



The Customer Journey Experience Company

Q4 2021 Earnings Conference Call: February 23, 2022

Prepared Remarks

Elise Brassell, Head of Corporate Communications

Thank you, Operator. We appreciate everyone joining us today and welcome to ServiceSource's earnings call to discuss our results for the fourth quarter and full-year ended December 31st, 2021. On the call today are Gary Moore, ServiceSource's Chairman and CEO, and Chad Lyne, our CFO.

As a reminder, our SEC filings and the earnings release we issued today after market close are available on our website at www.ir.servicesource.com. In addition, we have posted earnings slides to accompany our comments today. Shortly after this call, we will post an audio replay and a copy of our prepared remarks to our website.

Before we begin, I would like to remind you that during the call we will make projections or forward-looking statements that involve risks related to future events. All statements made during the call reflect our views as of today, February 23rd, 2022, and are based upon the information currently available to us. All projections and forward-looking statements should be considered in conjunction with the cautionary statements in the earnings press release and the risk factors included in our SEC filings, including our report on Form 10-K. These documents contain and identify important factors that could cause actual events and results to materially differ from those contained in our projections and forward-looking statements, and we disclaim any duty to revise or update any forward-looking statements.

In addition, during the call we will also be discussing certain non-GAAP financial measures, which we believe provide additional information to enhance the understanding of how management assesses the operating performance of the business. The reconciliation of the GAAP and non-GAAP measures can be found in the earnings release that accompany this call.

And with that, I will turn the call over to Gary.

Gary B. Moore – Chairman and Chief Executive Officer

Thank you, Elise. And our thanks to everyone for joining us for our earnings conference call for the fourth quarter and full-year 2021.

We closed the year on a strong note, demonstrating the power of our strategy, the value of our solutions in the marketplace, and the positive outcomes we deliver for our clients. Revenue growth accelerated to more than 9% in the fourth quarter and was the strongest year-over-year compare since the first quarter of 2014. Furthermore, we returned the business to full-year revenue growth and more than doubled our annual profitability on an Adjusted EBITDA basis.

I am incredibly proud of how our teams performed throughout 2021. We built upon the foundational work from previous years and further improved the fundamentals of the business. We executed well against our strategic objectives and priorities in pursuit of our long-term vision. And we made important strides on our multi-year transformational journey towards our target model objectives.

Reflecting on this journey, I am reminded of remarks I made on my first earnings conference call as Chairman and CEO three years ago in February of 2019. I tried to be clear that we would not pursue a quick-hit, short-term strategy. Rather, we would be methodical and disciplined as we sought to sustainably and durably improve our execution, financial results, and enterprise value. To accomplish these objectives, I also shared with you that our time and energy were going to be focused in three key areas – our people, our clients, and our operating and financial model.

Last week, ServiceSource employees around the world came together virtually for our annual Company Kick-Off. As we reviewed our past performance and aligned for the year ahead, it was clear to everyone the progress we have made on those focus areas and the exciting opportunities we see in front of us.

We have built and fostered a world-class organization that cares deeply about our culture and each other, winning as a team, and living our values of Dedication, Collaboration, Trust, and Caring. As a technology-enabled services company, our people are the most important aspect of our “product”. From that lens, I truly believe we have the best product in the market.

Based on what I hear from our clients, they feel the same way. They trust and rely on our people to represent their products, solutions, and brands in the marketplace. I will quote a Chief Customer Officer from one of our clients who joined us at our kick-off last week, when he told our teams:

“It’s getting harder and harder to tell a difference between your team and my team, we are so integrated at this point. You provide a great source of resources for us to scale. As our journey continues and our growth accelerates in SaaS, we are counting on you. We couldn’t do it without ServiceSource, as the demand for resources and qualified people is too high for us to fulfill on our own.”

This kind of endorsement isn’t given unless we consistently deliver on our Clients-For-Life mentality and approach. Our clients are at various stages of their own transformational journeys in an increasingly dynamic and competitive environment. We have invested significant resources to ensure we are better aligned, strategically positioned, and more responsive to support their evolving needs. We are seeing the results from this ongoing focus in terms of higher client satisfaction, stronger retention rates, and more growth and expansion opportunities from our installed base. Allow me to paraphrase another client who joined us last week, a Chief Sales Officer from one of our longest-tenured partnerships who highlighted the power of our strategic alignment with his business. He said:

“Our original partnership with ServiceSource goes back to 2011 when you helped us make our last pivot. We’re now making a similar kind of change and looking to make the next pivot. As our world evolves and changes, we’re really excited to have you as part of that journey with us.”

