Xybion Corporation
Q3 Fiscal 2023 Quarterly Results
Conference Call Transcript

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Speakers:

Dr. Pradip K. Banerjee
Chair and Chief Executive Officer

Steve Porfano
Executive Vice President and Chief Financial Officer

Operator:
Welcome to the Xybion Digital, Inc. Third Quarter Fiscal Year 2023 Results Conference Call.

Today's call will provide information and commentary on financial results for the three months ended on December 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, Pradip and Steve will take questions from analysts. If you have any questions following the call, you can reach Xybion at investor@xybion.com.

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 will begin with Xybion's Chairman and CEO, Dr. Pradip Banerjee. Please go ahead.

Dr. Pradip K. Banerjee:
Thank you. Good morning, everyone. Thanks for joining us today to review our third quarter Fiscal 2023 financial results for the year ending March 31, 2023.

I'm going to take you through the key highlights of our results for the last quarter, share some macro-observations that I have seen on current technology trends, and refresh you on the standing of Xybion's key business elements and overall strategy. After I do that, Steve Porfano, our CFO, will review the financial results in more details and then I will come back and conclude the call with some closing remarks, after which we are happy to answer your questions.

This quarter, I'm happy to report positive EBITDA and return to profitability. Adjusted EBITDA was 5.7% in quarter three versus minus 37.1% in Q2 ending in September 30, 2022, a 117% turnaround.

Gross margin improved to 64.8% in Q3 versus 54.9% in Q2, a 31.6% improvement.

Operating expenses in Q3 were lower by 30.2% compared to Q2.

Recurring revenues from all softwares have grown again by nearly 14% over the same period last year. During the third quarter, revenue was US$4.36 million, 60% of which is recurring in nature, and most of our pipeline at this point is for SaaS licensing. Our subscription revenue for Q3 2023 was higher by 23.6% than that of the previous year's third quarter.

I'm also very pleased to report that the key growth trends reported in our previous quarters continued through this third quarter. This quarter, our clients continued to adopt more SaaS modules, 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. We remain focused on our SaaS revenue growth strategy and expect that our SaaS revenues will continue to drive our growth.

As reported last quarter, we have been investing heavily to scale our SaaS business model globally through aggressive hiring of talent in various geographies, subject matter experts, and also software engineers. These expenses and the pandemic-driven disruptions in the labour market that we saw last year and some unfortunate delays in some of our implementation projects last year increased our expenses, delayed revenue recognitions in the prior quarters, and resulted in negative EBITDA in the last quarter. During Q3, with increased focus on delivery and targeted cost cutting, we were able to move from a negative EBITDA in Q2, that is the quarter ending on September 30, 2022, to a positive EBITDA for Q3 ending in December 31.

Now, let me spend a couple of minutes on my observations of the micro trends in our focused business area domains, which we believe bodes well for our chosen strategy of enabling our clients to digitize and accelerate the R&D processes and receive faster U.S. FDA approval for making critical medicines and enable them for marketing critical medicines and enable them to reach patients faster and save more lives.

The overall macro trends for the technology-driven changes in our life sciences are really following. With breakthroughs in scientific understanding of various root causes of diseases and the underlying biological mechanisms, modern biopharmaceutical research and development has become increasingly complex requiring multiple areas within a company, multiple companies working together, along with the regulatory bodies to bring new medicines to market. Software has become an anchor for bringing this complex science technology and regulations together for the end-to-end process to be successful in translating the breakthrough inventions into approved medicines.

With advancements in artificial intelligence and machine learning, the role of software in the space is expected to increase very significantly, and there are a lot of writings and publications from various scientific publications, and also from private equity investment driven writings. I think this macro trend (inaudible 06:58) very well for Xybion. As you know, Xybion is a software-as-a-service company with software solutions to unify scientific processes of research and development with full quality and compliance software fully embedded on a low code cloud platform. This is in line with this overall convergence trend that I have just summarized. Our software also helps employers in providing safe and healthy workplace for the employees and remain compliant with various workplace safety regulations. In a post-COVID era, this is also an important part of offering software for the entire environment.

We have a two-pronged growth strategy.

Number one, organic growth strategy through Xybion's land and expand model from our existing 160-plus clients in 29 countries. Expand our customer base to include biotech companies in various geographies, expand our international footprint, and grow our partner base. We believe that the revenue growth opportunity within our client base is still several multiple of our current revenues from these customers.

