Appian Q1 2024 Earnings Call Prepared Remarks Transcript

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Thank you, Operator. Good morning and thank you for joining us. Today, we will review Appian's first quarter 2024 financial results. With me are Matt Calkins, Chairman and Chief Executive Officer and Mark Matheos, Chief Financial Officer. After prepared remarks, we will open the call for questions.

During this call we may make statements related to our business that are forward-looking under federal securities laws, and are made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. These include comments related to our financial results; trends and guidance for the second quarter and full year 2024; the benefits of our platform, industry, and market trends; our go-to-market and growth strategy; our market opportunity and ability to expand our leadership position; our ability to maintain and upsell existing customers; and our ability to acquire new customers. The words, "anticipate," "continue," "estimate," "expect," "intend," "will," and similar expressions are intended to identify forward-looking statements or similar indications of future expectations. These statements reflect our views only as of today. They do not represent our views as of any subsequent date. They are subject to a variety of risks and uncertainties that could cause actual results to differ materially from expectations.

For a discussion of the material risks and other important factors that could affect our actual results, refer to our 2023 10-K, our Q1 2024 10-Q filing, and other periodic filings with the SEC. These documents are available on the "Investors" section of our website.

Additionally, non-GAAP financial measures will be discussed on this conference call. Refer to the tables in our earnings release for a reconciliation of these measures to their most directly comparable GAAP financial measures.

With that, I'd like to turn the call over to our CEO, Matt Calkins. Matt?

Matt Calkins, Chairman and Chief Executive Officer

Thanks Reagan.

In the first quarter of 2024, Appian's cloud subscription revenue grew 24% year-over-year to $86.6 million. Subscriptions revenue grew 19% to $117.7 million. Total revenue grew 11% year-over-year to $149.8 million. Our cloud subscription revenue retention rate was 120% as of March 31st. Adjusted EBITDA was a loss of $(1.3) million.

Two weeks ago we held our annual user conference. Many of the people on this call were there. We had 46% more customers and prospects in attendance than the year before. The show featured a series of major customers discussing the success they've had with our platform. Attendees heard how Novartis reduced risk assessment approval times by over 50% using Appian. The Navy developed an employee onboarding app in a fraction of the time other technologies would have required. We also heard how TELUS integrated siloed systems into a single Appian app to manage cross-functional planning -- and expects to reduce planning cycles by 55% and save from misallocation up to $42 million dollars. We also heard speakers from Merck, the US Army, Axiom Space, and T Rowe Price, among others.

Aside from the customers, my favorite part of the show was our new feature announcements. Not all of them were about AI, but I'll start there.

Our unique edge in AI comes from strength in complementary technologies, specifically processes and data. We're a leader in all three areas.

This year, every company is looking for ways to validate AI. Big budgets will come later; for now they need quick proof of ROI. A process is the perfect place to start using AI. A process offers structure, a ready-built framework of activity pointed towards an important goal, a set of workers (human and digital) with whom to collaborate, and metrics that measure what improvement AI has created. We're so confident in our ability to show strong ROI by dropping AI into a process, that we've launched a 30-day fixed price offering. We announced it at Appian World.

Our other main advantage in AI is our control of data. Appian's data fabric connects data sources without having to move them. We can inform AI with the right information from across the enterprise. If we filter that dataset through the data fabric, sending only the most pertinent bits to AI, there are important implications for privacy, cost-efficiency, auditability, security-clearance observance, and more.

Our goal is to make AI powerful and easy. Toward this purpose, we announced last month a Strategic Collaboration Agreement between Appian and AWS. We've been working together for a long time, ever since Appian led our industry into the cloud about 15 years ago. We run an incredible amount of volume on AWS already, 16 billion transactions per day. This announcement will intensify our longstanding partnership as we work together to make enterprise use of AI both powerful and easy.

When we acquired a process mining company in 2021, we did it because we saw an opportunity to create what I call the future of process mining. Process Mining was cool, but it was missing a few critical features, and we could provide them. Because we were a process leader, our process mining could be actionable. Because we had great data connection capabilities, our process mining could be real-time. That's the revolution we anticipated. And two weeks ago at Appian World, we delivered it. Our new product is called ProcessHQ, and it IS real-time actionable process mining -- but it's also more than that.

It allows a user to navigate the whole enterprise of information, traversing Appian's data fabric. You can drill all the way down to individual rows and processes. You can glide across data sources from one end of the enterprise to the other.

ProcessHQ can give you the heartbeat of your processes, and boardroom-level statistics on your efficiency. You can detect even momentary disruptions and inefficiencies and take quick action. And maybe best of all, it intelligently recommends what changes you should make to the process. It's now easy to observe and tune your processes, with moment-to-moment feedback.

