Xybion Digital
Q3 Fiscal 2022 Quarterly Results
Conference Call Transcript

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Speakers:

Pradip Banerjee
Chairman and Chief Executive Officer

Steven Porfano
Chief Financial Officer

Operator:

Welcome to the Xybion Digital Inc. Third Quarter Fiscal 2022 Investor Conference Call.

Today's call will provide information and commentary on financial results for the three months ended December 31, 2021. We will hear from Dr. 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, please reach Xybion at investor@xybion.com.

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'll begin with Xybion's Chairman and CEO, Dr. Pradip Banerjee. Pradip.

Pradip Banerjee:

Thank you. Good morning, everyone. Thanks for joining us today to review our third quarter Fiscal 2022 financial results for the period ending December 31, 2021. This is our second quarter reporting as a public company, and in many ways the key growth trends reported last quarter continued.

For the third quarter, I'm very pleased to report solid revenue growth and positive EBITDA yet again. I'll spend a little bit of time introducing Xybion to you and reviewing some of our important operational key performance indicators. 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 are happy to answer 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 which includes pharmaceuticals, biotech, diagnostics companies, and we also keep our employee health and safety at the same time.

Most of our 160 enterprise clients are in the life sciences sector, and we have an expertise in this segment and a long track record helping these industry players to improve their critical processes that allow them to speed up the development and regulatory approvals of drugs and other tests and treatments that help people and save lives.

Xybion is an aggregation of three separate software companies that had offerings for life sciences companies at various stages of R&D lifecycle. Over the past few years, we integrated and expanded these offerings into a single cloud platform, and more importantly, everything is cloud-enabled at this time. We now have a robust end-to-end platform that life sciences companies can standardize their operations on.

Most importantly, when we transformed our platform to the cloud, we also made it easily configurable and removed most of the requirements for custom application development which typically slows down and costs a lot of money. This means that client can get their mission-critical research and development, laboratory data, and other employee safety processes configured up and running in a matter of days and weeks without disrupting current operations. This is what we mean by low code.

Xybion's cloud-based SaaS solutions has been on the market for about three years, and it already represents 50% of our recurring revenue and a majority of our sales pipeline. This quarter, I'm happy to report that our SaaS business has grown again by 20% over the similar period last year. Currently, approximately 60% of our revenue is recurring in nature, and most of our pipeline is for SaaS licensing, so this percentage is set to climb higher. We are very proud that our year-to-date growth in SaaS revenue was reported at 54.6%, slightly ahead of our expectations heading into the final quarter of our fiscal year.

Although we are in the early stages of 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 reported 7.1% Adjusted EBITDA. In our conference call remarks in Q2, we mentioned that Q3, which ends on December 31, 2021, is typically our weakest quarter due to the holiday season and the trend stood again this year, especially as the Omicron variant impacted some deployments of recently contracted bookings.

Revenue Growth and earnings demonstrates the resiliency of our emerging SaaS business model. We have a two-pronged growth strategy and the proven capabilities to execute it. The organic growth component continues to be focused on selling more capabilities to our current clients. Most of our 160 clients only have a portion of our platform deployed today, and they are upgrading from traditional perpetual licensed in-premise solutions to the cloud solutions.

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 accelerate the development of major medicines, including COVID-19 vaccines. Xybion is well-positioned to fulfill the urgent demand to digitize processes to accelerate and improve the drug development process. We believe that the immediate opportunity within our own client base is eight to ten times multiple of our current licenses.

The second component is an acquisition strategy which complements our organic growth cycle, acquiring talent and broadening the scope. We have developed a pipeline of targets and we are currently evaluating them. Subsequent to the quarter end, we submitted and received approval for a shelf prospectus of $CAD50 million. We are confident that the Canadian capital markets will be highly receptive to our profitable growth profile in a large dynamic market offering and will help access valuable currency for acquisitions and our growth which we consider looking forward.

I hope this was a useful review of Xybion. Before I hand it over to Steve, I want 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 remain solid for a company of our size, so investors will not need to be patient with earnings as we scale. We are already profitable. Our trailing 12 month revenue has grown to US$16.5 million, and our trailing 12 month Adjusted EBITDA is US$2.1 million. Also, we have plans to acquire customers (inaudible 08:16) and features when you think of that accretively to our business.

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

Steven Porfano:

Thank you, Pradip, and thank you, everyone, for joining us this morning. I will now comment on our financial performance for the third quarter of Fiscal 2022, which ended on December 31, 2021. I want to remind those on the call that all of our results are cited in U.S. dollars.

Revenues of $4 million grew by 8% compared to $3.6 million reported in Q3 of Fiscal 2021. Recurring software revenues, which include revenue from SaaS and maintenance, increased by 12.7%, or $0.3 million to $2.3 million, compared to $2 million in Q3 of Fiscal 2021.

Recurring revenue as a percentage of total revenue for the third quarter was 57% compared to 54% in the previous third quarter. Revenue from SaaS in Q3 of Fiscal 2022 increased by 20%, or $0.2 million to $1 million. Annual recurring revenue from software reached $9.3 million at December 31, 2021, an increase of 11.7% compared to December 31, 2020.

Gross profit for Q3 2022 totaled $2.6 million, an increase of 5.5% or $0.1 million compared to $2.5 million in Q3 of Fiscal 2021. Gross margin was 65.6% of revenue in Q3 of Fiscal 2022 compared to 67.1% in Q3 of Fiscal 2021. Quarter-over-quarter gross margin is affected by the mix of quarterly revenue for licenses, SaaS, and services in the two periods.

On a comparative basis, total operating expenses grew by 16% over the previous third quarter. Q3 2022 cash flow from operations was $0.7 million, an increase of 38.3% from $0.5 million reported in Q3 of 2021.

