13-May-2021

GTY Technology Holdings, Inc. (GTYH)

Q1 2021 Earnings Call

CORPORATE PARTICIPANTS

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

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

OTHER PARTICIPANTS

Joshua Reilly
Analyst, Needham & Co. LLC

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day. Thank you for standing by, and welcome to GTY Q1 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. [Operator Instructions]

I will now hand the conference over to Mr. John Curran, GTY CFO.

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 first quarter 2021 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 review the presentation found on our website, at www.gtytechnology.com. Please note that our earnings release is also available on the GTY website and 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 risks 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 and in the Appendix of this slide deck.

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.

For those that are new to GTY, GTY provides cloud-based platforms that help government organizations transform the way they engage citizens and manage their operations. While the common perception is that government lags behind private sector, GTY was formed based on the founders' vision that governments have started to accelerate their digital transformation. Even before the pandemic, governments were moving away from heavy, monolithic, on-prem solutions to modern cloud and SaaS applications. And this trend has gotten even stronger in the wake of last year. State local governments' modernization represents a massive opportunity for native, cloud and SaaS based platforms.

Here's how we're going about it. We're providing our best-of-breed cloud technologies through five product suites that cover the front and back offices of state and local governments. Included in our primary target sectors are municipalities and counties, colleges and universities, K-12 school districts, public healthcare agencies, public utilities like water and power, transportation and transit, state governments and federal agencies. Today, we have what I'd call a good start, 1,800 clients and over 360 employees across our business units, with both of these numbers increasing weekly as we start leaning into growth.

To add some color to the size of our opportunity, in 2021, state and local government in the US is expected to spend just under $120 billion in IT. That's 7% higher than 2020, a healthy underlying growth rate. As our customers are starting to modernize our infrastructure, GTY is well-positioned to capture the opportunity that the transition to the cloud represents. Let me unpack that a bit for you.

Before I describe the product suites themselves, it's important to understand that GTY products have three broad characteristics that position us for success. First, they are cloud and largely SaaS. This means highly recurring revenue streams with a remarkably low churn, often multi-year contracts, strong gross margins and predictable cash flows. Second, each of our product suites were created specifically for government's unique requirements and are considered leaders and their respective functional areas. This leads to high win rates against older gov tech competitors, as well as against horizontal players that often struggle to meet compliance or government-specific feature requirements. Finally, combined, our product suites allow us to access the full spectrum of sizes and segments of our target customers, from $10,000 to $1 million and higher price points, and across our eight subsectors from small municipalities all the way up to large state governments and federal agencies.

So, let's meet the products and business units. First as Bonfire, a next-generation sourcing and procurement platform. Second is CityBase, our payment platform that helps centralize the citizen interface of a government agency. Third, eCivis provides a grant management platform that helps governments stay on top of one of their most important sources of funding. Fourth, OpenCounter streamlines government permitting which is one of the major touch points with citizens. And finally, rounding out our product suites are our budgeting platform companies, Questica and Sherpa, which we collectively call GTY Budget. Budgeting is a core and mission-critical financial activity of all levels of government. Combined, these product suites get GTY a strong starting position to capture the opportunity ahead.

With that context, for the newcomers at GTY, let's turn to Q1. 2021 is off to a strong start as we delivered solid first quarter results that exceeded guidance even as we navigated through a challenging economic environment. First and most importantly, we saw strong ARR and recurring growth rates which shows a continued momentum in government transformation. We added 65 new clients which includes large customers like the State of North Dakota, and wins across all eight of our target sectors. In all, this is one of our highest Q1 bookings to-date despite the pre-stimulus uncertainty facing our customers with respect to their 2021 budgets.

As I'll touch on when I get to my outlook, there are several short and long-term tailwinds [indiscernible] (00:07:03) this market, and we saw evidence of that already in Q1. First, our customer base Q1 churn rates remained low and happiness high, which arguably are the most important bellwethers for a SaaS company. Second, our expansion pipeline across our 1,800 clients and our new client pipeline are growing faster than anticipated, which gives us confidence in our projected performance to guidance for Q2, as John will share shortly. Finally, we are seeing our recurring revenue grow very well, and payment transaction volumes have recently started to improve, additional positive signs that our clients and their constituents may be seeing the light at the end of the tunnel.

Turning to our financial position, I'm proud to say that our actions in 2020 to strengthen our financial base continue to provide lift. In Q1, we saw strong year-over-year improvements in gross profit and operating loss. And while Q1 was cash flow-negative as expected, we believe our balance sheet is strong and provides a good base in which to increase our sales and marketing and R&D investments.

