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Third Quarter 2023 Earnings Call
Thursday, November 9th at 4:30 p.m. Eastern Time

NANDAN AMLADI, VP INVESTOR RELATIONS

Thank you, operator, and good afternoon, everyone. Welcome to Everbridge's earnings call for the third quarter of 2023.

With me on today's call are Everbridge's President and CEO, David Wagner, and Executive Vice President and CFO, Patrick Brickley.

After the market closed, we issued our earnings release and supplementary materials, which can be accessed on the Investor Relations section of our website at ir.everbridge.com. This call is being recorded, and a replay of the teleconference will be available on our Investor Relations website at the conclusion of today's event.

During today's call, we will make forward-looking statements regarding future events or the financial performance of the company that involve certain risks and uncertainties. The company's actual results may differ materially from the projections described in such statements.

Factors that might cause such differences include, but are not limited to, those discussed in our Forms 10-Q and 10-K as well as other subsequent filings with the SEC. Information provided on this call reflects our perspective only as of today and should not be considered representative of our views as of any subsequent date. We explicitly disclaim any obligation to update any forward-looking statements or our outlook.

Also, during today's call, we will refer to certain non-GAAP financial measures. A reconciliation of our GAAP to non-GAAP financial measures to the extent reasonably available is included in our earnings press release, which you can find on our Investor Relations website.

Our earnings press release includes highlights from our third quarter of 2023 in addition to our financial results and outlook. After we review our business and financial highlights, we will open the call for questions.

With that, let me turn the call over to Dave.

Dave?

DAVE WAGNER – PRESIDENT & CEO

Thanks, Nandan, and good afternoon, everyone.

We delivered solid results in Q3, including:

- Revenue of $114.2 million dollars, an increase of 3% year-over-year;
- Adjusted EBITDA of $23.7 million dollars, an increase of approximately $9 million dollars, and 56%, from a year ago; and
- Annual Recurring Revenue of $399 million dollars, up $4 million dollars quarter-over-quarter and 8% year-over-year.

These results align with our strategy of enhancing shareholder value by:

1. Prioritizing increasing ARR, the more valuable, recurring part of our business; and
2. Growing efficiently and profitably to achieve our goal of reaching the 'Rule of 40' by 2027; and
3. Enhancing our go-to-market approach, evidenced by the Q3 improvements.

In this context, subscription revenues of $104.3 million dollars grew 8% in the third quarter. However, revenues from professional services, perpetual software licenses and one-time services were down $4.7 million dollars, or 32%, bringing total revenue growth to 3%. The decline in one-time revenues is due to prioritizing recurring revenues and changes in the macro environment affecting large deal opportunities.

Efficiency-wise, we improved adjusted EBITDA by 56% year-over-year or $8.5 million dollars, while also absorbing the $4.7 million dollar decrease in professional services and one-time revenues. Our efforts to enhance efficiency are allowing us to reduce costs while continuing to enhance our product portfolio.

Improvements we are seeing in our third quarter results that we believe demonstrate the progress we are making to increase our ARR growth rate in 2024 are as follows:

1. Q3 was our highest bookings quarter of the year both for recurring and one-time bookings;
2. Our sales productivity improved 11% quarter-over-quarter and 16% year-over-year;
3. Our average transaction size increased again quarter-over-quarter to the highest level of the year;
4. Our total number of transactions remains consistent with last year; and
5. Our total pipeline is continuing to build.

During Q3 we supported our customers through a range of critical events including: heatwaves, wildfires, hurricanes, and geopolitical unrest. We supported states and countries around the world with life-saving alerts in the face of unprecedented heat waves and wildfires this summer. We delivered millions of messages to Floridians leading up to, during, and after Hurricane Idalia to support their life safety and recovery goals. More recently, as a result of the conflict in the Middle East, and the resulting geopolitical unrest, we're assisting multinational businesses with critical situational awareness and risk intelligence to keep their employees and travelers safe and to keep their businesses running efficiently. The value of the Everbridge platform has never been more apparent.

We also just published our inaugural Sustainability Report that is posted on our IR page. I am delighted with the progress Everbridge is making in this area, showing our commitment to developing new policies and processes to align our strategy and operations with key sustainability principles.

Again, I am pleased with our continued progress, especially the improved bookings traction we demonstrated in the third quarter.

Now, I'll turn the call over to our CFO, Patrick Brickley, to provide further details on our financial results and outlook.

Patrick?

PATRICK BRICKLEY – CFO

Thanks, Dave.

