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GTY Technology Holdings, Inc. (GTYH)

Q4 2020 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thanks for standing by, and welcome to the GTY Technology Q4 2020 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. Please be advised that today's conference is being recorded. [Operator Instructions]

I would now like to hand the conference over to your speaker today, John Curran, CFO. Thank you. Please go ahead.

John J. Curran

Chief Financial Officer, GTY Technology Holdings, Inc.

Thank you and good afternoon, everyone. I'm John Curran, GTY's CFO, and I'd like to welcome you to our fourth quarter and full-year 2020 earnings conference call. With me on today's call is TJ Parass, GTY's CEO. We will be presenting slides on today's call and encourage you to view the presentation found on our website at www.gtytechnology.com. Please note that our earnings release is also available on the GTY website. The release contains 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 risk factors associated with COVID-19. As you will hear in our comments, 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 turn the call over to TJ.

TJ Parass

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

Thank you, John. Good afternoon and thank you all for joining us. We are pleased with our execution throughout the year and we ended 2020 on a high note with a solid quarter. Before we dig into this quarter's results, I want to take a moment to remind everyone, GTY's mission is to modernize governments and make them more efficient to best of breed cloud technologies.

The pandemic has highlighted the needs for government to move on to more modern solutions. Our focus is twofold; to improve and modernize the citizen's experience with government front offices of every level, and to bring modern solutions to government employees so they are able to achieve optimal efficiency.

As John will discuss later in this call, our fourth quarter GAAP revenue grew 14% year-over-year to $13.1 million and grew 32% to $48.1 million for the full year. From a non-GAAP perspective, revenue increased 10% to $13.2 million compared to Q4 2019 and grew 20% to $48.8 million for the full year. Most importantly, annual recurring revenue or ARR grew 25% year-over-year to $41.4 million. Finally, we had a very strong year in new customer additions, adding more than 100 new customers in the fourth quarter and over 350 new customers for the year.

GTY provides our industry-leading cloud technologies through six brands that covers the front and back offices of state and local government organizations. Let's start with our two front office solutions, CityBase and OpenCounter. OpenCounter enables any ordinary citizen to decipher the daunting maze of permits needed for projects or improvements and then process those permits online. These permits can be as simple as a tree removal permit, to as complex as helping someone start a new business by walking them through the many permits that will be required.

OpenCounter's momentum demonstrated considerable strength all year and accelerated in Q4 with 5 new customer wins and 11 for all of 2020, a 30% gain in new customers year-over-year. Non-GAAP revenue grew for the year by 23% in a difficult environment. OpenCounter gained a lot of traction with new customers like the city of Omaha, and most recently Miami, Florida.

We're excited to have announced that the city of Miami will be incorporating OpenCounter [ph] to its (00:05:26) eStart initiative. eStart empowers ordinary citizens and entrepreneurs alike to begin the process of opening their own business in the city directly from their mobile device 365 days a year, 24 hours a day. As part of this one-stop solution, eStart allows applicants to check their zoning online and creates transparency around costs by offering accurate, real-time visibility into fee estimates.

OpenCounter's new special event portal continued to gain traction with existing customers, and we are very pleased that Orlando, Cincinnati, and Salt Lake City expanded their engagements to include our special events portal. Even though COVID-19 has impacted all aspects of city operations, forward-looking communities are planning for a return to in-person events and the need to manage these gatherings more efficiently.

Moving on to CityBase, our government and utility payments platform, CityBase solves the often complex process of how you make payments to your local government by harmonizing and automating all segments of the full payment cycle. By replacing static, sprawling websites with a dynamic platform, CityBase makes cities and counties more efficient by increasing on-time revenue collection and speeding up the times of settlement while improving the overall citizen experience.

CityBase reported tremendous fourth quarter and full year, with our sales team signing up more than 23 new state and local governments, including 12 in the fourth quarter alone. One of these new customers was the City of Austin who selected CityBase payment platform to enable residents and visitors the ability to pay bills and municipal fees online and via mobile devices.