Turning to our outlook. As I mentioned earlier, we believe there are both short and long-term factors that will provide tailwinds for growth starting in the second half of 2021 and coming into full effect in 2022. Specifically, we're seeing momentum build as more Americans are vaccinated and the economy opens up. Furthermore, the American Rescue Plan Act of 2021 includes provisions that will help state and local municipalities close their budget gaps, as well as provide additional funds for investments in technologies that provide long-term efficiencies. On a longer timeframe, government staff and CIOs are expecting some form of hybrid remote work to continue on a more or less permanent basis, which will provide a constant sense of urgency to transition platforms and applications into the cloud as much as possible.

In response to these trends, we intend to begin scaling our go-to-market teams in a targeted fashion to help us catch this anticipated rise in demand. Additionally, we intend to increase R&D spend to bolster our existing product leads in the marketplace and bring new innovations to bear during this time of rapid digital transformation.

In conclusion, we intend to transform into growth mode over the next few quarters as we continue to build our momentum. Thank you.

Back to you, John.

John J. Curran

Chief Financial Officer, GTY Technology Holdings, Inc.

Thank you, TJ.

As TJ highlighted earlier, Q1 was a strong start to the year and we are excited to have exceeded our revenue guidance for the quarter. For Q1, our GAAP revenue increased 18% to $13.3 million compared with $11.3 million in Q1 of 2020. On a non-GAAP basis, revenue was $13.4 million for Q1 of 2021 compared with $11.6 million in Q1 of 2020, an increase 15%.

A reconciliation between our GAAP and non-GAAP results is included in Exhibit 2 of our press release and in the Appendix of this slide deck. We will provide a more detailed explanation of the change in revenue on a subsequent slide.

Our first quarter 2021 GAAP gross profit was $8.5 million or 64% margin compared with $6.7 million in Q1 of 2020 or 60% margin. Our first quarter non-GAAP gross profit increased to $8.9 million or 67% margin compared with $7.3 million or 63% margin in Q1 of 2020. Continued growth in our recurring revenue is driving the improvements in our gross margins.

Turning to our operating expenses, we saw an $800,000 or 8% increase in our operating expenses in Q1 of 2021 compared to Q4 of 2020. We saw about $100,000 of currency impact and $240,000 of tax impact from RSU vesting as Q1 is when the majority of our equity vests each year. The remainder of the increase is related to additional head count and an increase in corporate costs.

Our first quarter 2021 GAAP operating loss was $8.1 million compared with a loss of $11.1 million in Q4 of 2020 and a loss of $16.5 million in Q1 of 2020. Our first quarter non-GAAP operating loss increased to $1.5 million compared with $1.1 million in Q4 of 2020, driven primarily by an increase in our operating expenses.

Consistent with previous quarters, we wanted to provide a little more color on the change in non-GAAP revenue. Additionally, we're providing detail on the recurring revenue from our payments business to highlight the seasonal impact of this revenue stream.

On a year-on-year basis, total non-GAAP revenue grew by 15%, and the chart on the left-hand side shows the growth by revenue type. Professional services decreased by 13% as we had some large Sherpa projects conclude in Q1 of 2020 that did not repeat in Q1 of 2021. Our recurring payments revenue grew by 13%, which is solid growth considering we are comparing to a pre-pandemic quarter. Our recurring revenue excluding payments grew by 33%, excellent performance given the difficult environment.

Turning to the quarter-over-quarter slide on the right-hand side, professional services increased by 12% as our delivery normalized after a slow December. Our services backlog remains strong, and we have excellent visibility over the next couple of quarters. Our recurring payments revenue declined by 21%, driven by the timing of business tax and real estate tax payments which are seasonally stronger in Q4. We expect to see this bounce back from Q2, driven by seasonal real estate tax payments. Recurring revenue excluding payments grew by 5%.

