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GTY Technology Holdings, Inc. (GTYH)

Q2 2020 Earnings Call

CORPORATE PARTICIPANTS

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TJ Parass

President & Chief Executive Officer, GTY Technology Holdings, Inc.

OTHER PARTICIPANTS

Tyler Radke

Analyst, Citigroup Global Markets Inc.

Scott Berg

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by and welcome to the GTY Technology Holdings, Inc. Q2 2020 Earnings Call. At this, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would like to hand the conference over to Mr. John Curran, CFO. Please go ahead.

John J. Curran

Chief Financial Officer, GTY Technology Holdings, Inc.

Thank you and good morning, everyone. I'm John Curran, GTY's CFO, and I'd like to welcome you to our second quarter earnings conference call for 2020. With me on today's call is TJ Parass, GTY's CEO. We'll be presenting to slides on today's call, and I encourage you to view the presentation found on our website at www.gtytechnology.com. The presentation is located on the Filings and Reports page under the Investor Relations section of our website.

Please note that our earnings release and quarterly report on Form 10-Q are available on the GTY website at www.gtytechnology.com. Both contain additional information about our financial results. Any forward-looking statements we made in the earnings release or any that we may make during this call are based upon information that we believe to be true as of today. Things often change, however, and actual results may differ materially from those projected or anticipated. Please refer to our cautionary statements in the earnings release under the heading, Forward-Looking Statements.

You should also refer to our SEC filings, including our most recent Form 10-K and our subsequent SEC filings for a list of risk factors applicable to GTY, including risks associated with COVID-19. As we will hear in our comments today, the pandemic is impacting our business today and for an undetermined time into the future.

During the call, we may refer to non-GAAP financial measures if we believe they are useful to investors or if we believe it will help investors better understand our results or business trends. You can see a reconciliation of our non-GAAP financial measures to their nearest comparable GAAP financial measure in Exhibit 2 of the earnings release.

With that, I'll now turn the call over to TJ.

TJ Parass

President & Chief Executive Officer, GTY Technology Holdings, Inc.

Good morning and thank you all for joining us. We are incredibly proud of the hard work that our GTY team, leadership and board have devoted during the past three months in adapting to both COVID and our customers' needs during these difficult times. Our team has geared up quickly to working from home and I'm inspired by their dedication to continue drive to help governments modernize.

More than ever, governments are feeling the pressure to provide citizens with easy-to-use tools. GTY was formed with the intent of bringing the top cloud technologies to state and local governments with a focus on improving citizens' experience and creating a more streamlined back office. We offer five core product lines, our back office solutions focus on providing value and efficiency in the areas of grant management, budgeting, planning, procurement and payment transactions.

Our front office solutions, which center on permits, permit discovery and virtually all payment interactions focus on making the citizens' experience smooth and easy to use. Citizens are demanding modern ways to interact with their governments. We have over 1,600 customers representing every state and province in North America. Our leadership team and business unit CEOs average 7 to 25 years of leadership experience in the public sector.

Let's go over some highlights in the quarter. John will provide some more financial detail in a few minutes. GAAP revenues increased 35% from Q2 2019 and 38% year-to-date. Operations of GTY continued to be streamlined through a number of initiatives that have led to a more than \$3 million in quarterly savings. And we continue to focus our efforts on the overall efficiency of the organization.

In Q2, we had our second highest bookings quarter. Our sales teams continue to be effective working and selling remotely. Our implementation teams are fully able to complete projects without being on site. Throughout this pandemic, we have been in continuous communication with our customers as they adjust to the new reality. I'm pleased to say our customer retention is at an all-time high.

Our COVID response program, introduced last quarter, was designed to help public sector move quickly onto GTY solutions with minimal delay and cost. Of the more than 375 program participants, some have already decided to move onto our full solutions before the end of the program. We will have a better read of conversion rates as the program moves into this next phase in a few months.

In summary, we've been successful in reducing costs and improving our bookings, while ensuring our customers get the highest level of support they need.

As you recall, GTY sees an excellent market opportunity in the public sector. However, COVID is impacting our market in some positive and negative ways. Our customers are facing headwinds due to revenue shortfalls and, as they work through their impacted budgets, they face challenges on how to deliver the same quality of service with less resources.

Government employees are working from home and having to figure out how to keep the government running effectively and efficiently. COVID has challenged the public sector by highlighting the deficiencies the legacy systems face when they are not cloud-enabled.