Another win was the expansion with the current Questica customer, the City and County of Denver. This customer selected CityBase as its payment partner to modernize and unify points of sale cashiering and online payments for its more than 716,000 residents.

Moving on to eCivis, our grants management solution, eCivis is used to help governments manage and distribute grant funding and help organizations and government entities stay compliant with their use of funds. With the global pandemic, local governments are using eCivis' products to help manage and distribute critical federal finance assistance and COVID funding.

eCivis finished the year with a solid momentum adding 22 new customers in the fourth quarter, bringing the total for the year to 61 new customers, approximately 100% increase over 2019. eCivis showed solid growth in the state government market with the addition of the California Department of Forestry and Fire Protection, Georgia Department of Community Affairs, and expanded service within California Department of Housing and Community Development. These agencies have all teamed with eCivis to run key community and economic development programs and manage the disaster recovery grants.

Moving on to Bonfire, our sourcing platform, Bonfire helps governments overcome the challenges of dealing with and selecting multiple vendors, complex RFP processes, and ensuring compliance. Bonfire had a terrific year, adding 35 new customers in the fourth quarter to bring the annual total to 137 for 2020, an increase of 40%. To name some of these new customers, we signed on Harris County, Barnstable County, and the Toronto Waterfront Revitalization Corporation. Furthermore, Bonfire's premium vendoring offering that was released in 2019 experienced significant growth in 2020, signaling that Bonfire continues to be the – one of the fastest growing platforms for both public procurement [ph] teams (00:09:21) as well as vendors seeking public sector bidding opportunities.

And finally, our budgeting units Questica and Sherpa, who are leading providers of cloud-based budget, performance and transparency solutions for the public sector. Combined, our budgeting units added 41 new customers in the fourth quarter, driving a year-end total of 123 new customers in 2020. [ph] So the (00:09:44) value our budgeting solutions provide, coupled with exceptional customer service resulted in a customer retention rate of over 98%.

The notable customer wins this year highlight the scope for our budgeting solutions which range from the middle market with budgets ranging from $10 million to $250 million, to the enterprise market ranging from budgets of $250 million to [ph] $115 billion (00:10:07), customers like Fort Worth Housing Authority in the City of Abilene, Texas in the middle market and the State of New Mexico in the – The City and County of San Francisco in the enterprise market to name just a few. In addition to the specific wins I mentioned, our mid-market team showed impressive growth this year.

And with that let me turn it over to John to review the financials. John?

John J. Curran

Chief Financial Officer, GTY Technology Holdings, Inc.

Thanks, TJ. As TJ highlighted earlier, Q4 was a strong finish to what was otherwise a challenging year. Our GAAP revenues were up 32% for 2020 and we remained cash flow positive for the second quarter in a row. We saw strong demand for all of our products in Q4 as evidenced by the number of new logos that TJ discussed earlier. I should also point out that our financial condition has improved significantly in the quarter, as we raised over $18 million in new capital.

Moving on to our financial results for the quarter, our GAAP revenue increased 14% to $13.1 million in Q4 of 2020 compared with $11.5 million in Q4 of 2019. On a non-GAAP basis, revenue was $13.2 million for Q4 of 2020 compared with $12 million in Q4 of 2019, an increase of 10%. A reconciliation between our GAAP and non-GAAP results is included in Exhibit 2 of our press release. We'll provide a more detailed explanation of the change in revenue on a subsequent slide.

Turning to our operating expenses, we continued our cost control efforts and saw a slight decrease sequentially in our total non-GAAP operating expenses. Our fourth quarter 2020 GAAP operating loss was $11.1 million compared with $7.3 million in Q3 of 2020 and a loss of $42.6 million in Q4 of 2019. Our fourth quarter non-GAAP operating loss decreased to $1.1 million compared with $1.4 million in Q3 of 2020 driven primarily by our quarter-over-quarter growth in revenues and a decrease in operating expenses.