This level of trust and alignment has to be fought for and earned every day through consistent execution and exceeding expectations. Our teams around the world have done a great job standardizing our solutions, building globally consistent processes, and improving our day-to-day performance leading to operational excellence. The progress here has been profound, particularly considering the disruption caused by the pandemic and the transformation required across our entire value chain as we built an innovative, virtual-first operating model. We are ramping faster, scaling smarter, improving client outcomes, and accelerating our own financial results.

In recognition of the progress we have seen across our employee, client, and operational focus areas, I am thrilled to share with everyone that we have elevated two senior executives to broader leadership roles in the business. Mike Naughton, a ten-year veteran of ServiceSource and most recently our Executive Vice President of Global Client Delivery, has earned the role of Chief Operating Officer. Mike now leads our Global Delivery Centers, People & Culture, Learning & Development, and Information Technology organizations. Peter Flynn, who has been with ServiceSource for nine years, has taken on the role of Chief Revenue Officer, with end-to-end accountability for our go-to-market teams, including

Marketing, Solution Design, Outside Sales, and Global Account Management. Mike and Peter have been instrumental in strengthening the fundamentals of our business and building our foundation for the future. I look forward to the impact that they will have in these broader roles to advance our innovation, transformation, and growth agendas.

Before I turn the call over to Chad to cover our operating and financial results, I want to share with you why I am optimistic for the year ahead. In many respects, the broader macro environment continues to exhibit uncertainty and volatility. In the face of this, however, I see tremendous opportunity for longer-term tailwinds for ServiceSource.

Companies in the technology industry have a long list of initiatives, but CEO and board surveys consistently point to three strategic corporate priorities: digitally-enabled growth, customer engagement and satisfaction, and competition for talent. Our solutions and capabilities are squarely aligned to these objectives. We enable our clients to scale talented resources and capacity more rapidly than they can on their own. We support them in executing their go-to-market strategies more efficiently on a global basis to allow them to outpace their competition. And we digitally engage with their prospects and customers with proven playbooks to identify and unlock higher levels of growth and retention.

We've talked a lot on previous calls about digital transformation and how the global pandemic caused many businesses to rethink their go-to-market models in order to build more valuable connections with their customers. Over the past year, ServiceSource has been able to capitalize on that need to foster better customer interaction, intimacy, and insight for our clients. As we moved through 2021, we began to see a shift in the industry from a defensive "protect what we have" mentality, to a more offensive mindset focused on gaining market share. With this shift, clients and prospects are increasingly focused on expansion opportunities that have opened because of digital disruption.

For example, in the fourth quarter we signed and brought onboard five new clients. One of those new clients, Goody, is a fast-growing, cloud-based disruptor focused on the digital transformation of the corporate gifting market. Goody's digital gifting services began as a consumer app, and quickly moved to offer a corporate application for business-to-business gifting. To build its B2B client base, Goody retained ServiceSource in North America to deploy a high-velocity inside sales motion to convert interest into leads, and qualified leads into activated customers.

Our team was staffed, trained, and up and running in less than 30 days, aimed completely at growing a new business line for Goody. Speed-to-market matters when clients pivot to capitalize on a new space, and we provide the agility they need to continue to be a disruptive force in their market.

We have also seen the digital transformation agenda propel our installed base clients into new ways of working. For a company like Qlik, who we have had the great opportunity to support for more than five years, we have played a central role in the redesign of their customer engagement strategy. Qlik has begun to move its solutions entirely to the cloud and is leading its market in an evolution to recurring subscription and SaaS-based business models. Beyond the changes that a subscription model brings to things like contract length and pricing, the most important factor for a successful transition is in how customers are managed and supported. Companies that have a unified view of the customer, a holistic approach to engagement throughout the customer journey, and a mix of high-touch and tech-touch interaction channels, are better able to accelerate their solutions to a subscription model.

Throughout our multi-year partnership with Qlik, we have supported them in successfully navigating this transformation. We have broadened what began as a transactional renewals motion focused on “preserving the base” into a more holistic Customer Success nurturing program tasked with growing value and “expanding the base”. Now, we are on a path together to bring further innovation and velocity to other areas of their customer experience.

Client examples like these speak to the critical role we play supporting new digital disruptors and established industry leaders. Our commitment to our clients’ success is helping them accelerate the execution of their go-to-market priorities. And our unwavering focus on delivering our brand promise is strengthening our position as a trusted partner, strategic advisor, and growth enabler.