Our new subscription bookings in Q1 were a bit back end- loaded, which resulted in slightly lower recurring revenue earned in the quarter. 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 continue to expect recurring revenue to grow in the mid-to-high-20% range for the year. We expect our services and other revenue will grow by roughly high-single-digits compared with 2020. Our recurring revenue growth should continue to be higher in both percentage and dollar terms than service and other revenue as we continue to forecast growth in 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 increased by $750,000 this quarter driven by strong bookings. The second area is a decrease of $800,000 in accounts payable and accruals in the quarter, primarily due to severance payments. The third area is deferred revenue which increased $1.7 million. 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 $22.8 million and ended with $17.9 million in cash. From an outflow perspective, our operating burn was roughly $1.2 million this quarter, an increase from $100,000 in Q4. We also paid out $700,000 in severance, $500,000 in interest in the quarter, and the change in working capital was an additional $1 million outflow. Finally, from a financing perspective, we generated a net outflow of $1.5 million that includes raising $6.8 million from new equity sales and paying $8 million to redeem shares. Based on our current view of sales activities, our ability to implement our products, low churn rates we have experienced to-date and our cost management efforts, we believe we have sufficient cash to carry us into 2022 and beyond.

Turning to our outlook for the second quarter and full-year 2021. For the second quarter of 2021, we expect total revenue to be in the range of $13.5 million to $14 million or approximately 22% 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 is expected to grow faster than our overall revenue growth as we continue to build our base of recurring revenue.

As TJ mentioned, we're seeing some improvements in our market outlook, and we anticipate a modest level of increased investment in the coming quarters to support increasing demand. However, given the ramp time for our new resources, we don't expect to see any material benefits to top line in 2021. Given these investments, our operating expenses will be increasing as we move into the second half of the year to fund our 2022 growth initiatives. Obviously, this will affect our original cash forecast for 2021, which we now expect to be negative in $1 million to $2 million range depending on investment timing.

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

TJ Parass

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

In summary, it was a great quarter, with GAAP revenues up 18% in the quarter and ARR growing 27% year-over-year. As we look forward, we believe GTY is well-positioned to capitalize on the recovery trend and execute on our growth initiatives. Thank you.

Operator, please open up the line for questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question comes from Joshua Reilly with Needham.

Joshua Reilly
Analyst, Needham & Co. LLC

Q

Hey, guys. Congrats on the strong quarter. I wanted to start off asking about sales force productivity. So, how are you thinking about it versus pre-COVID versus today? How did things trend in the quarter?

And then secondly, what do you expect the go-to-market to look like in terms of a hybrid versus an in-person model as we kind of exit COVID?

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

A

Hi, Josh. TJ here. Thanks for the question. So, we – a year ago when we reduced staff, we've kept our staff generally at the same size, keeping an eye on our quotas. And as our sales teams are starting to increase their pipelines, quotas are starting to get closer. We're starting now looking at increasing our overall sales and marketing spend, which is inclusive of expanding our teams. So, we're working – watching that closely. Anything we're working on now is in anticipation of 6 to 12 months down the road from now. We feel we're well-positioned with the team we have to execute in the year.

In terms of – sorry. I missed – what's the second part of your question, Josh? Sorry.

Joshua Reilly
Analyst, Needham & Co. LLC

Q

Yeah. The second part is, if you look at kind of the post-COVID world that we're entering now – like pre-COVID obviously, you guys were heavy in-person sale, lots of trade shows et cetera – what do you think the model is going to look like now in terms of hybrid or bigger mix of virtual sales? Or how are you thinking about that?

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

A

Yeah. I think 2021 is going to be a lot like 2020. We will continue a lot of our virtual selling. No one believes conferences are coming back. A little bit back to traveling, but the virtual side will continue. Our business is really two halves. One half has always been virtual and that was, generally speaking, the deals we sell below [ph] the ARPU (00:20:08) values. And for those, there tend to be more what we sometimes term as enterprise deals. As soon as travel comes back, we'll get back on the road again, but we still pretty effective being remote.

Joshua Reilly
Analyst, Needham & Co. LLC

Q

Got it. Okay. What are you seeing in terms of priorities for spending with customers now that they have better visibility into the funds that they're going to be getting from the CARES Act? And then, what segments of your business do you expect to kind of maybe benefit the most given those priorities?

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

Well, there's a number of factors there, Josh, that I think are important. One of them is the – in the news quite a bit now is cybersecurity. And I think our customers will be spending a lot of time around that. Where that peels off when it comes to GTY is the movement towards cloud technologies that are secure and better than they run on-premise.

The second tailwind that is becoming pretty prevalent right now is that there is a belief that the government workforce won't return back to the offices fully, and that it will be – continue to be a hybrid and remote environment. This means to us that some of the band aids that government put on their operations in the last year to continue running their legacy applications through virtual technologies or virtual desktops. They're going to need to start making now longer-term commitments towards technology [audio gap] (00:21:33) cloud-based. So, those are the two big factors that we see are pushing things.