Let's pause here to discuss how a multinational life sciences company used ProcessHQ to improve one of their critical applications. This customer sells medical devices and pharmaceutical products in over 100 countries. Every country has unique industry regulations. Each product must be reviewed for compliance before it can be sold locally. Our customer manages the review of hundreds of thousands of products on Appian. The process's complexity and data volume make it a prime candidate for optimization. Without months of data prep, or teams of data scientists, business users analyzed the process using ProcessHQ. They discovered many ways to reduce cycle times. The company is implementing these changes and expects to save 40,000 labor days annually. Forty thousand days.

In a nice validation of our efforts to reimagine this industry, Appian was named a leader this week in Gartner's Process Mining Platforms Magic Quadrant. I'm pleased with the attention ProcessHQ has been receiving from customers and analysts, and I hope a lot of people will see what we've done with the synergies between process mining, process and data.

At Appian World, we also announced our Elastic Process Execution feature (EPEx for short). It scales infrastructure on demand. Some of our customers have predictable usage spikes – like a weekly or monthly filing time. Others cannot guess when the traffic will rise but need to be ready – like an insurer being prepared for the aftermath of a natural disaster. EPEx increases throughput by 10-100x. This is on top of a process engine that can already run millions of complex processes daily. This is a stake in the ground that Appian is serious about being the best choice for high-end use cases. EPEx further cements our leadership in scalability.

At Appian World we also launched an AI-backed website, called ProcureSight, with technology built on the Appian platform. Procurement professionals will use it to search major public datasets, glean insights from past government procurements, and write new procurement requests. It's offered for free, for now, to test the concept with maximum exposure. This effort aligns with my belief about the future of this sector. There's a lot of public excitement about AI the content generator, but not enough about AI the data synthesizer. ProcureSight will complement our Government Acquisition Management suite, so that users of the latter will get extra benefits from use of the former.

Now, let's discuss a few notable deals from Q1. First, a major US city wants to modernize its budget review process. The city's office of management and budget manages billions of dollars of annual funding. In Q1, it selected our platform to automate these processes and became a new customer. Before, employees received physical proposals and processed them manually. Now with Appian, the office expects to reduce approval times by 50%.

Next, is a story about a leading European automotive manufacturer and existing customer. Thousands of its employees use Appian to manage supply chain operations, finance, and warranty claims. It saves tens of millions of dollars every year with our platform. In Q1, it purchased a seven-figure software deal to automate more warranty and finance workflows and extend its app to additional users. It expects to save millions of dollars more with this next set of projects.

Today's final story is with a top global medical devices company. It uses Appian to manage the order-to-installation process for medical devices in one of its three global divisions. In Q1, the firm purchased additional software to automate a similar process for a second division. Before Appian, the customer ran these processes on an expensive and unscalable homegrown system. Now, the company will streamline its installation processes and recognize tens-of-millions of revenue dollars earlier than expected this fiscal year.

As you can see from our recent announcements, Appian will continue to push the technological boundaries in our industry, from AI-backed services to Process Mining. We will deliver to our customers both power and simplicity. This year promises to be one of rapid technological change, and we feel well equipped to thrive in that circumstance.

Now I'll hand the call to Mark for a discussion of our financials.

Mark Matheos, Chief Financial Officer

Thanks, Matt. I'll review the financial highlights for the quarter, and then will provide guidance for the second quarter and full year 2024.

Cloud revenue, total revenue, and adjusted EBITDA came in at or above the high end of our guidance ranges. Cloud subscription revenue was $86.6 million, an increase of 24% year-over-year, and above guidance. Our cloud subscription revenue retention rate was 120% as of March 31, 2024, up from 115% a year ago and 119% in the prior quarter. We continue to target a cloud subscription revenue retention rate of 110% to 120% on a quarterly basis. Approximately 82% of our total net new software bookings in the quarter was for the cloud, compared to 85% in the prior year's first quarter. Total subscriptions revenue was $117.7 million, an increase of 19% year-over-year.

Professional services revenue was $32.1 million, down 11% year-over-year. As we've mentioned previously, professional services revenue can fluctuate from quarter to quarter, due to the timing of large projects. We continue to leverage professional services to enable partners and drive customer success; however, long-term we expect professional services revenue to continue to decline as a percentage of total revenue.

Total revenue was $149.8 million, an increase of 11% year-over-year and at the top of our guidance range. Consistent with our strategy, subscriptions revenue was 79% of total revenue, compared to 73% in the year ago period and 80% in the prior quarter. We continue to see global demand for our platform, with our international operations contributing 37% of total revenue, compared to 33% in the year ago period.

Note that foreign exchange movements provided a revenue benefit of 1-2% this quarter on a constant currency basis.

Now, I'll turn to our profitability metrics.

- Non-GAAP gross margin was 76%, compared to 75% in the year ago period, and 78% in the prior quarter.
- Subscriptions non-GAAP gross profit margin was 90%, consistent with the year ago period and compared to 91% in the prior quarter.
- Professional services non-GAAP gross margin was 25%, compared to 34% in the year ago period and 26% in the prior quarter. We continue to invest in non-billable areas of our services organization to help our customers achieve the most from our technology and increase adoption of our platform. As a result and previously communicated, we expect professional services non-GAAP gross margin to decline to the low 20% range in 2024 and beyond.