During the quarter we saw a healthy year-over-year increase in our profitability metrics. This increase reflects the substantial, ongoing improvements that we are making to operational efficiency across all areas of our business – work that we intend to continue as we drive towards profitable growth and 'Rule of 40' by 2027.

I will now discuss our results for the quarter in more detail. For the third quarter:

ARR increased to $399 million dollars, up 8% year-over-year.

Revenue was $114.2 million dollars, up 3% from a year ago.

Subscription revenue was $104.3 million dollars, up 8% from a year ago, while non-subscription revenue of $9.8 million dollars was down 32% from a year ago.

Our gross revenue retention rate was consistent year-over-year, however, it dipped slightly relative to the first half of 2023, primarily due to a bit more renewal contraction than we've seen in recent quarters.

We signed 44 deals over $100 thousand dollars, down from 75 a year ago. That said, as Dave mentioned, in Q3 our average deal size rebounded relative to what we saw in the first half of 2023.

GAAP gross margin was $81 million dollars, or 71% margin, compared to the year-ago period's result of $76 million dollars, or 68% margin.

Adjusted gross margin was 74%, compared to 73% a year ago.

GAAP net income was nearly $2 million dollars, or negative 23 cents of diluted earnings per share, compared to the year-ago period in which we generated a net loss of $22 million dollars, or negative 56 cents of earnings per share. GAAP net income in the third quarter benefitted from a nearly $13 million dollar gain from retiring debt early and at a discount. This gain was partially offset by an $8 million dollar charge related to our legal dispute with certain former shareholders of Anvil.

Non-GAAP net income was $20 million dollars, or 46 cents of diluted earnings per share, compared to the year-ago period's net income of $12 million dollars, or 27 cents of diluted earnings per share.

Our adjusted EBITDA of $23.7 million dollars represents a 21% margin, compared to the year-ago period's result of $15.2 million dollars, or 14% margin.

Cash flow from operations was an inflow of $17.0 million dollars, compared to the year-ago period of $18.0 million dollars.

Adjusted free cash flow was an inflow of $15.5 million dollars, compared to the year-ago period of $15.4 million dollars.

Our liquidity remains in a healthy position. We ended Q3 with $100.5 million dollars in cash, cash equivalents, and restricted cash, down from $201.6 million dollars at the end of 2022.

In Q3 we used roughly $130 million dollars of cash to repurchase $145 million dollars of outstanding convertible debt. In doing so, we locked-in a desirable yield-to-maturity, and, we reduced our net debt to $263 million dollars – down 22% from a year ago.

Our debt repurchase reflects our confidence in our increasing ability to drive positive cash flow. For example, year-to-date, adjusted free cash flow has increased nearly 300% year-over-year, and we will continue to see further year-over-year improvements in our cash flow in the quarters ahead.

We will have more than enough cash to retire the $63 million dollars of debt that will mature in December 2024, to address any potential outflows related to the Anvil legal dispute, and to continue to fund investments in growth.

Moving to guidance, we are revising our guidance for the remainder of 2023. A reconciliation of our updated guidance to the guidance which we gave last quarter is provided on slides 25 and 26 of the quarterly investor relations presentation which you can find on our investor relations website.

For the fourth quarter, we anticipate results which reflect the same pattern that we experienced in Q3:

- Continued year-over-year growth in subscription revenue;
- Continued decrease in non-subscription revenues; and
- Continued improvement in profitability.

As I describe our revenue outlook for the fourth quarter, I will talk separately about subscription and non-subscription revenue.

We anticipate subscription revenue of between $104.6 and $105.0 million dollars, up 3% year-over-year. The year-ago period included roughly $3 million dollars of subscription revenue from entities that we have since divested, and, subscription amounts that were recognized on an annual basis during the year-ago period, but will not have the same timing this year. This bridge is illustrated on slide 27 of our quarterly investor relations presentation. This outlook for Q4 subscription revenue reflects sequential growth of between $0.3 and $0.7 million dollars. Our subscription revenue in the third quarter included roughly $1 million dollars of subscription revenue that is recognized on an annual basis, and no such subscription revenue is included in our outlook for the fourth quarter. This bridge is also illustrated on slide 27 of our quarterly investor relations presentation.

We anticipate non-subscription revenue of between $9.4 and $10.5 million dollars, down from nearly $16 million dollars in the year-ago period. This Q4 decrease of non-subscription revenue is larger than what was reflected in the outlook that we provided in August. In particular, owing to macroeconomic factors, there are a few on-premise sales opportunities which we now expect to deliver in 2024 rather than our recent projection of fourth quarter 2023.

