



Xybion Digital

Q2 Fiscal 2022 Quarterly Results

Conference Call Transcript

Date: November 23, 2021

Time: 10:00 AM ET

Speakers: **Pradip Banerjee**
Chairman and Chief Executive Officer

Steven Porfano
Chief Financial Officer

Operator:

Welcome to the Xybion Digital Inc. Second Quarter Fiscal 2022 Investor Conference Call. Today's call will provide information and commentary on financial results for the three months ended September 30, 2021. We will hear from Doctor Pradip Banerjee, Chairman and CEO of Xybion, and Steve Porfano, Xybion's Chief Financial Officer. Following these remarks, Pradip and Steve will take questions from analysts. If you have questions following the call, you can reach Xybion at investor@xybion.com.

First, here are a couple of housekeeping notices. All participants are in listen-only mode for the duration of the call. This call is being recorded, and we expect that the recording will be available on Xybion's website within 72 hours.

We remind you that today's remarks will include forward-looking statements that are subject to important risks and uncertainties. For more information on these risks and uncertainties, please see the reader advisory at the bottom of Xybion's news release, which is on their website and on SEDAR. The Company's actual performance could differ materially from these statements.

We begin with Xybion's Chairman and CEO, Doctor Pradip Banerjee. Pradip?

Pradip K. Banerjee, Ph.D.:

Thank you.

Good morning, everyone. Thanks for joining us today for our first quarterly conference call as a public company.

As a quick background, our fiscal year starts on April 1 and ends on March 31, so this is—September 30 is really our second quarter of our fiscal year.

I'm very excited to be listed as a TSX Venture public company, where we started trading last week, and we are eager to create long-term value for the current and future shareholders.

We're very pleased to report record revenue and positive earnings.

I will spend a bit of time introducing Xybion to you this morning, and giving some of our important operational KPIs. After I do that, Steve Porfano, our CFO, will review the financial results, and then I will conclude the call with an outlook for our business, after which we will be happy to answer your questions from analysts and investors.

Xybion Digital is a global low-code software-as-a-service company that enables digital transformation in highly regulated industries like life sciences. Most of our 160-plus enterprise clients in 25 countries are in life sciences industry because we have a long track record of helping this industry players to improve their critical processes that allow them to speed up both the development and regulatory approval process of drugs, vaccines and other treatments that help people and save lives.

Xybion today is the result of a successful initial execution of a strategic vision of creating a global software-driven solutions company with specialized software and services to help the new drug development and approval process so that new drug products can reach patients faster.

Xybion is an amalgamation of three separate software companies through acquisitions and then creating new platforms, that had offerings for life sciences companies at various stages of R&D life cycle. Over the past few years, we integrated and expanded these offerings into a single platform, and most importantly we cloud-enabled all of it. We now have a robust end-to-end platform that life sciences companies can standardize their operations on.

Most importantly, we transformed our platform to the cloud; we also made it configuration-based and removed most of the requirements for custom application development. This means that our clients can get their mission-critical R&D laboratory data and employee safety processes configured and up and running in a matter of days and weeks, without disrupting current operations. That is what we mean by low-code platform. This positions us well for rapid growth in the new post-COVID all-digital world.

This is clearly working for us. Since concluding this transformation over the past three years, Xybion has been experiencing nearly 50% compounded annual growth in the SaaS licensing business revenue and recurring revenue.

This quarter I'm happy to report that our SaaS business has grown again by 43% over last year. Currently approximately 65% of our revenue is recurring in nature, and most of our pipeline is for SaaS licensing. This percentage is set to climb even higher.

Although we are at the early stages in our SaaS growth cycle, the entire Management team is proud that we have been able to maintain profitability, even with our accelerated growth rate. This quarter we also report 16.5% Adjusted EBITDA margin.

We believe that we are in a position to do more. This is why we chose to list our shares on the TSX Venture Exchange.

Our two-pronged growth strategy includes additional acquisitions, so that we can accelerate our accretive growth in order to gain more scale, gather more talent, and scope. We have developed a pipeline of acquisition targets that we are currently evaluating. We are confident that the Canadian capital markets are a great place to access required growth capital if we require it in the future, plus provide us with valuable currency for any acquisition we may consider going forward.