And then, in terms of our products, there's no question to me, payments permitting are going to be big on the citizen front-end. Budgeting and procurement remain steady and strong. And grants, it's a big year with grants this year because of all the grant money that's flowing. And a lot of that grant money is focused on modernizing, too.

Joshua Reilly
Analyst, Needham & Co. LLC
Q

Okay. Got it. Perfect. And then, maybe just one more for me. If you look at your updated guidance, it's kind of in line with our prior estimates. Is this indicative of what you're seeing in the macro with customers willing to spend at this point? Or kind of what are the puts and takes around your kind of updated guidance here in the quarter?

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

So, I'll take that, Josh. It's John here. So, we do – we are seeing kind of the early stages, as TJ mentioned, the number of tailwinds. And we're starting to see the first green shoots, if you will. But we're not anticipating that that's going to have a tremendous impact on this current year. It's really going to be putting resources in place this year to drive benefits in 2022. If we do see things accelerate, we'll certainly update our guidance as we go through the year. But at this point, we're not anticipating seeing much benefit in 2021.

Joshua Reilly
Analyst, Needham & Co. LLC
Q

All right. Great. Thanks, guys. Congrats.

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

Thanks Josh.

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

Thanks, Josh.

Operator: And our next question comes from Jeff Van Rhee with Craig-Hallum Capital.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Great. Thanks, guys. Thanks for taking my questions. Couple for me. On the bailout or the rescue plan, I guess the $350 billion for state, local $1.9 trillion. I mean, some serious money coming. Just could you put a little finer point on when, based on your understanding of the act, that gets in the hands of the buyers and then how long procurement cycles take before that shows up in bookings?

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

A

Yeah. We expect that the funds will start to flow as early as this month, with the bulk of it happening in the second half and June and onwards. And we – as we saw with the CARES Act, we expect that our customers will be looking to modernize their technology and we'll be working with them as best as we can with that.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Is there anything different about this than the CARES Act in terms of their flexibility and the focus of the spend being more or less aimed at your solutions or more flexibility to spend on your kind of solutions?

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

A

Jeff, I don't have a specific answer for that. I will tell you that, with the CARES Act, what we found was over time it got better and better understood, and we got to understand it better with our customers. I think it's going to go through the same evolution here. It's not 100% clear to us right now although, in our opinion, it's better-suited towards modernization that even the CARES Act was. And we're able to work with our customers with the CARES money when it came out.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Okay. On the spending front, obviously, good to hear the conviction around putting some more money to work on the sales side. Just talk a bit about the sales or the evolution. But maybe from the specific context of where is this extra cash going, how many reps is this more focused on lead gen marketing? Sort of just give a little more insight into the evolution of the sales maturation and some numbers around what this is going to be spent on?

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

A

Good question.

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

A

[indiscernible] (00:25:19)

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

A

Yeah. Go ahead, John. Sorry.

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

A

Yeah. So, the – Jeff, it'll be kind of a cross sales and marketing. As we've described their go-to market motion, we do have a decent advancement in marketing and [ph] BDRs (00:25:38) for our transaction-based business, and then a bit more investment in sales. The mix of sales to marketing is more focused on sales and our enterprise motion. We would anticipate through the year adding probably 20, 25 heads in sales and marketing. And that's really the bulk of where we'd be spending our money at this point in 2021.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Okay. That's helpful. And then, just as it relates to bookings, you mentioned it was one of the stronger quarters. Again, maybe I'll push you up a little bit to get a little more specific about that. Was it up sequentially? Was it up year-over-year? Can you put any numbers around it so we can just get a sense of kind of how we're bouncing off the bottom or how aggressively we're coming out here?

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

A

Yeah. So, it would be, probably historically, one of our top three or four quarters. And definitely up year-on-year, decent growth Q1 versus Q1. A bit higher than Q4, but significant year-on-year growth with a decent quarter-on-quarter growth.

Jeff Van Rhee
Analyst, Craig-Hallum Capital Group LLC

Q

Got it. Okay. I'll leave it there. Nice quarter, guys. Thanks.

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, Jeff.

Operator: [Operator Instructions] And there are no further questions at this time. Did you have any final remarks?

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

I just want to say thank you, everyone, for joining us today. And we look forward to talking in the next quarter.

Operator: And that does conclude today's conference call. Thank you for your participation. You may now disconnect.