Xybion Corporation
Q2 Fiscal 2023 Quarterly Results
Conference Call Transcript

Date: **November 29, 2022**

Time: **8:30 AM ET**

Speakers: **Pradip K. Banerjee, Ph.D.**
Chair & Chief Executive Officer

Steve Porfano
Chief Financial Officer

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

Today's call will provide information and commentary on financial results for the three months ended on September 30, 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 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. After the presentation, there will be an opportunity for analysts to ask questions. To join the question queue you may press star then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star and zero. 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.

Dr. Banerjee.

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

This is our third quarterly reporting as a public company. The key growth trends I reported in previous quarters continued through this first quarter. This quarter our clients continued to adopt our SaaS solutions. We remain focused on our SaaS revenue growth strategy, and expect that our SaaS revenues will continue to drive our growth.

For the second quarter and fiscal year to date, I am pleased to report SaaS revenue growth showing the power of 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.

First I would like to spend a couple of minutes refreshing your memory, especially if you are joining for the first time, to inform what Xybion does and what Xybion is all about, and review some of our core operational KPIs. After I do that, Steve Porfano, our CFO, will review the financial results, and then I will come back and conclude the call with an outlook for our business, after which we are very happy to answer questions from all of you.

First, our purpose. Xybion is a software company focused on the life sciences and health systems companies. Our low-code cloud software solution help our clients digitize their research and development and laboratory processes, with full quality and compliance with U.S. Food and Drug Administration and other regulations, so that the new inventions can be rapidly moved through the regulatory approval processes to reach patients and save lives.

Our software also helps our employers in providing a safe and healthy work place for the employees, and also remain compliant with various work place safety regulations, and in the U.S. with the workers' compensation rules.

Our solutions help our clients benefit from speeding up the innovation, making the new inventions rapidly reach the market, make the operational processes more agile, create more efficiencies, reduce compliance risk, and lower cost of the total operations through digital transformation.

We have a two-prong growth strategy. We already have 160-plus clients in 29 countries. Our core organic growth through Xybion differentiates us land-and-expand model for these 160-plus clients in 29 countries. Also expand our customer base into the biotechnology companies. Also expand our international footprint and grow through our partnerships.

Most of our 160 clients today only have a portion of our platform deployed. Today we are able to sell multiple modules to these customers. We believe that the revenue growth opportunity within our own client base is several multiple of current revenues from these customers.

The second component of our strategy is an acquisition-driven strategy, which complements our organic growth by accelerating the scale and acquiring talent and broadening the scope of our offering and outreach. We have developed a healthy pipeline of targets; some of them are in advanced conversation, we are still evaluating all of them.

This quarter I'm happy to report that our recurring revenues, which includes software as a service and maintenance revenues, have grown again by 13.4% over the same period last year. During the second quarter, over 65% of our revenue is now recurring in nature, and most of our pipeline is for SaaS licencing. We are proud that our quarter-over-quarter growth in subscription revenue was higher by 24.2%.

We have been investing to scale up our SaaS business model globally, through aggressively hiring talent in various geographies for various business development, also finding more subject matter experts and software engineers.

These expenses, the pandemic-driven disruption in labour markets, and tremendous increase in cost for the labour side of it, and some delays in some of the implementation projects increased our expenses for the last quarter, and also delayed some of the revenue recognitions for this quarter, which resulted in actually a negative EBITDA for this quarter. Now Steve will have more details on this.

But we are continuing with our core inorganic growth strategy of acquiring companies as well, and when we think they are accretive to our business, this will be synergistic to our growth.

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

Steve.

Steve Porfano:
Thanks, Pradip.

Good morning, everyone. I will now comment on our financial performance for the three- and six-month periods ended September 30, 2022. I want to remind those on the call that all of our results are in U.S. dollars.

Comparing Q2 of Fiscal ‘23 to Q2 of Fiscal ‘22, recurring software revenues, which include revenue from software as a service and maintenance, increased by 13.4% or $0.3 million to $2.56 million compared to $2.26 million in Q2 of Fiscal 2022. Recurring revenue as a percentage of total revenue for the second quarter was 65.5% compared to 50.8% in the previous year’s second quarter. Revenue from SaaS in Q2 of Fiscal 2023 increased by 24.2% or $0.245 million to $1.26 million. Annual recurring revenue from software reached $10.34 million at September 30, 2022, an increase of 11.9% compared to as at September 30, 2021.