Therefore, in summary, we anticipate total revenue for the fourth quarter to range between $114.0 and $115.5 million dollars, which reflects a year-over-year decrease of between 3% and 1%.

We anticipate a GAAP net loss of between $6.3 and $5.1 million dollars, and non-GAAP net income of between $21.5 and $23.0 million dollars, or diluted earnings per share of $0.48 to $0.52.

We expect adjusted EBITDA to be between $25.6 and $27.1 million dollars, a margin of 23%. We remain well on track with our plan to generate continuous year-over-year improvement in quarterly adjusted EBITDA and adjusted EBITDA margin, despite the pressure that's created by our revised outlook for non-subscription revenue.

Moving to full year guidance, for 2023 we now anticipate total revenue in the range of $447.0 to $448.5 million dollars, representing year-over-year growth of 4%.

Within that, we anticipate subscription revenue of between $409.5 to $409.9 million dollars, representing year-over-year growth of 7%.

And, we anticipate non-subscription revenue of between $37.5 and $38.6 million dollars, representing a year-over-year decline of 18 to 21%.

We expect a GAAP net loss of between $34.3 and $33.1 million dollars and non-GAAP net income of between $66 and $67.5 million dollars, or between $1.48 and $1.52 of diluted earnings per share.

We expect to deliver adjusted EBITDA in the range of $83.5 to $85.0 million dollars, representing an adjusted EBITDA margin of 19% at the midpoint.

In summary, we continue to make progress towards our goal of increasing ARR more profitably. Taking an early look ahead to 2024, we are committed to expanding our profitability, and although too soon for forecasting GAAP profitability, we expect to grow our full year adjusted EBITDA by roughly 25%. We remain confident that we can deliver the targets laid out at our December 2022 Investor Day, making disciplined 'growth-first' investments that will drive steady progress towards the 'Rule of 40' by 2027.

I will now turn the call back over to Dave.

DAVE WAGNER – PRESIDENT & CEO

Thanks, Patrick.

In Q3, we delivered our best bookings performance of the year. While still down compared to last year, the recent recovery underscores the ongoing improvements we've made to our sales productivity. Furthermore, our pipeline - and especially our large deal pipeline - has continued to expand as the year has progressed. Notably in Q3, we successfully closed 4 deals over $500K, which was 3 more than last quarter, and we closed one deal over $1 million, also marking a sequential improvement.

Our largest new client in the quarter was a Smart Security deal for a shipping port in the Middle East. Among the remaining top five deals, three were new CEM customers including a Federal Government department, an Australian Bank, and a large, international charitable organization. The fifth significant new client was an enterprise mass notification win.

Regarding growth deals, our two largest deals were Government add-ons: one a state-level emergency notification win and the other in the US Federal space. We also had a large Smart Security cross-sell into a CEM account. Two CEM extensions round out the top-five add-on deals.

In total, we added 32 new CEM customers in Q3, bringing our total CEM customer count to 405. While average deal sizes are smaller this year, we are maintaining a healthy mix of new and growth CEM customer wins.

In terms of retention, gross retention was slightly lower than the past few quarters but was consistent with the same period last year. The slight, sequential increase in churn was due primarily to increased renewal contraction, as Patrick noted.

We're pleased with the progress we've made executing our go-to-market strategy. The underlying metrics affirm our growth path. Our sales representative productivity is rising, and our forward pipeline indicators show traction. We're successfully adding a balanced mix of new and growth CEM customers.

We are reinforcing our strong market position. Customer feedback assures us that we are on the right track. Our high customer satisfaction, solid renewal rates, and positive response to our product enhancements are all strong indicators. As the market improves, we anticipate a corresponding growth in bookings in 2024. In the current environment, our execution is improving, and Everbridge remains the market leader.

In summary, the third quarter demonstrated another “step up” in profitability of $9 million dollars or 56% year-over-year. We delivered a stronger bookings quarter sequentially as a result of increasing deal size and improved sales productivity. We are confident that we are well-positioned to deliver year-over-year recurring bookings growth in 2024, which will contribute to increasing ARR growth rates later in 2024, and we are also confident that we can grow our adjusted EBITDA by a further 25% in 2024.

In closing, I want to emphasize our steadfast commitment to assisting our customers in achieving resilience. We are living in uncertain times when organizations and governments are prioritizing the safety of their people and the continuity of their operations. Our Everbridge team is innovating to help organizations monitor risk more comprehensively than ever before and to combine that situational awareness with a market-leading platform for managing critical events to empower a more resilient world.