We recorded a net loss of $2.1 million for the three-month period ended December 31, 2021, compared to the net income of $0.3 million for the three-month period ended December 31, 2021. The reasons for the decrease were the expenses recognized for the merger, reverse acquisition, and private placement that occurred during Q3 of 2022, the increased costs for professional fees and insurance costs associated with being a publicly listed company and a bad debt expense recorded in Q3 of 2022.

Adjusted EBITDA, which is a non-IFRS measure, was $0.3 million in Q3 of 2022, and that compares to $0.5 million in Q3 of 2021, a decrease of 41.6%. The decline is due primarily to increased costs for professional fees and insurance costs associated with being a publicly listed company, as well as a bad debt expense recorded during Q3 of 2022.

Now, I'd like to provide some detail on the nine-month year-to-date performance.

Total revenue for the nine-month period ended December 31, 2021 reached $12.2 million, an increase of $2.2 million or 21.9% over the nine-month period ended December 31, 2020. The increase is due to growth in revenue from SaaS and perpetual licenses. Recurring software revenues for the nine-month period ended December 31, 2021 increased by 23.2% or $1.3 million to $6.8 million, compared to $5.5 million in the nine-month period ended December 31, 2020.

Revenue from SaaS for the nine-month period ended December 31, 2021 increased by 54.6% as compared to the nine-month period ended December 31, 2020. For the nine-month period ended December 31, 2021, gross profit increased 28.9% to $8.1 million as compared to $6.4 million in the first nine months of the prior fiscal year.

The net loss for the nine-month period ended December 31, 2021 was $1.5 million, compared to a net income of $0.6 million for the prior year. The primary reason for the decreases were the expenses recognized for the merger, reverse acquisition, and private placement that occurred during Q3 of 2022, the increased cost for professional fees and insurance costs associated with being a publicly listed company, increase investment in our products, increased use of marketing tools and contracted business development, and a bad debt expense recorded in Q3 of 2022.

For the nine-month period ended December 31, 2021, Adjusted EBITDA was $1.2 million, as compared to $1 million for the nine-month period ended December 31, 2020, an increase of 25.5%.

Now quickly turning to our balance sheet, as of December 31, 2021, the Company had $7.9 million in cash on the balance sheet and zero debt. We believe we have sufficient cash on a 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. Pradip.

Pradip Banerjee:

Thank you, Steve. As we disclosed in the press release on our first day of trading in November, we had booked approximately $2.5 million in contracted revenue during the quarter, which upon deployment should contribute approximately $1 million in incremental ARR, annualized recurring revenue.

At this point in time, I'm not providing any guidance, although we disclose some of our 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 correspond to the first calendar quarter, is a generally stronger quarter due to typical budget allocations. Conversely, this Q3, which ended December 31, corresponds to a holiday season which 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'd like to reiterate that Xybion Digital is a software-as-a-service 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 easy to deploy because it is low-code. We are a unique investment in health tech and biopharmaceutical technology because not only we are scaling fast and gaining market share, we're also uniquely profitable in comparison to most of our peers at our stage of high revenue growth.

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

Operator:

We will now begin the question-and-answer session. The first question comes from (inaudible 16:43) Bodo from Echelon Wealth Partners. Please go ahead.

Andre Bodo:

Good morning, Pradip. I hope you're keeping well. I have two questions for you this morning. Firstly, could you provide some more detail regarding your transition to SaaS revenues and how that might look moving forwards?

Pradip Banerjee:

Andre, thank you. Good morning. Yes, so the SaaS revenue transition is twofold really. One fold is new opportunities to implement straight software as a service in the cloud in the similar clients because we have now multiple offerings. Previously, a client may have a single software which is in-premise, but now we have multiple software which are also in the cloud. The opportunity is to put in first-time new SaaS in a new domain for this client, so that's the expansion opportunity for each of our existing 160 plus clients, which are large companies and tremendous budget so they could grow to a million dollar to plus multi-million dollar accounts.

The other opportunity is to transition the existing legacy systems to the cloud, which we are beginning to do, but that is a slower process because of the FDA regulations to have complete validation and revalidation of this movement. The both are happening at the same time.

Andre Bodo:

Great, thank you. Secondly, is there any additional color that you can provide on your selective acquisition pipeline now looking at it?

Pradip Banerjee:

Yes, those things, as you know, are difficult to predict the exact timing of it, but we are in conversation with and evaluating several companies. Our focus is to have our supplemental acquisition for each of our verticals. Research and development is one, laboratory management, quality, compliance, and health and safety, and also, we provide professional services to implement. Those are the five categories we're looking for companies, and I hope to report some positive results over the next several months. Again, timing is very difficult to predict at this point.

Andre Bodo:

Great, thank you so much, Pradip.

Operator:

There are no more questions in the queue. I'd like to turn conference back over to Dr. Pradip Banerjee for closing remarks. Please, go ahead.

Pradip Banerjee:

Thank you. Thanks for listening to our presentations. As a repeat here, we had a good quarter, and we're looking forward to continuing to grow our SaaS revenue business both organically and also expand our footprint within our 160 plus customers that are global, mostly multinational companies. We already have customers in 29 countries. That's going to be our major thrust for organic growth along with growing our partnerships.

We already have a couple of large partnerships in place. We continue to drive that and add new partnerships with international expansion of our business development capabilities over in Europe, also in Canada, and this will be backed up as I already mentioned by selective acquisition, which our goal is to make sure they are P&L accretive. That's our goal, to drive that.

With that, I look forward to stronger Company growth in the future, and we wait for our next conference call. With that, thank you for attending our conference call today. Back to you.

Operator:

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