Total revenues of $3.91 million were 12.1% less than the $4.45 million reported in Q2 of Fiscal 2022, due to a 94.2% decline in licence revenue.

In Q2 2022, we recognized $1.1 million from perpetual licence revenue compared to just $65,000 in Q2 of 2023. Xybion has been following an all subscription-based approach to new sales, and has not been actively selling any perpetual licences.

Gross profit for Q2 2022 totalled $2.15 million, a decrease of 29.6% or $0.9 million compared to $3.05 million in Q2 of Fiscal 2022. Gross margin was 54.9% of revenue in Q2 of Fiscal ‘23 compared to 68.5% in Q2 of Fiscal 2022. Quarter-over-quarter gross margin is affected by the mix of quarterly revenue for licences, SaaS, and services.

On a comparative basis, total operating expenses grew by 60% over the previous year’s second quarter.

Q2 2023 cash flow from operations was a negative $2.13 million, a decrease of 796% from the positive $0.3 million reported in Q2 of the prior year.

We recorded a net loss of $1.4 million for the three-month period ended September 30, 2022, compared to net income of $0.35 million for the three-month period ended September 30, 2021. The main reasons for the decrease were the lower licence revenue, higher than expected project costs, and increased operating expenses. The drivers of the increased operating expenses were an investment to expand revenue, including a larger business development and account management staff, costs 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 ongoing increased legal accounting insurance costs associated with being a publicly listed company that did not exist in Q2 of 2022.

Adjusted EBITDA, a non-IFRS measure, was negative $1.53 million in Q2 2023, and that compares to a positive $0.61 million in Q2 2022, a decrease of 352%.

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

Total revenue for the six-month period ended September 30, 2022, was $7.64 million, a decrease of $0.53 million or 6.5% compared to the six-month period ended September 30, 2021. The net decrease is due to an 86.6% or $1.36 million drop in licence revenues; all other categories of revenue were up by $0.645 million or 9.5%.

Recurring software revenues for the six-month period ended September 30, '22, increased by 12.4% or $0.6 million to $5.1 million compared to $4.5 million in the six-month period ended September 30, 2021.

Revenue from SaaS for the six-month period ended September 30, 2022, increased by 21.8% as compared to the six-month period ended September 30, '21.

For the six-month period ended September 30, 2022, gross profit decreased from 67.1% to 55.2%, which was a decrease of $1.26 million. The decrease in gross margin is primarily due to the $1.36 million reduction in licence sales as compared to the first six months of the prior fiscal year.

The net loss for the six-month period ended September 30, 2022, was $2.05 million compared to net income of $0.6 million for the prior year. As mentioned previously, the main reasons for the decrease were lower licence 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, costs and expenses related to investing in financing activities, increased bonus payments and wage increases due to labour market conditions, 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 September 30 of 2021.

For the six-month period ended September 30, 2022, the loss on an Adjusted EBITDA basis was negative $2.38 million, as compared to a profit of $1.04 million for the six-month period ended September 30, 2021, a decrease of 329%.

Now quickly turning to our balance sheet, as of September 30, 2022, the Company had $5.4 million in cash on the balance sheet and zero debt. Management has taken actions to significantly reduce costs, and we believe we have sufficient cash on our balance sheet to support our current organic growth objectives.

Reductions to trade receivables and deferred revenue at September 30, 2022, as compared to March 31, 2022, are consistent with the fact that a significant amount of the Company's revenue is derived from annual subscription and maintenance contracts that are billed in advance based on renewal terms. The largest customers' renewals are concentrated towards the Company's third and fourth quarters, and therefore the balance of trade receivables, deferred revenue and cash actually trend lower in the middle of the fiscal year.

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

Pradip.

Pradip K. Banerjee:
Thank you, Steve.