Total non-GAAP operating expenses were $117.3 million, down 2% from $119.3 million in the year ago period.

Adjusted EBITDA loss was $(1.3) million for the quarter, well ahead of our first quarter guidance of a loss between $(9.0) and $(5.0) million and significantly better when compared to an adjusted EBITDA loss of $(15.8) million in the year ago period.

In the first quarter, we had approximately $(11.5) million of foreign exchange losses, compared to $0.6 million of foreign exchange gains in the same period a year ago. Just a note, we don't forecast movements in FX rates; therefore, they aren't considered in our guidance.

Non-GAAP net loss was $(17.7) million or $(0.24) cents per share, compared to non-GAAP net loss of $(19.7) million or $(0.27) cents per diluted share for the first quarter of 2023. This is based on 73.3 million diluted shares outstanding for the first quarter of 2024 and 72.9 million diluted shares outstanding for the first quarter of 2023. As noted above, first quarter 2024 non-GAAP net loss was impacted by $(11.5) million in foreign exchange losses, or a loss of $(0.16) cents per share, which was not included in our original guidance.

Turning to our balance sheet, as of March 31, 2024, cash and cash equivalents were $170.1 million, providing us significant liquidity to run and invest in our business. This is an increase of $11.1 million as compared with cash and cash equivalents and investments of $159.0 million as of December 31, 2023. For the first quarter, cash provided by operations was $18.9 million versus cash used in operations of $(25.3) million for the same period last year. Our cash provided by operations was bolstered by strong cash collections in the quarter and reflects a milestone on our journey towards profitability. We also completed a $50 million share repurchase program in Q1, during which we bought back a total of 1.32 million shares. We're bullish on the long-term growth prospects of our company. We see this buyback as an avenue to deliver value to shareholders.

Finally, total deferred revenue was $226.2 million as of the first quarter of 2024, an increase of 14% from the year ago period. As a reminder, the majority of our customers are invoiced on an annual upfront basis, although we also have large customers that are billed quarterly or monthly. Consequently, we continue to believe cloud subscription revenue is a better indicator of our business momentum than deferred revenue, billings, or remaining performance obligations. These latter metrics can fluctuate based on the timing of invoicing, seasonality of on-prem license revenue, and the duration of customer contracts. The true scale of the business is represented by subscriptions revenue, which includes support and all software subscription revenue regardless of whether the customer deploys to the Appian Cloud, their private cloud, or on-prem.

Our second quarter 2024 guidance is inline with how we've historically approached guidance setting. As a reminder, due to seasonality, Q2 tends to be our weakest quarter while Q4 tends to be our strongest.

- For the second quarter of 2024, cloud subscription revenue is expected to be between $86 and $88 million, representing year-over-year growth of between 16% and 18%.
- Total revenue is expected to be between $140 and $144 million, representing year-over-year growth of 10% and 13%.
- Adjusted EBITDA loss for the second quarter of 2024 is expected to be between $(17) and $(13) million.
- Non-GAAP net loss per share is expected to be between $(0.34) and $(0.28) cents. This assumes 72.3 million diluted weighted average common shares outstanding. This includes the reduction of the share count from our share repurchase during the first quarter.

For the full year 2024, we are reaffirming our previously announced cloud revenue and total revenue guidance. We are improving our full year Adjusted EBITDA guidance. We now expect the Adjusted EBITDA loss to be between $(22.5) and $(17.5) million for the full year 2024. This is an improvement of $2.5 million or 11% from the previous guidance range mid-point. We are pleased with the efficiencies we are seeing in our cost structure and will continue to look for opportunities to optimize costs on our path towards profitability. Our full year 2024 Non-GAAP net loss per share guidance is updated to a range of $(0.85) to $(0.79). This new full year range includes the reduction of the share count from our share repurchase during the first quarter.

Our guidance assumes the following:

- First, as previously disclosed, the variability in our services revenue can be swung by one or two large transactions. For Q2 and the full year, we expect professional services revenue to be flat over the comparison periods.
- Second, on-prem license revenue will grow by a mid-single digit growth rate and will track to seasonality that is consistent with prior periods.
- Third, our second quarter adjusted EBITDA loss will be bigger than the first quarter's adjusted EBITDA loss. This is due to the seasonality in our business and the cost of running our world class global user conference, Appian World.
- Fourth, total other income and interest expense are expected to be approximately $4 million in Q2 and $18 million for the full year 2024.
- Fifth, capital expenditures are expected to be between $1 and $2 million in Q2 and between $10 and $12 million for the full year 2024.
- Finally, our guidance assumes FX rates as of April 29th, 2024.

In conclusion, it is an exciting time to be a part of Appian as we continue to invest in growth and optimize our cost structure to drive profitability. We are well positioned to continue to demonstrate the value of our world class platform and capitalize on the opportunities ahead of us.

And with that, we will open the line for questions. Operator?