However, governments are expected to continue to deliver services in this environment. GTY brings together the leading solutions that will enable government technology into the cloud. Here are some examples of how our solutions are helping governments modernize. GTY budget solutions are being used to adjust budgets to the new reality of financial and resource shortages. Customers are looking for ways to make their budgeting process more nimble and transparent.

Issuing permits and making payments are very difficult for governments who don't offer online solutions. Our customers are quickly moving their permit process online, while also providing multiple ways to pay for services through online payments or from kiosks that we deploy.

eCivis is working with our customers to provide enhanced grant tools that enable users to quickly find, apply for and receive grant funding. eCivis is helping accelerate funding to those in need during the COVID-19 pandemic.

Government procurement teams are being asked to find savings anywhere they can and Bonfire's tools are being used to help our customers find savings in the sourcing process. Just like in 2008, our customers are facing budget challenges and GTY's business solutions are focused on showing our customers the value of using our cloud solutions to save time and costs.

And now, I'll turn it over to John to review our financial highlights.

John J. Curran

Chief Financial Officer, GTY Technology Holdings, Inc.

Thanks, TJ. TJ mentioned in his remarks we had a solid quarter and we believe we are on track for over 20% growth in 2020 as discussed in our last earnings call. We experienced strong bookings in the quarter and believe we will continue to grow our business in this difficult environment. We delivered over \$3 million in quarterly cost reductions and reduced our cash burn by more than 60% compared to Q1.

Moving on to our financial results for the quarter, our GAAP revenue was \$11.2 million in Q2 of 2020 compared with \$8.2 million in Q2 of 2019, an increase of 35%. On a non-GAAP basis, revenue was \$11.3 million for Q2 of 2020 compared with \$9.9 million in Q2 of 2019, an increase of 14%. A reconciliation between our GAAP and non-GAAP results is included in Exhibit 2 of our press release. We will provide a more detailed explanation of the change in revenue on the subsequent slides.

Turning to our operating expenses, we saw our total non-GAAP operating expenses decrease by \$3.2 million or 24% compared to Q1 of 2020, driven primarily by the head count reductions we announced last quarter. We saw a decrease in sales and marketing expenses of 19% in the quarter, largely due to lower travel expenses. Our G&A expenses decreased by 24% and our R&D expenses decreased by 31%.

Our second quarter 2020 GAAP operating loss narrowed to \$7.8 million, compared with \$16.5 million in Q1 of 2020. Our second quarter non-GAAP operating loss decreased to \$2.8 million compared with \$5.7 million in Q1 of 2020, an improvement of 51% driven primarily by our restructuring efforts and cost reduction.

This quarter, we wanted to provide a little more color on the change in non-GAAP revenue. As you can see in this chart, our Recurring revenue grew by 7% on a quarter-over-quarter basis, and grew by 23% on a year-over-year

basis. Our service revenue can vary from quarter-to-quarter due to the timing of large projects, and we expect professional services to decline as a percentage of revenue as our base of recurring revenue continues to grow.

Other revenue includes sales [ph] of kiosks (10:48) and software license sales, which we also expect to decline as a percentage of revenue over time. We expect to see our Recurring revenue growing by nearly 30% for the year. And expect our Services and Other revenue will be essentially flat compared to 2019. Our anticipated lower Services and Other revenue growth reflects our expectations of mix for services as we scale, our continued shift away from license sales and expected delays in service delivery as a result of the pandemic.

Taking a look at our balance sheet, there are two areas I would like to discuss. The first is the change in our receivables, which increased by \$2.6 million this quarter, driven by the timing of our renewal billings, which are higher in Q2 than in Q1. We are experiencing some delays in collections due to the pandemic, but we don't see increased collection risk at this time.

The second area is a reduction of \$1.2 million in our AP and accruals in the quarter, which was primarily related to the payments we made against our restructuring accrual in Q2. From a cash perspective, we started the quarter with \$8.1 million in cash and ended with \$6 million. As announced last quarter, we received \$3.1 million through the Paycheck Protection Program. These funds allowed us to limit our head count reductions and retain more of our very talented workforce.

From an outflow perspective, our operating burn was roughly \$2.4 million. We also paid out \$1.4 million in severance, \$1.1 million in CapEx and software capitalization and \$400,000 in interest in the quarter. Based on our current view of sales activity, our ability to implement our products, the low churn rates we have experienced to-date and our cost reduction efforts, we believe we have sufficient cash to carry us into 2021.

Turning to our 2020 outlook, as I mentioned earlier, we still see the ability to grow by more than 20% in 2020 as we discussed last quarter. Looking forward, we are seeing material reductions in the budget for our customers and as a result, we have adjusted our forecasted bookings accordingly in the second half of 2020.

