



Xybion Corporation

Q4 Fiscal 2022 Quarterly Results

Conference Call Transcript

Date: July 26, 2022

Time: 11:30 AM ET

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

Steven Porfano
Chief Financial Officer

Operator:

Welcome to the Xybion Digital Inc. Fiscal Year 2022 Annual and Q4 Financial Results Conference Call.

Today's call will provide information and commentary on financial results for the first three months, and full year ended on March 31, 2022. We will hear from Dr. Pradip Banerjee, Chairman and CEO of Xybion, and Steve Porfano, Xybion's Chief Financial Officer.

Following these remarks, Dr. Banerjee 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'll begin with Xybion's Chairman and CEO, Dr. Pradip Banerjee. Dr. Banerjee?

Pradip Banerjee:

Thank you, and good morning, everyone. Thank you for joining us today to review our fourth quarter and full year of our Fiscal 2022, which ended on March 31, 2022.

This is our third quarterly reporting, and the first time to report our full Fiscal Year as a public Company. The key growth trends that we reported in previous quarters continued through the fourth quarter and for the full year.

For the fourth quarter, I'm very pleased to report solid revenue growth and positive EBITDA, yet again. We are excited about our SaaS revenue growth this quarter and for the full year of our Fiscal 2022, showing the power of our SaaS platform that can satisfy the end-to-end process needs of our clients, and can replace multiple legacy systems by a single Xybion cloud platform. This is our competitive differentiation, and I'll provide some recent examples of client wins in just a couple of minutes.

First, let me spend a couple of minutes refreshing your memory about what Xybion does and what is Xybion all about, and reviewing some of our important operational KPIs. After I do that, Steve Porfano, our CFO, will review the financial results in more detail, and then I'll conclude the call with an outlook of our business, after which we're happy to answer your questions from analysts and investors.

I'll start this part of my comments by reminding us about who we are and what our purpose is. Our purpose is to help our clients speed up innovation, reduce compliance risk, and lower cost of operations through digital transformations so that critical medicines, new inventions, like the COVID vaccines and new anticancer drugs, and other new products, can be developed, approved, manufactured and distributed to the end customers and patients faster so that it can save lives. That's what we're all about.

We're a software-as-a-service Company providing a modern, low-code software platform on which we have already preconfigured four end-to-end domains: life sciences research and development, portal laboratory and digital laboratory management, predictive compliance risk and quality management, and workplace health and safety, to keep people healthy and safe in the workplaces. Our solutions cover many of the major business processes of the pharmaceuticals, biotechnology, diagnostic labs, generic drugs, specialty pharma, health systems, and other highly regulated businesses in the health sector.

We have a two-pronged growth strategy from here on out: organic growth through our differentiated land and expand model for our existing 160+ clients in 29 countries. Historically, most of our 160 clients only have a portion of our platform deployed, but today we are able to sell multiple modules to these customers. We believe that the strategic account management of these clients will lead us to a growth opportunity within this same client base, at several multiples of our current revenues.

We are also focused on expanding our customer base to include the biotechnology companies who can use just the Xybion platform and only need finance and HR to manage their entire business. This is another distinctive differentiation for us. We have been active in this sector. We have taken membership into various regional biotech organization, for example, Toronto Life Sciences organization, Quebec life sciences, Massachusetts bio, North Carolina bio organizations, and California bio organizations. We are also looking to expand our international footprint. We already started the process of opening our operations in Europe, in more in-depth.

The other component of our growth strategy is an acquisition strategy which we executed as we formed our Company, and it also complements our organic growth by accelerating our scale, acquiring more talent into the Company which we need to push forward with our growth, and broadening the scope of our product offerings and geographic reach. We have developed a pipeline of potential targets that we are currently evaluating.

Now, change to some of the KPIs. This quarter, I'm happy to report, for the entire Fiscal Year as well, that the full Fiscal Year, our SaaS revenue grew by 39%. Currently, about 60% of our revenue is coming from the recurring base, and from SaaS subscription. Although we are in the early stages of the SaaS growth cycle, we just launched the SaaS about 3.5 years ago, we have been able to maintain profitability while maintaining a healthy growth rate. This quarter, we reported 15.8% Adjusted EBITDA margin. Revenue growth and earnings demonstrate the resiliency of our SaaS business model.