For the full-year 2020, our GAAP revenue increased 32% to $48.1 million from $36.4 million in 2019. And on a non-GAAP basis, revenue increased 20% to $48.8 million from $40.5 million in 2019. For the full-year 2020, our GAAP operating loss narrowed to $42.7 million compared with $105.5 million in 2019 and our non-GAAP operating loss decreased to $11.1 million compared with $19.9 million in 2019.

Consistent with previous quarters, we wanted to provide a little more color on the change in non-GAAP revenue. As you can see in these charts, our recurring revenue grew by 15% on a quarter-over-quarter basis and grew by 25% on a year-over-year basis. Q4 is a seasonal strong quarter for recurring revenues, driven by payment volumes within our CityBase business. Recurring revenue for the full-year grew by 27%.

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 of kiosks and software license sales that we also expect to decline as a percentage of revenue over time. We expect to see recurring revenue growing in the mid to high 20% range for 2021 and expect our services and other revenue will grow by roughly low single digits compared with 2020. Our recurring revenue growth will continue to be higher in percentage and dollar terms than service and other revenue as we continue to grow our base of subscription business.

Taking a look at our balance sheet, there are three areas I would like to discuss. The first is the change in our receivables which decreased by $500,000 this quarter driven by our continued strong collections. The second area is a decrease of $900,000 in accounts payable and accruals in the quarter, primarily due to severance payments. The third area is deferred revenue associated with our subscription billings, which increased $600,000. This increase represents the amount we have invoiced in excess of the amount of revenue we earned in the quarter.

From a cash perspective, we started the quarter with $6.2 million and ended with $22.8 million in cash. From an outflow perspective, our operating [ph] trend (00:15:16) was roughly $100,000 this quarter, down from $1.7 million in Q3. We also paid up $600,000 of severance, $200,000 in CapEx and $300,000 in interest in the quarter. From an inflow perspective, higher than expected billings in the quarter and strong collections were the primary drivers behind our change in working capital of $1.4 million. We've also received about $200,000 in stimulus funding from US payroll tax deferrals.

Finally, from a financing perspective, we generated net proceeds of $16.2 million, which includes raising $11.3 million in additional debt and $7 million in new equity. Based on our current view of sales activities, 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 2022.

Turning to our outlook for the first quarter and full year of 2021, for the first quarter of 2021, we expect total revenue to be in the range of $12.5 million to $13 million, or approximately 10% year-over-year growth. For the full year 2021, we expect total revenue to be in the range of $57 million to $60 million or approximately 20% year-over-year growth. ARR will grow faster than our overall revenue growth as we continue to build our base of recurring revenue.

We remain concerned about material reductions in the budgets of our customers and don't expect improvements in our business environment in the near term. We expect to be cash flow positive from operations for the full year 2021, excluding interest and severance. However, the seasonal distribution of our renewal invoicing is lower in the first half of the year than the second half, which will cause our – which will cause us to be cash flow negative in the first half of the year and positive in the second half.

With that, let's turn things back to TJ.

TJ Parass

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

Thank you, John. As we look towards 2021, I wanted to take a moment to reflect on 2020 which was a very challenging year for our customers. As the pandemic took hold, many of our customers scrambled, as employees transitioned to working from home. Our customers' revenues are supported by a variety of taxes, some of which are very stable like property tax while many others are variable and based on volumes of activity such as sales tax. The more variable tax base was significantly affected by the pandemic and created budget shortfalls for our customers.

Government's reforms become more efficient because of lower revenues and increased costs, all while continuing to provide core services to their constituents. The primary focus of efficiency has been our remote operations, contactless government services, and COVID support. Prior to 2020, there was an increasing trend for governments to move to cloud technologies. The pandemic has certainly increased the importance of this change to our customers. Cloud solutions in general and GTY solutions specifically inherently designed to support overall operation in contactless government services.