We expect our revenue growth to be north of 20% for the year, but this reduction in our bookings forecast does reduce our cash inflows in the second half. As a result, our cash flow expectations are closer to breakeven as we exit the year. We remain focused on improving our operations, reducing our cash burn and driving profitable growth in the coming quarters.

With that, I'd like to turn things back to TJ.

TJ Parass

President & Chief Executive Officer, GTY Technology Holdings, Inc.

Thank you, John. Before we take your questions, I want to give you some color from our business units. We had some significant wins, particularly in our budgeting, procurement and grants management solutions. Bonfire, our procurement team, had its largest bookings quarter ever and added 42 new customers.

Demo requests of CityBase, our payment solution, are up 27% from the prior quarter and they've seen an over 1,000% increase in the use of their form tools, which are being used for COVID-related form requests like PPE equipment.

The sales team at eCivis, our grants team, has seen sales cycles improve to half their normal time and a three times pipeline growth in the same period last year. eCivis welcomed a number of new customers, including CAL

Fire and expanded the relationship with the City of Los Angeles. Other customers like the State of Arizona are now using eCivis products to rapidly deploy COVID funding.

Our budgeting team welcomed a number of new customers such as the Metropolitan Water District of Southern California and the City and County of San Francisco. Over the last quarter, we've seen a significant part of our growth in the mid-market due our ability to rapidly deploy a number of our product solutions. Governments are investing in GTY cloud technologies to provide citizens with modern experiences and better back office solutions.

In summary, we posted 35% revenue growth, high bookings. The new leadership team is making things happen. We're focused on profitable growth and efficient operations and customer retention and loyalty are at an all-time high. GTY solutions have never been more valuable and on trend. The climate remains difficult, so forecasting cannot be precise, although indicators point to revenue growth of over 20% and a continued movement towards cash flow positive.

I'd like to wrap up again by thanking our customers, our team and our board for their dedication as we roll up our sleeves and work our way through COVID and the economic impacts. I couldn't ask for a better team.

Thank you. And, operator, please open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] The first question comes from Tyler Radke with Citi. Please go ahead.

Tyler Radke

Analyst, Citigroup Global Markets Inc.

Q

Hey, thanks, and good morning, guys. I hope you're doing well. I wanted to just better understand kind of maybe some of the dynamics from a quarterly progression and now that we're into August, just what you're seeing in the demand environment. Obviously, things have not – probably not quite opened up as fast as you would have thought three months ago. But just curious from a demand perspective and maybe engagement levels, if you've noticed any trends or signs of improving business activity as you exited Q2 and headed into Q3?

TJ Parass

President & Chief Executive Officer, GTY Technology Holdings, Inc.

A

Thanks, Tyler. TJ here. So, we're keeping a close eye, obviously, to our pipeline and activity like in our last slide, but these slides are in the summary area. We definitely are seeing still a solid pipeline and activity going on. We don't think it's at the level that would have been pre-COVID. But I think the word we're using around, GTY is cautiously optimistic because we're seeing enough activity and things going on that we feel pretty good.

And inbound and outbound, our sales teams are really active. We have seen quite a bit in increases in demo requests. We're seeing a lot of demos. We've seen a lot of activity from our customers and interest in our products. So overall, I'm feeling good about it. But I would say, I will continue to use the word cautiously optimistic.

Tyler Radke

Analyst, Citigroup Global Markets Inc.

Q

Got it. And then, just on the cost side. I guess obviously, you did talk about some cash headwinds, is it related to weaker bookings in the second half? But at the same time, I'm sure you're trying to balance what remains a pretty interesting long-term growth outlook on the health of this market. So what are kind of the signposts you're looking for in terms of returning to maybe a more investment mode to higher more resources and really scale – scale up to drive that future growth because I imagine, while 20% growth is encouraging, it's probably not what you're targeting longer term?

John J. Curran

Chief Financial Officer, GTY Technology Holdings, Inc.

A

Yes. TJ, I'll take this one. So, right now, given the current environment as we've said, we see the opportunity to grow by north of 20%. Our current sales capacity would support growth higher than that, but not as high as our originally anticipated growth rates of north of 40%. So, we're going to keep our eyes on the economy as we move forward. And if we start seeing some improvements, we'll be making rational improvements to increase our sales capacity at that time.

Tyler Radke

Analyst, Citigroup Global Markets Inc.