Organic growth will focus on selling more capabilities to our current clients and also expand our international footprint. Most of our clients will only have a portion of our platform deployed today. The COVID-19 pandemic has exposed the need to digitally enable as many key processes as possible, to speed up and improve drug development. We know this because our software helped to accelerate development of COVID-19 vaccines and other therapeutics.

Xybion is well positioned to fulfil the urgent demand of the industry, to digitize more of their operations, and our low-code approach, along with our breadth of capabilities, is very appealing to our clients that want to expand and accelerate their digital transformation. We believe that the opportunity within our own client base is several multiples of our current businesses.

I hope this was a useful review of Xybion, and before I hand it over to Steve I wanted to summarize this way. Our low-code platform is very appealing to the market right now and our growth is a testament to that. Our metrics are strong for a company of our size, so the investors will not need to be patient for earnings as we scale. We are already there. We are a profitable software company with growth. We have plans to acquire customers, talent, and feature, when we think it'll be accretive to our business.

With that, I would like to introduce Steve Porfano, our Chief Financial Officer, to review our financial results for this quarter. Steve?

Steve Porfano:

Thank you, Pradip, and good morning, everyone.

I will now comment on our financial performance for the second quarter of Fiscal Year 2022, which ended on September 30, 2021. I want to remind those on the call that, unless otherwise indicated, all of our results are cited in U.S. dollar amounts.

Q2 revenues were \$4.5 million, up 43.8% compared to \$3.1 million in Q2 of Fiscal Year 2021.

Recurring software revenues, which include software-as-a-service, software subscriptions, and software maintenance, increased by 23.4% or \$0.43 million to \$2.26 million, compared to \$1.83 million in Q2 of Fiscal 2021.

Revenue from SaaS and software subscriptions in Q2 of Fiscal 2022 increased by 62.9% or \$0.4 million to \$1 million compared to \$0.6 million in Q2 of Fiscal 2021.

In Q2 of Fiscal 2022, recurring revenue represented 51.1% of our total revenues.

Annually recurring revenue from software reached \$9.2 million at September 30, 2021, an increase of 21.8% compared to \$7.6 million at September 30, 2020.

Gross profit for Q2 of Fiscal 2022 was \$3.1 million, an increase of 60.6% or \$1.2 million compared to \$1.9 million in Q2 of Fiscal '21.

Gross margin was 68.5% of revenue in Q2 of Fiscal 2022, compared to 61.3% in Q2 of Fiscal 2021. The higher gross margin is directly related to increases in license revenue, as well as higher-margin recurring software revenues in the quarter.

Total expenses were higher by 32.9% or \$3.9 million compared to \$2.9 million in Q2 of the prior year's second quarter. However, due to the efficiency of our revenue model, expenses grew at a slower pace than our revenue.

Net income of \$346,000 in Q2 of Fiscal 2022 compared to a net income of \$121,000 in Q2 of Fiscal 2021. The net income increased because revenue and gross margins grew faster than expenses compared to the previous year's second quarter.

Now I would like to review some non-IFRS results that we compile. If you would like more details on our non-IFRS measures and risk factors in general, please refer to our MD&A that we posted last night on SEDAR.

In Q2 of Fiscal 2022 EBITDA grew by 114% to \$615,000 compared to \$288,000 in Q2 of Fiscal 2021. Except for income taxes, which grew by 208% to \$139,000, up from \$45,000 in the previous second quarter, adjustments between the quarters were basically flat.

Now switching to our balance sheet, at September 30, 2021, Xybion had \$4.9 million of cash and cash equivalents on its balance sheet and zero debt. We believe we have sufficient cash on our balance sheet to support our current organic growth objectives.

Now I'd like to turn the call back to Pradip for his final thoughts prior to opening up to questions. Thank you.

Pradip?

Pradip K. Banerjee, Ph.D.:

Thank you, Steve.