The second component of our strategy is an acquisition strategy, which complements our organic growth, and this is the way we expect to accelerate our scale, acquire talent, and broaden our scope.

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

Steve?

Steve Porfano:
Thanks, Pradip, and good morning, everyone.

I will now comment on our financial performance for the three and nine-month periods ended December 31, 2022. I'd like to remind those on the call that all of our results are in U.S. dollars.

For the three months ended December 31, 2022, recurring software revenues, which include revenue from software-as-a-service and maintenance, increased by 13.8% or $0.32 million to $2.6 million. Recurring revenue as a percentage of total revenue for the third quarter was 60%, up 4.8% compared to the previous year's third quarter. Revenue from software-as-a-service in Q3 of Fiscal 2023 increased by 23.6% or $0.244 million to $1.277 million. Annual recurring revenue from software reached $10.5 million at December 31, 2022, an increase of 12.8% as compared to December 31, 2021. Total revenues of $4.36 million were higher by 8.6% or $0.35 million more than reported in Q3 of Fiscal 2022.

Gross profit for Q3 2023 totalled $2.83 million or 64.8% of revenue, an increase of 7.4% or $0.20 million compared to Q3 of Fiscal 2022. As a reminder, quarter-over-quarter gross profit is affected by the mix of quarterly revenue for licenses, software-as-a-service, and other services.

Compared to our last quarter, that's Q2 of 2023, the gross margin percentage improved by 31.6%. All categories of revenue increased and the cost of sales and services were reduced by 13.2%, both of which contributed to the 31.6% improvement in the gross margin percentage over that of the previous quarter.

On a comparative basis, total operating expenses grew by 16.8% over the previous year's third quarter. This is primarily due to headcount and salary increases added after Q3 of last year. Compared to last quarter, Q2 of 2023, operating expenses were lower by 30.2%.

Q3 2023 cash flow from operations was negative $1.96 million. This is a decrease of 545% from the positive $0.44 million reported in Q3 of 2022, and this was largely due to the receipt in Q3 of 2022 of a one-time license payment of $1 million and the timing of invoicing and receipt of payments for a few large annual subscription and maintenance renewals and customer projects.

We had a net loss of $14,962 for the three-month period ended December 31, 2022, which compares to the net loss of $1.4 million recorded in the prior three-month period, which is a 99% improvement.

Adjusted EBITDA, a non-IFRS measure, was 5.7% or $0.248 million in Q3 of 2023, and that compares to a minus 37.1% in the previous quarter ended September 30, 2022, and that's 117% turnaround.

Now, I would like to provide some details on the nine-month fiscal year-to-date performance.

Total revenue for the nine-month period ended December 31, 2022 was $12 million, a decrease of $0.18 million or 1.5% compared to the nine-month period ended December 31, 2021. The small net decrease was due to the 77.2% decrease or $1.18 million drop in license revenues. All other categories of revenue were up by $1 million or 9.4% over the prior nine-month period.

Recurring software revenues for the nine-month period ended December 31, 2022 increased by 12.4% or $0.9 million to $7.7 million compared to $6.8 million in the nine-month period ended December 31, 2021. Revenue from software-as-a-service for the nine-month period ended December 31, 2022 increased by 22.4% as compared to the nine-month period ended December 31, 2021.

For the nine-month period ended December 31, 2022, gross profit decreased from 66.6% to 58.7%, a decrease of $1.07 million. The decrease in gross margin was primarily due to the $1.18 million decrease in license sales as compared to the first nine months of the prior fiscal year. The net loss for the nine-month period ended December 31, 2022 was $2.07 million compared to a net loss of $1.54 million for the prior fiscal year.

For the nine-month period ended December 31, 2022, the loss on an Adjusted EBITDA basis was $1.98 million as compared to a profit of $1.45 million for the nine-month period ended December 31, 2021. That's a decrease of 236%.

As we mentioned in our second quarter investor call, the main reasons for the decreased profitability on a year-to-year basis were the lower license revenues, higher than expected project costs, and increased operating expenses. The drivers of the increased operating expenses were an investment to expand revenue, including recruiting and hiring business development and account management staff; cost and expenses related to investing in financing activities; increased bonus payments and wage increases due to labour market conditions; the restructuring of certain executive compensation; and the ongoing increased legal accounting and insurance costs associated with being a publicly listed company that did not exist through December 31 of 2021.