Q

Got it. And then, finally, just so wanted to ask you about the payments business. I know historically that has had some pretty robust seasonality there. But obviously, there's a number of dynamics impacting that business going forward. But just how should we be thinking about kind of the growth and margin assumptions of that business in the near term?

John J. Curran

Chief Financial Officer, GTY Technology Holdings, Inc.

A

So, this would have been one of the seasonal high points for our payments business. But what we've seen in the marketplace is, if you've read the news, a number of jurisdictions have delayed tax payments. So, we saw some of that activity push. We're also seeing some transactional activities basically go away. They collect fees for taxis going to Chicago's airport as an example. That volume is way down just given nobody is traveling these days. So there is a two-pronged impact on the payments business, one being kind of transactions that have gone away and then the other being transactions that have been deferred.

The good news from that is the impact is minor, not overall material to the payments business. But their seasonal pickup has been blunted a little bit in Q2. And we're expecting, as I said, those payments that got deferred, we'll pick those up again later in the year. So we're keeping an eye on our payments business, but we're still expecting growth in that space this year.

TJ Parass

President & Chief Executive Officer, GTY Technology Holdings, Inc.

A

Tyler, I think I would like to add, it's TJ here, that the one thing also that our entire revenue [ph] stipend (21:39) is not completely based on the transactional business. We're seeing a transition over to some more subscription-type business, partial services and our kiosks are not all necessarily tied into just transactional business.

Tyler Radke

Analyst, Citigroup Global Markets Inc.

Q

Okay. Thanks, guys.

TJ Parass

President & Chief Executive Officer, GTY Technology Holdings, Inc.

A

Thanks.

Operator: [Operator Instructions] Next question comes from Scott Berg with Needham.

Scott Berg

Analyst, Needham & Co. LLC

Q

Hi, everyone. Congrats on a good quarter and thanks for taking my questions. I guess I'd like to start off with the guidance. My math suggests that for you to attain your 20% revenue growth on a pro forma basis with the – that includes the pre-existing businesses before the transaction closed last year, implies that you just have to hold your second quarter revenues flat over Q3 and in Q4.

Now, I know there are some nuances in the business between some license and subscription revenues, but that seems to indicate that you're not likely to find much, if any, new business in the second half. Is that the right way to read your guidance or is it just more about being conservative in a macro that remains uncertain?

John J. Curran

Chief Financial Officer, GTY Technology Holdings, Inc.

A

Your math is close, but not quite. We do have to show some improvement certainly in our Recurring revenue streams in the third and fourth quarter. So, as I mentioned in my remarks, we do see a growth rate for our Recurring business of 30% – close to 30% for the year. So, yeah, we do still need to book new business in the second half for us to achieve that target.

Scott Berg

Analyst, Needham & Co. LLC

Q

Great. Helpful. And then, from a follow-up perspective, how have your implementation capabilities kind of run during this COVID environment? I know it sounds like you've been able to adjust from a work-from-home or pivot to work-from-home environment yourselves well, but have your customers been able to do the same that has allowed you to work through projects at an appropriate cadence?

TJ Parass

President & Chief Executive Officer, GTY Technology Holdings, Inc.

A

Hi, Scott. It's TJ. Yes, for sure, at the end of March there, everybody went home slow down for sure. Beginning of April, they are really getting their home systems up and running. We saw probably about second week of April, things start to really start picking up again, people getting back to work. As we've been watching the professional services teams, the hours were delivering and the revenues generating -- it has been good. It's a little bit less than what we're used to in the past pre-COVID.

But overall, I would say that we're really pleased with the adapt – how our teams have adapted and our customers have adapted to this. I think I probably should point out that before COVID, probably about 85%, 90% of our implementations were being done remotely anyways. So this is a small adjustment and it's mostly in our customers' standpoint. And they've done a pretty good job moving over to it.

Scott Berg

Analyst, Needham & Co. LLC

Q

Very good. Very helpful. Thanks for taking my questions. Congrats, again.

TJ Parass

President & Chief Executive Officer, GTY Technology Holdings, Inc.

A

Thank you.

John J. Curran

Chief Financial Officer, GTY Technology Holdings, Inc.

A

Thanks.

Operator: [Operator Instructions] And we do not have any telephone questions at this time. I will turn the call over to the presenters.

TJ Parass

President & Chief Executive Officer, GTY Technology Holdings, Inc.

I just want to say thank you very much for joining us today and to have a fantastic day, and we'll talk to you guys very soon. Thanks.

Operator: And this concludes today's conference call. You may now disconnect.

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