As we disclosed in our press release on our first day of trading last week, we booked approximately \$2.5 million of contracted revenue during the quarter, which upon deployment should contribute approximately \$1 million in incremental ARR. At this point in time, we're not providing any guidance, although we disclose contracted revenue each quarter. In general, contracted revenue should provide relative assurance of our progress in recurring revenue growth going forward.

There is some relatively minor seasonality in our business. Usually Q4, which corresponds to the first calendar quarter, is our strongest quarter, due to typical budget allocations. Conversely Q3, which we are now, corresponds to the holiday season, is often the weakest quarter for contracted bookings. Notwithstanding, due to increasing ARR, these quarterly variances will become less noticeable over time.

In summary, I would like to reiterate that Xybion digital is a SaaS software company that enjoys a strong position in the market, urgently transforming its operations to become more cloud-based and digital. Our software platform is among the most comprehensive in the market, and is very easy to deploy because it is low-code. Very strong investment in health tech, because not only we are scaling fast and gaining market share, we are also profitable, in comparison to other peers at our stage of high revenue growth.

Steve and I are here for answering your questions. Operator, would you please facilitate the Q&A part of this call?

Operator:

Our first question comes from Andre Bodo of Echelon Wealth Partners. Please go ahead.

Rob Goff:

Thanks and good morning, guys. It's actually Rob Goff here.

Pradip K. Banerjee, Ph.D.:

Hi, good morning, Rob. Can you speak up a bit? Couldn't hear you.

Operator:

Rob, your line is live.

Rob Goff:

Can you hear me now?

Pradip K. Banerjee, Ph.D.:

Yes.

Rob Goff:

Okay, my apologies there.

We wanted to talk about your mix shift towards recurring revenues, and I believe you said it was 51% recurring revenues. Could you talk to how you see that trending, and how that might support further margin expansion?

Pradip K. Banerjee, Ph.D.:

Let me start and Steve may put more detail behind it.

As you mentioned, about 65% of our pipeline is on this SaaS and ARR side of it. We are no longer selling old-style perpetual revenue-based model, except for our existing customers that has a perpetual license. Our forward pipeline is going to be mostly SaaS, and SaaS has over 75% gross margin for our business already. Our overall margin should increase, based on that.

Steve, you want to add to that?

Steve Porfano:

Yes, Rob. Let me just add one thing. The reason—typically our ARR is contributing about 65% of our revenue. However, we had a very large client expand their user base of a perpetual license during the quarter, and that dropped the overall percentage of SaaS to total revenue.

Rob Goff:

Could you provide any additional colour on the five clients that you noted contributed incremental \$2.2 million to revenues that would then translate to, I believe it was, \$1 million in ARR? Is that a good rule of thumb? Is that reflective of what you see in the market?

Pradip K. Banerjee, Ph.D.:

No, those are the actual numbers. These five clients we mention in our press release are all focused on one segment of our product offering, which is laboratory information management and lab operation systems. That's the relatively new introduction of our portfolio, so that's an indication of success. These are all essentially new clients, they're all SaaS revenue, so on implementation that amount should become ARR. These are all SaaS clients.

Rob Goff:

Thank you. One last one if I may. Could you perhaps give additional colour on your acquisition pipeline, in terms of the complexion of that?

Pradip K. Banerjee, Ph.D.:

Our focus is to really bolster all of our domain, as you recall we have focused our domains on research and development, laboratory information systems, quality and compliance, and health and safety. Those are the four domains on the same cloud platform. Our goal is to bolster each one of them as we find appropriate candidates. We have an initial list of companies that we are beginning to evaluate, and as we go we will inform you once we get to a definite endpoint.

Rob Goff:

Thank you.

Operator:

This concludes the question and answer session. I would like to turn the conference back over to Doctor Pradip Banerjee for closing remarks.

Pradip K. Banerjee, Ph.D.:

Thank you very much. On behalf of all of us, thank you for your interest in Xybion. We are really very excited about the trading on TSX Venture, and look forward to our shared future with current and future shareholders.

Have a great day, and to those who are in United States, happy Thanksgiving.

Thank you.

Operator:

This concludes today's conference call. You may disconnect your lines. Thank you for participating, and have a pleasant day.