During Q3 of 2023, we took aggressive action to right-size our global headcount. In total, an estimated $2.1 million of annualized expense was reduced in Q3. Due to the timing of the cost-cutting measures, effects were only partially realized in Q3 of 2023. However, the growth in indirect labour and fringe benefits decreased from 56.9% over the first six months to 29.7% during Q3, and this trend will continue due to the cost cuts made.

Quickly turning to our balance sheet as of December 31, 2022, the Company had $3.4 million in cash, $5.2 million in trade receivables, and zero debt on its balance sheet.

During the first nine months of Fiscal 2023, cash was used to fund the loss before taxes of $2.7 million and to pay prior year income taxes of $0.44 million.

As previously mentioned, Management has taken actions to significantly reduce costs, and we believe we will have sufficient cash on our balance sheet to support our current organic growth objectives.

Trade receivables and deferred revenue at December 31, 2022, as compared to that at fiscal year end March 31, 2022, are consistent with the fact that a significant amount of the Company's revenues derive from annual subscription and maintenance contracts that are billed in advance based on renewal terms. The largest customer renewals are concentrated towards the Company's late third and early fourth quarters, and therefore, the balance of trade receivables, deferred revenue, and cash usually trend lower until these large renewals are fully processed.

I would like to turn the call back to Pradip for his final thoughts prior to opening up to questions.

Pradip?

Dr. Pradip K. Banerjee:
Thank you, Steve.

As you can see, we remain focused on our strategy and the business model that I have discussed during our previous calls and our other submissions. Our software platform, I believe, is among the most comprehensive in the market, and is very well suited for the emerging macro trends of convergence of science and software. We have zero debt and sufficient cash balance to support our organic growth capital needs.

As Steve mentioned, we have taken actions to reduce expenses consistent with our profitable growth strategy. We are continuing with our inorganic growth strategy of acquiring companies as synergistic with our products and solutions when we think they'll be accretive to our business. That's our focus.

I'm thankful to our dedicated employees, and look forward to executing our profitable growth plan and create values for our shareholders in the years ahead.

Steve and I are now available to answer your questions.

Operator, would you please facilitate the Q&A part of this call?

Operator:
Our first question comes from Julian Hung of Stifel. Please go ahead.

Julian Hung:
Hi. This is Julian speaking on behalf of Justin today.

Dr. Pradip K. Banerjee:
Hi, Julian. How are you?

Julian Hung:
Hi. I'm doing well. Thanks for taking my question.

My first question is, during the quarter, there were some measures taken to optimize global headcount. Would you be able to give us an idea of what kind of employees were impacted the most and if any more can be expected in the quarters to come?

Dr. Pradip K. Banerjee:
Yes, I can give you that framework. We had a lot of commercial focused sales people at various geographies that we hired very aggressively, account management, and also a lot of technical people, especially heavily in India. People that were not performing well, after sufficient time has passed, which is around six to nine months window, those are the people that were impacted by our decision. Lower performing people and some of the technical folks that are associated with the same scenario. Our core

research development, subject matter experts, architects, everything that has been consistent performers are intact, so no change in those directions.

Does that answer your question?

Julian Hung:
Yes, and if any more would be expected to come.

Dr. Pradip K. Banerjee:
Nothing significant planned at this point. I think we are at a point where we can manage from here and grow.

Julian Hung:
My second question is, it seems the customer concentration has gone down since last year. Regarding your three biggest customers, would you be able to discuss how long those contracts are for and the nature of work being completed?

Dr. Pradip K. Banerjee:
Steve, you want to…

Steve Porfano:
Yes, thanks for your question.

When you say the concentration has gone down, I think that—let's focus on our largest customer. As a percentage of our total revenue, our single largest customer's concentration has gone down, and that's primarily due to the fact that last year that client was the one that procured $1 million of licensing from us, that alone reduced the concentration there. In addition, over the last two years, we've added two new clients that have contributed significant revenues to our overall Company revenue. Our concentration is kind of focused now within three companies. I don't think that that's drastically different than in prior years, nor is the percentage, but the percentage attributable to our largest customer did decrease. Again, that's mostly due to the fact that they did not purchase a large number of user licenses this year, but did last year.

Does that answer your question, Julian?

Julian Hung:
Yes, that was very helpful. Thank you so much for taking my questions.

Operator:
This concludes the question-and-answer session. I would now like to turn the call back over to Dr. Banerjee for any closing remarks.

Dr. Pradip K. Banerjee:
Thank you. Thank you, everybody, for joining us. We appreciate that. On behalf of all of us, thank you for your interest in Xybion. Have a great day.

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