As we begin 2022 and the hope of entering a post-pandemic world, we believe the technology industry’s need for easier, faster, and better ways of interacting with prospects and engaging with their customers will continue. We have diligently positioned ServiceSource to address this need and to capitalize on the opportunity it presents for us and our clients.

And finally, the progress and performance we demonstrated in the past year give us confidence in our long-term financial priorities and our ability to deliver on them. We remain focused on our strategy and the value we believe successful execution can create for all of our stakeholders.

With that, I will turn the call over to Chad.

Chad Lyne – Chief Financial Officer

Thank you, Gary. We appreciate everyone taking the time to join us today.

I will echo Gary's comments that we are very proud of our global team. 2021 was an important year for ServiceSource, as we inflected back to growth and accelerated our progress toward our target model objectives. The investments we have made in our people, processes, and platforms, coupled with our virtual-first operating model and Clients-For-Life philosophy, are differentiating us as a market leader and innovator. Our commitment to our strategy, our alignment to our clients' success, and our focus on operational excellence enabled us to deliver improved financial performance throughout the year. The progress we demonstrated in 2021 strengthens the conviction we have in our long-term targets. And we will maintain our focus and discipline as we seek to build on the past year's accomplishments going forward.

On today's call, I plan to cover three areas. First, I will share some of the key business highlights and operational metrics that underpinned our strong performance. Second, I will recap our fourth quarter and full-year 2021 financial results. And third, I will discuss our contextual outlook and expectations for the year ahead.

So let's turn to our key business highlights, starting with our go-to-market activity and the gains we have seen there. Our unique value proposition – underpinned by our integrated Customer Journey Experience solution suite and outcomes-centric model – is resonating well in the marketplace. Companies are making larger and bolder investments behind their customer growth and retention initiatives. Our capabilities, expertise, and global footprint enable them to scale these investments with a more certain and compelling ROI. Fueled by this dynamic, we are seeing improved activity and outcomes throughout the sales pipeline and funnel. Our account-based marketing campaigns are elevating ServiceSource's brand awareness and activating a large addressable market. Our business development teams are having more client discovery meetings and converting more leads into viable opportunities. Our solution consulting teams are conducting a higher volume of Sales Performance Analysis as they consult with more prospects to jointly develop compelling business cases. And our outside sales and global account management teams are closing more of these opportunities, securing new clients and expanding our scope within our installed base.

Allow me to summarize the results of this improved go-to-market activity under Peter Flynn's leadership. New bookings in 2021 were up approximately 13% year-over-year, and more than 80% of the value we signed was with high-growth cloud and software companies. We added eight new clients in 2021, including five wins in the fourth quarter alone. We also earned expansions and ramped new

programs at many of our largest clients, which contributed to more than 8% year-over-year revenue growth at our top five clients.

Our improved market momentum is directly tied to the strong performance of our global delivery teams. For many of our clients, we are entrusted to manage a large segment of their customer base and a meaningful portion of their revenue. To ensure we deliver on that earned trust every day, Mike Naughton and his leadership team have instilled end-to-end process discipline and operational rigor that have improved the consistency of our execution and the value our clients realize from us. Our professional services teams have enhanced our implementation processes to support more program launches and ramping faster in green status. Our people & culture and learning & development teams have reimagined our talent strategies to attract, develop, and retain a highly skilled remote workforce in the face of a tight labor market. And our business intelligence, data, and IT teams have brought further differentiation to our solutions with more robust client insights, analytics, and automation.

In addition to the growth these efforts unlocked, the impact is further reflected in record-high client performance target metrics and in our contract renewal efforts. We successfully renewed or extended approximately 87% of the contract value that was up for renewal during the year, a solid gain from the approximately 81% we reported last year. Factoring in the upsells and expansions that we secured with some of these renewals, our net retention rate for the year was approximately 94%.

Let's turn now to our financial results.

Beginning with our fourth quarter --- Revenue of \$55.8 million was up \$4.7 million, or 9.3% year-over-year. This was the second consecutive quarter with year-over-year growth in each of our regional theaters. On a year-over-year basis, fourth quarter revenue in EMEA grew approximately 15%, in APJ revenue was up approximately 13%, and in NALA revenue increased approximately 5%.