As we turn to 2021, we anticipate the economy will continue at its current pace until later in the year when the vaccine should be largely distributed. We anticipate that most of 2021 will be about stabilizing the economy and getting ready to return to normal in 2022. There are factors like stimulus spending and higher-than-anticipated tax revenues that could favorably impact our market opportunity. While our 2012 forecast doesn't currently anticipate any factors, we are keeping a close eye on them. We continue to be enthusiastic about the government trend to cloud solutions and our core focus in 2021 will be in growing our companies organically, expanding our R&D efforts, and reviewing opportunities for inorganic growth.

I want to take a minute to thank everyone at GTY for their efforts over the last year. It's been a big adjustment with COVID and our staff have risen to the challenge.

In summary, it was a great quarter and a solid year. We achieved top-line double digit growth, demonstrated strong cost management, achieved high customer satisfaction and experienced continued strength by government's transition to the cloud. GAAP revenues were up 40% in the quarter and 32% for the year and we achieved positive cash flow for the second quarter in a row.

With that, thank you. And I'd like to turn this over to the operator for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Scott Berg with Needham. Your line is open.

Scott Berg
Analyst, Needham & Co. LLC

Q

Hi TJ and John, congrats on a good quarter and thanks for taking the questions. I have two. I guess let's start off in the current environment. TJ, you'd talked about not expecting much change here in the short term versus maybe some more positive development in the second half of the year. How much of that is customers' just unwilling to spend because maybe their processes are maybe not – their internal processes to signing a deal are moving along as they should versus maybe some of the budgetary concerns that I think we all hear about for state and local governments today?

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

A

Right. Thanks, Scott. So, couple answers to that. If we were to rewind back to early 2020, I would say it was a lot to do with just getting reading working from home. So, processes were broken and they were getting back then. Now we're past that. A lot of the eyes are on the budget, and that works on both sides of the equation for us. If they're finding the need to cut back on staffing or anticipating that, they're looking for solutions to help improve their processes, often turning to automation and cloud technology like ours. And the other thing that we're keeping an eye on is we're starting to get a bit of reporting back that some states have not seen the budget shortfalls that they were expecting. And we're certainly keeping a close eye on that. So in a sense, how much did they withdraw back in anticipation of revenues declining and what actually happened. So, as we start seeing the budget being closed up this year, we're watching those [indiscernible] (00:22:09). We've got a large budgeting business unit that will see a lot of this budget information. We're keeping a close eye on that.

Scott Berg
Analyst, Needham & Co. LLC

Q

Got it. Helpful. And then from a follow-up perspective, John, you talked in the guidance, 10% of revenue growth in the first quarter. In your press release you talk about $57 million to $60 million [ph] just (00:22:28) for the full year, which I believe is a – we'll use round numbers, 20% to 25% growth rate, which does mirror your ARR growth in the fourth quarter of 2020. But how should we think about kind of the shape in modeling the year and maybe your confidence that that 10% growth rate is going to accelerate through part of the balance here over the year?

John J. Curran
Chief Financial Officer, GTY Technology Holdings, Inc.

A

Sure. Yeah. Good question, Scott. So we have a little bit of a headwind coming out of Q4. So we did actually see the CityBase payment volume pick up in the fourth quarter as we would normally see from a seasonality perspective. And it's going to decline from Q4 to Q1, again, in their normal cadence. So we are anticipating for the year that their seasonal pattern is going to come back. So they would normally see lower Q1, higher Q2, lower Q3, with the highest period being Q4. So we're anticipating that pattern to reemerge in 2021. So that explains why we got a little bit of a headwind from Q4 to Q1 related to payment volumes dropping.

Scott Berg
Analyst, Needham & Co. LLC

Q

Great. Helpful. Thanks. Thanks.

John J. Curran
Chief Financial Officer, GTY Technology Holdings, Inc.

A

Sure.

Operator: [Operator Instructions] Our next question comes from Jeff Van Rhee with Craig-Hallum. Your line is open.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Great. Thanks for taking my questions. I've got several. John, as it relates to the revenue splits, I think you shared what's your OpenCounter, I believe. Do you have the numbers for the other key products?

John J. Curran
Chief Financial Officer, GTY Technology Holdings, Inc.