Thank you. As I mentioned previously, we remain focused on our strategy and our business model that I have discussed during our previous calls. Our software platform is among the most comprehensive in the market. Our strategic direction is clear, and we are executing on that. Our balance sheet is strong, with zero debt and sufficient cash balance to support our organic growth and working capital needs. As Steve mentioned, we have taken actions to reduce these expenses, consistent with our focus to become a profitable and growth strategy.

Given the current stock market conditions, we have also decided to not proceed with the stock offering agreement that we had signed in October with Gravitas and Stifel being our lead bankers. Based on the market conditions we are stopping this now.

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

Steve and I are here to answer your questions.

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

Operator:
Thank you. We will now begin the question-and-answer session.

To join the question queue, you may press * then 1 on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question please press * then 2.

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

Justin Keywood:
Hi. Good morning. Thanks for taking my call.

I had a couple questions related to the large multimillion-dollar contracts that were announced this year. I believe one was in late March, and the other one was in late September. How do we square those announcements with the declining sales in the current quarter on a year-over-year basis?

Pradip K. Banerjee:
Hi, Justin, good morning.

Yes. No, that's very simple. So we are reporting revenues, those who are booked meaning sales, so from sales to the execution and the time to recognize the revenues take time. The SaaS revenues are not recognized until they go live. So we are on track with that one, the announcement from March, that's ongoing. The new one we just announced two months back, that's also getting started now, so we are on track on that. So those will reflect on that's the purpose of my—that's behind my statement that our business model and client acceptance remain strong.

Does that answer your question, Justin?

Justin Keywood:
That's helpful, I appreciate it. So just to help us understand the value of these contracts, and if I interpret correctly they're almost 100% SaaS, I assume there's some integration work. But when—and that, I guess reading the releases, could highlight some substantial growth, given they're multi-million-dollar contracts. Are you able just to characterize just the ballpark of the value of these contracts and when we should start to see that impact hitting the financials?

Pradip K. Banerjee:
Yes, so—you saw that our SaaS revenue growth was 24%-plus compared to the previous quarter. So that's consistent with those contracts. So once those contracts come in, these are all SaaS revenue contracts, as I said the true SaaS revenue recognition doesn't happen until the client go live, but during the meantime we execute on the implementation service fees. Typically this ratio between SaaS service is one to two, so for every dollar of SaaS revenue typically we recognize about $2 of implementation services. It typically is a 12 to 15 month process to go live with these clients; sometime it takes little bit longer. So that's kind of the numbers that you can take in your thinking.

For competitive purposes we didn't disclose the exact revenues the recognized from this client.

Steve Porfano:
I didn't mean to interrupt, but I just wanted to add one other thing. So, when we report the value of a contract, it is the total value of the contract, which in most cases is in addition to what Pradip just described, including the implementation and rollout, includes multiple years of subscription revenue. Could be anywhere from two to five years, depending on the specific contract. So, even once we get to the SaaS revenue portion of the contracts, that will still only be recognized on an annual basis, as opposed to recognizing the full multiyear contract all at once.

Justin Keywood:
Right. When does the recognition show up in the ARR?

Pradip K. Banerjee:
When we go live, we recognize the ARR part.

Steve Porfano:
When we start invoicing for the subscription, that's when it will go into the ARR.

Justin Keywood:
Understood. So we may not see financial impact for these contracts probably in the summer of next year or later. Is that correct?

Steve Porfano:
For these particular contracts, that may be correct, yes.

Justin Keywood:
Great. Thank you for taking my questions.

Steve Porfano:
I mean, just to be clear though, there are others in the pipeline that are in various stages of getting there, so we should still see an increase in ARR prior to these specific contracts going to production.

Justin Keywood:
Understood, thank you.

Steve Porfano:
You're welcome.

Operator:
Once again, anyone on the conference call who wishes to ask a question may press * then 1.

There are no other questions on the phone lines. This concludes the question-and-answer session. I will now turn the call back over to Dr. Banerjee for closing remarks.

Pradip K. Banerjee:
Well, on behalf of all of us, thank you for joining the session today, and thank you for your interest in Xybion. We are still very excited about our listing on TSX Venture. We look forward to our shared future together with both our current and future shareholders.

Thank you, and have a good day.

Operator:

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