Overall, our Fiscal 2022 was really a very significant year in the history of Xybion. We became a publicly listed Company in November 2021 and started trading on TSXV under the symbol XYBN. Last year, one of the top 15 global pharmaceutical companies signed a multi-million dollar contract to add more Xybion SaaS solutions to replace their legacy R&D quality, compliance, and audit software. One of the largest European pharmaceutical companies signed a five-year multi-million dollar contract with us. Our software was successfully implemented by multiple laboratories, involving COVID vaccine research and testing, and we're very proud of that.

Xybion was granted a U.S. patent last year on regulatory compliance assessment and business risk prediction system. We filed a base shelf prospectus, and that was approved for CAD\$50 million in January 2022. We believe this will help us access capital as we need them for our growth and acquisitions as we go forward.

I hope this was a useful summary review of Xybion. Before I hand it over to Steve, let me summarize this way. Our low-code software technology platform is very appealing in this market right now, especially in this COVID or post-COVID digital transformation push for the industry. Our metrics are very strong for a Company of our size. Our trailing 12 months revenue has grown to US\$16.8 million and our trailing 12-month Adjusted EBITDA is US\$1.93 million.

Also, we have plans to acquire businesses that bring new customers, talent, and also augment our offerings. When we think this acquisition will add accretively to our business, we're going to be very selective about the target candidate.

With that, I would like to introduce Steve Porfano, our Chief Financial Officer, to review our financial results for the full year and the fourth quarter of FY 2022. Steve?

Steven Porfano:

Thank you, Pradip, and good morning everyone.

I will now comment on our financial performance for the full year and fourth quarter ended March 31, 2022. I want to remind everyone on the call that all of our results are stated in U.S. dollars, and that the full audited financial statements and MD&A are available on SEDAR.

Beginning with the full year results, total revenue reached \$16.8 million, an increase of \$2.45 million or 17.1% over the prior Fiscal Year. The increase was primarily due to growth in revenue from software-as-a-service and perpetual licenses. However, we realized revenue growth across all business lines.

Recurring software revenues, which includes revenues from software-as-a-service and maintenance, increased by 18.3% or \$1.44 million to \$9.3 million, compared to \$7.8 million for the previous Fiscal Year. Revenue from software-as-a-service increased by 39% year-over-year. Gross profit increased 18.5% to \$11.1 million, as compared to \$9.4 million in the prior Fiscal Year.

We experienced a net loss of \$0.98 million compared to net income of \$2.3 million for the prior year. The primary reasons for the decrease were the expenses 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, increased investment in our products, increased use of marketing tools and contracted business development, and a bad debt expense recorded in Q3 of 2022.

Adjusted EBITDA, which is a non-IFRS measure, was \$1.93 million, as compared to \$1.9 million for the previous Fiscal Year, an increase of 1.7%.

Turning to our balance sheet, as of March 31, 2022, the Company had \$8.14 million in cash on its balance sheet, an increase of \$1.7 million from the prior year, with zero debt. We believe we have sufficient cash on our balance sheet to support our current organic growth activities.

Comparing Q4 of Fiscal Year 2022 to Q4 of Fiscal 2021, revenues grew by 6% to \$4.6 million. Recurring software revenues, which include revenues from software-as-a-service and maintenance, increased by 6.9% or \$0.16 million to \$2.48 million, compared to \$2.32 million in Q4 of Fiscal 2021.

Recurring revenue as a percentage of total revenue for the fourth quarter was 54% for both Q4 of 2022 and 2021. Revenue from software-as-a-service increased by 11.2%, or \$0.12 million, to \$1.23 million. Annual recurring revenue from software, a non-IFRS measure, reached \$9.7 million at March 31, 2022, an increase of 11.5% compared to March 31st of 2021.

Gross profit for Q4 of 2022 totaled \$3 million, an increase of 2.4% or \$0.1 million compared to \$3.1 million in Q4 of Fiscal 2021. Gross margin was 66.2% of revenue in Q4 of Fiscal 2022, compared to 72% in Q4 of Fiscal 2021. Quarter-over-quarter gross margin is affected by the mix of quarterly revenue for licenses, software-as-a-service, and other services.

On a comparative basis, total operating expenses grew by 6.6% over the previous fourth quarter. We recorded net income of \$0.55 million in Q4 of 2022, and that's compared to \$1.65 million in Q4 of 2021. The reason for the decrease was the \$1 million of income recorded in Q4 of Fiscal 2021 that resulted from the forgiveness of a loan granted through the U.S. Paycheck Protection Program.

