \$6.2 million, which was flat from the prior quarter and compares to \$9.9 million at the end of Q1 last year. The year-over-year decrease was primarily due to the decrease in legacy revenue.

DSOs, excluding unbilled receivables, was 155 days at the end of the first quarter, compared to 66 days at the end of the prior and 165 days at the end of Q1 last year. The increase in DSO's was a result of the lower than expected revenue in the first quarter, and we expect to be able to reduce the DSO number in future quarters.

Unbilled receivables were \$22.7 million, which compares to \$23.3 million in the prior quarter and \$6.0 million in Q1 of last year. Unbilled receivables remained relatively stable from last quarter due the lower than expected revenue in the first quarter, and the increase from Q1 of last year is really a result of the transition to the new Framework business model in fiscal 2020.

Finally, as we indicated on our fiscal year-end earnings call in April, we anticipated being able to provide more clarity regarding our financial guidance for fiscal 2021 by this time. Unfortunately, the effects of COVID-19 have been longer lasting than we initially expected, with many of the countries in which our prospective customers are based continuing to be in various stages of government-mandated lockdown. However, based on our current pipeline of opportunities, customer discussions and engagement, we expect to generate growth and profitability in the second of half of the fiscal year. We intend to provide formal guidance when we have better visibility with respect to returning to a more normal operating environment.

This completes my financial summary. For a more detailed analysis of our financial results, please refer to today's earnings release as well as our 10-Q, which we plan to file tomorrow.

Yossi?

**YOSSI ALONI – CEO**

Thanks, Mike.

The decisive measures we took over the last several months have allowed us to mitigate the present macro risks and be better positioned to capitalize on the expected demand for our Framework in the second half of fiscal 2021. We believe that the unexpected factors that significantly affected our financial results in Q1 will continue through Q2.

Although we can't forecast when our industry will return to 'normal' so to speak, we are seeing many positive green shoots that give us increased confidence in our business.

While it is our intention to provide formal financial guidance when visibility returns to a more normal operating environment, we think it's important to describe what we're seeing. Today, our pipeline of opportunities is robust, customer engagement is increasing, and interest for Framework is strong.

We currently expect to generate solid growth and profitability in the second of half of the fiscal year. While we have positive expectations for the business in the second half of the year, we are, in fact, navigating the current situation cautiously.

Our leadership team and board are confident in the plan we are executing, which will put SeaChange in the best possible position to capitalize on the abundant opportunities in front of us and deliver profitable growth over the long run.

That concludes our prepared remarks. Operator, we're ready to open the call for questions.