Our fourth quarter Non-GAAP Gross Profit was \$22.3 million, up \$3.2 million, or 17.0% year-over-year. Our non-GAAP Gross Profit margin was 40.0% of revenue, up 270 basis points year-over-year, demonstrating the contribution flowthrough in our model when we scale revenue.

Non-GAAP Operating Expenses were \$15.4 million in the quarter and represented 27.6% of revenue, favorably down 320 basis points year-over-year.

The combination of revenue growth, disciplined expense management, and cost reductions from our virtual-first operating model drove strong bottom-line performance. Fourth quarter Adjusted EBITDA

was \$8.1 million, up \$3.3 million, or approximately 68%, year-over-year. Adjusted EBITDA was 14.6% of revenue, a gain of approximately 510 basis points year-over-year.

All told, Q4 marked a very strong finish to the year, with high single-digit revenue growth and mid-teens Adjusted EBITDA margins, consistent with the longer-term target model objectives we have shared with you in the past.

Shifting to our full-year 2021 results --- Revenue of \$195.7 million was up \$1.1 million, or 0.6%, year-over-year, marking our first full-year of revenue growth since 2016. Revenue from program expansions and new client ramps sold during the year was the largest contributor to our performance, and more than offset revenue lost from in-year contractions or logo churn. We generated year-over-year revenue growth at six of our top 10 clients, and in aggregate, revenue across the top 10 grew more than 7% through a combination of new scopes of work, underlying growth for the products and services we support for these clients, and higher conversion rates and end-user bookings.

Continuing down the P&L, our non-GAAP Gross Profit was \$64.3 million for the full-year and reflected a margin of 32.8% of revenue, up approximately 20 basis points year-over-year.

Full-year Non-GAAP Operating Expenses of \$59.7 million were favorably down \$5.6 million year-over-year. At 30.5% of revenue, Non-GAAP Operating Expenses were favorably down 310 basis points year-over-year.

On a combined basis, our non-GAAP Cost of Revenue and Operating Expenses were approximately 2.7% lower year-over-year, driven by the acceleration of our virtual-first operating model and a flatter and more efficient organizational structure. Beyond the savings, we are very pleased with the better results and outcomes we are seeing leveraged against this spend. The gains here were also net of year-over-year expense headwinds we faced, including approximately \$3 million of combined impact from Fx and lower COVID-related job support grants from the Singapore government.

For the full-year 2021, Adjusted EBITDA was \$9.8 million, or 5.0% of revenue, more than double the \$4.3 million and 2.2% of revenue we generated in fiscal 2020.

Moving on to the balance sheet and cash flow highlights --- we ended the year in a strong position with a healthy balance sheet and liquidity profile. Cash flow from operations was \$3.6 million for the year. CAPEX – inclusive of capitalized internally developed software – was \$3.9 million, resulting in Free Cash Flow of negative \$0.3 million, compared to negative \$7.5 million in fiscal 2020. Cash, cash equivalents,

and restricted cash was \$30.8 million at year-end, down \$5.5 million from December 2020 as we reduced our borrowings on our Revolver by \$5 million during the year. We ended the year with \$10 million outstanding on the Revolver and had total available liquidity as of December 31st, 2021, of \$46.5 million.

In summary, we are incredibly proud of how the teams navigated through the challenges and opportunities during 2021 to return the business to full-year revenue growth, to expand our margin profile, and to deliver the accelerated results we saw in the fourth quarter.

Before we open the call for any questions, I want to take a few minutes to provide some context for how we are thinking about the year in front of us. Consistent with our philosophy from last year, we do not intend to provide formal or specific financial guidance, either on an annual or quarterly basis. Gary and I will continue with our approach of focusing on our long-term strategy and objectives, while transparently sharing market datapoints and any headwinds or tailwinds we may encounter as we work towards our target model ambition.

Although there is clearly heightened volatility and uncertainty around the world, and growth in global GDP and the IT industry is now expected to moderate this year, we will continue to align ServiceSource to serve dynamic growth companies in more rapidly expanding sectors. Inflationary pressures and competition for talent are concerns for all companies, but we believe our global footprint, virtual-first operating model, and inclusive culture give us an opportunity to support our clients – and new prospects – as they work to navigate these forces.

The strategic shifts, investments, and moves we've made in recent years have all been directed at building a foundation for sustainable, profitable growth. As we scan the horizon for 2022, we are optimistic that we will build on the financial progress we demonstrated in 2021 in a way that we believe will be valuable for our clients, our employees, and our stockholders.

With that, Operator, please open the line for questions, and then we will have Gary come back after any Q&A to close the call.