Adjusted EBITDA, a non-IFRS measure, was \$0.7 million in Q4 of 2022, and that compares to \$1 million in Q4 of 2021, a decrease of \$0.28 million or 28.2%. The decline is primarily due to increased costs, professional fees, and insurance costs associated with being a publicly listed Company.

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 I said in my earlier remarks, our Fiscal 2022 was really a significant year for the history of Xybion. We became a publicly listed Company, and our software platform has proven to be very attractive to the market. It's actually one of the most comprehensive in the market, very easy to deploy because it is low-code. We are also uniquely profitable, in comparison to most of our peers at our stage of high revenue growth.

Our strategic decision is clear, and we're executing on that path. I'm thankful to our dedicated employees, and I look forward to executing our profitable growth plan and create value for our shareholders in the years ahead.

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

Operator:

Certainly.

The first question comes from Justin Keyword of Stifel GMP. Please go ahead.

Justin Keyword:

Good morning, thanks for taking my call.

Pradip Banerjee:

Hi, Justin.

Justin Keyword:

Hi. On the new multi-million dollar contract, are you able to give us some additional colour on the total value of it; when is it expected to be contributing to the financials? Also, if this was a competitive process, and what products are the customer using?

Pradip Banerjee:

Yes, the first example I gave, that's one of the top 15 pharma companies, that actually selected us last year for our research and development platform. Then, after they knew about our other products, which are all integrated and they had internal challenges with their own systems, so that is an expansion of

the same client. It will add, again, I said several million dollars when it's fully implemented. We are just getting implementing on that second set of this project.

The other client is another client based in Europe which gave us that five-year. That's for our research and development product. They started that way and we'll see how that expands beyond that. That's also, again, close to—yes, it will be over—or multi-million dollar as well, when it's fully implemented.

Justin Keyword:

Got it.

Pradip Banerjee:

(Multiple speakers 18:07), yes.

Justin Keyword:

Should we see some of the, I guess, services revenue over the next quarter or two, and then start to see the SaaS revenue show up from these contracts?

Pradip Banerjee:

Right, right, that's the sequence it goes. Once it goes live, then the SaaS revenue kicks in.

Justin Keyword:

What is the typical implementation time for a contract?

Pradip Banerjee:

These kind of contracts are taking six months plus to almost a year, depending on the client, the ability to move quickly and mobilize their people.

Justin Keyword:

Got it.

Pradip Banerjee:

(Multiple speakers 18:44).

Justin Keyword:

Then just more broadly, I know there was quite strong growth in some of the pandemic, just as some of these laboratories were looking to digitize their operations, is that trend still remaining? Are you still seeing a lot of backlog out there, or how do you anticipate growth over the next couple quarters?

Pradip Banerjee:

Yes, I see that as a strong industry-wide trend, so everybody is focusing on getting digitization. Most of the large pharmaceutical companies have now created a new position at almost the CEO suite level, called Chief Digital Officer, or Chief Digital Transformation Officer. Their job is to look into their internal processes and see what can be digitized to bring more efficiency to their organization, so they remain a agile and flexible organization, so that some people has to work in the lab and the manufacturing, and others can be flexible, working from various places. That trend is actually a very strong trend, continuing.

Justin Keyword:

If I can just slip in one more question, I know there were some projects related to COVID-19 and I believe you mentioned this in your opening remarks. Is there any drop-off as far as work related to those projects, or is there enough business development work in other areas to make up for it?

Pradip Banerjee:

Yes, so our products are not solely dependent on COVID or anything, it's actually focused on taking any new invention forward. COVID was only specific for COVID testing labs, that they wanted a comprehensive system to bring everything together. That's where our system was very useful, but these are in general laboratory digitization space, so that will continue. I don't see any impact of changes from that.

Justin Keyword:

Okay, great. Thank you for taking my questions.

Pradip Banerjee:

Thank you, Justin.

Operator:

As there are no questions from the phone lines, this concludes the question-and-answer session and I would like to turn the call back over to Dr. Banerjee for any closing remarks.

Pradip Banerjee:

Thank you.

On behalf of all of us at Xybion, thank you for your interest in Xybion. We are very excited to be trading on TSXV. Look forward to our shared future together, with current and future shareholders. Thank you and have a great day.

Operator?

Operator:

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