A

I do. So budgeting combined, 20%; eCivis, just under 10%; CityBase, 11%; and Bonfire around 55%.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Okay. That's helpful. And then the Q1 guide, what's implicit in there? You commented to the professional services being lumpy. What's implicit in terms of the Q1 expectation around services?

John J. Curran
Chief Financial Officer, GTY Technology Holdings, Inc.

A

We're expecting it to be a little higher than Q4.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Okay. And then I guess maybe, TJ, the – as it relates to the bookings, just curious – I mean, obviously, we don't get a full bookings number and you made a few allusions – so, you added a lot of customers. So seemingly a very, very good customer capture. I'm curious about the bookings value signed in the quarter versus maybe your expectations coming out of the September quarter.

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

A

So, on a relative sense or [indiscernible] (00:25:56)...

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Yeah. Just some sense of how did it compare to your expectations coming into the quarter. I mean, was this sort of in line with what you thought you'd post? Did you see any variation as the...

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

A

We're a little...

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

...quarter progressed?

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

A

Right, right. Yeah, good question. So, we're a little ahead of what we expected in Q4.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Okay. And then on the churn front, obviously as you said, it depends on what the end customer's budget driver is, right, use tax versus property tax versus other and how stable their revenue flows are. What – from a churn standpoint, did you see any – to start there, within the products, did you see any variation in churn amongst the products in the quarter that was notable?

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

A

Yeah. I was just actually looking over the churn numbers and it's something we typically publish. But I was comparing them relative to 2019 to see what the COVID effects were. Churn stayed just about the same as 2019. A little bit higher, as we saw a little bit more contraction than churn – like net churn than we saw in 2019. But overall, quite happy of the numbers seen.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Fair enough. And then the – again, kind of looking at it by product, when you looked at the bookings, certainly looked like a very strong at least customer capture number you're in there for the budgeting side. But maybe what was the standout – maybe it was budgeting in terms of bookings in the quarter and maybe what was the one that was most challenged? And that might give us a glimpse into sort of the end customer or the end customer driver. So kind of just within the product sets, where did you see the most momentum and where did you see the most headwind in the quarter?

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

A

Well, in this quarter we saw – I mean, you saw Bonfire's numbers are amazing this year. So we've seen consistent growth. Cost of goods numbers are posted well. What you're seeing there is some of their mid-market movement is starting to pick up. CityBase has had some great sales in the last quarter. A lot of that, as we've described the past, requires that we onboard them and revenue flows in later. So they've had a significant uptick in their sales. OpenCounter had a good pick-up this quarter. They are the ones that have been – because of the pandemic, the area of permitting has been a little bit down this year. So they're doing pretty good with what the year's been like and they're up from last year. So that hopefully gives you a little bit of an idea. And certainly as you said that the grants is up this quarter also.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Yeah. Okay, great. And then just last one, TJ, is, as you're focusing on sales, what's on your to-do list in terms of maturing the sales org in 2021 structurally? Just kind of what moves should we think about in terms of your goals for structural change in 2021.

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

A

Great question. So we've been really focused in the last year making sure that the sales teams that we hired in the – course of last – of Q4 2019 matured. They are a mature team now. That's why we're starting to see some of these bookings increases. The second thing is now to focus on what's successful there and start to expand on that. So, expansion of growth team – and growth of teams. We're doing a lot of what I would call cross-pollination. We call them internally the Call Sales Ted talks about learning what works, what doesn't work and making sure we're sharing those experiences across the different business units.

For 2021 we largely expect to keep the business [ph] teams (00:29:31) with their own sales teams and stay highly focused because we see so much greenfield organic growth in the teams that we want to make sure they stay focused on that.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Okay, great. Thanks for taking my questions. Appreciate it.

John J. Curran
Chief Financial Officer, GTY Technology Holdings, Inc.

A

Thanks, Jeff.

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

A

Thank you.

Operator: There are no further questions at this time. I'll turn the call back over to the company for closing remarks.

TJ Parass

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

I just want to say thank you, everyone, and look forward to talking next quarter.

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