



FiscalNote

Second Quarter Earnings Results Conference Call

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CORPORATE PARTICIPANTS

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Mike Latimore, *Northland Securities*

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PRESENTATION

Operator

Welcome to the FiscalNote Earnings Call.

As a reminder, today's call is being recorded.

I will now hand today's call over to Sean Hannan, Investor Relations. Please go ahead, sir.

Sean Hannan

Thank you, Operator.

Good afternoon and thank you for joining us today to review FiscalNote's second quarter 2022 financial results.

With me on the call today are Tim Hwang, Chief Executive Officer, and Jon Slabaugh, Chief Financial Officer and Chief Investment Officer. After prepared remarks, we will open up the call for a question-and-answer session.

During this call, we may make statements related to our business that are forward-looking statements under federal securities laws. These statements are not guarantees of future performance but rather are subject to a variety of risks and uncertainties. Our actual results could differ materially from expectations reflected in any forward-looking statements. For a discussion of material risks and other important factors that could affect our actual results, please refer to our SEC filings available on the SEC's EDGAR system and our website, as well as the risks and other important factors discussed in today's earnings release.

Additionally, non-GAAP financial measures will be discussed on this conference call. Please refer to these tables in our earnings release and the Investor Relations portion of our website for a reconciliation of these measures to their most directly comparable GAAP financial measures.

With that, I'd like to turn the call over to FiscalNote's Chairman, Chief Executive Officer, and Co-founder, Tim Hwang.

Tim Hwang

Thanks, Sean.

I'd like to start by thanking all of you for joining us today on our first earnings call as a publicly traded company.

FiscalNote recently completed a business combination with Duddell Street Acquisition Corp., a publicly traded special-purpose acquisition company, and are excited to now be a newly listed public company trading on the New York Stock Exchange. After founding the Company in 2013 and over nine years of hard work, we are so excited about becoming a public company with the resources and capital to fuel our ongoing organic and inorganic growth that enable us to execute on our long-term business strategy.

The capital from the business combination and our concurrent senior debt financing provided gross proceeds of \$425 million in capital, including an incremental \$100 million accordion on our senior term loan. We believe the Company now has substantial liquidity and dry powder to execute on our business plan and is fully funded to achieve its goals as a Company.

I want to credit this important milestone to the hard work of our global team members, the invaluable guidance of our Board throughout the process, our customers, our existing investors who believe in our business and mission as a private company, and our new shareholders joining us today.

With that, we're happy to get into it.

We are excited to share results for the second quarter and our outlook for the remainder of 2022. Our increasing scale, successful acquisition strategy, compounding recurring revenue, and market expansion have allowed us to grow our total revenue 41% year-over-year. We are proud of the many achievements we have accomplished.

In Q2, our consolidated run rate revenue, a key management metric, continued to grow and reached \$115 million, up from \$109 million exiting 2021. We remain quite enthusiastic that our ability to execute against our M&A and organic strategy will continue to build a sustainable baseline for our future growth. Net revenue retention was also 99% in Q2.

As we look towards our performance at the end of the year, we wanted to reiterate and reaffirm our guidance for consolidated run rate revenue of \$173 million as we exit 2022. The exit run rate growth of 59% would constitute a mix of organic and inorganic growth strategies that we will go into later in the earnings presentation. Subsequently, we continue to make meaningful progress against our path to profitability, and we expect to achieve positive Adjusted EBITDA within the fourth quarter of 2023.

While we intend to focus on growth, we want to do so efficiently and sustainably as we enter 2023 and beyond. We believe that sustainable growth is achievable through a combination of growth initiatives and efficient allocation of resources, particularly as we gain more scale. Jon, our CFO, will talk in a few moments to our Q2 financial results in detail.

As this is our first earnings call as a public company, we'd like to take a moment to share with everyone about who we are, what we do, and our efforts as both a market leader and category creator.

The problem that we're trying to solve for our customers is the management of the overwhelmingly large amounts of information that executives, corporations, government agencies are facing every single day when it comes to understanding the impacts of public policy, geopolitical, legislative, and regulatory changes throughout the world.

We live in a complex and fast-changing world today, and whether you're talking about a plastic bag ban in a specific municipality, geopolitical or supply chain challenge due to a war or regime change, a major infrastructure piece of legislation in Congress, or a major public policy change coming out of a particular central bank, our customers need to navigate these challenges every day and need critical information to do so.

Today, they need to sift through trillions of dollars in government spending and dense budget books, policy statements by elected officials around the world, and millions of pages of legal and regulatory text, a large and tremendous amount of information. At the same time, CEOs and Boards in particular are under a significant amount of pressure to respond and comply with these political changes.

FiscalNote uses AI and cloud-based workflow software to build products that automatically sift through these documents and help our customers understand the impact of policy on governments and organizations. Given the state of the world and the significant geopolitical uncertainty that exists, our mission-critical, need-to-know products and solutions are better-positioned now more than ever to help navigate the global risks and uncertainty organizations are facing.

Not only do we have a comprehensive suite of solutions to monitor the present state and help our customers understand what's going on in the world, we also have the additional essential insights, data, and workflow software that helps clients anticipate future outcomes from a geopolitical, economic, and brand reputation perspective to help our customers understand what is going on in the world and what they can do about it.

Additionally, with regards to the macro environment, our products are becoming more and more relevant. For instance, the more Congress is gridlocked when the Supreme Court enacts major policy changes, time is of the essence for organizations to make their voices heard, advocate, or come into compliance before it's too late. Our tools can help them do that. Similarly, with elected officials at the state level, upcoming legislative sessions will have an increased spotlight, and they will need to be ready to respond to a flood of inbound (inaudible) communication in (inaudible).

Today, FiscalNote is a crucial technology and embedded workflow on the desk of the world's most important decision-makers, servicing thousands of organizations from hundreds of government agencies, from Congress to the White House, the CDC, and the Department of Defense, to over half the Fortune 100 who looked to FiscalNote to help them navigate these challenges.

Just in the second quarter of 2022, FiscalNote entered into new, renewed, or expanded relationships with leading global brands and government entities such as Nestle, Boeing, Paycom, and a number of leading U.S. and global government institutions. We've built a talented global workforce across the U.S., Europe, Asia, and Australia to support the needs of our customers.

It was back in 2013 that my co-founders and I embarked on this journey to create a technology platform to help us solve these modern-day challenges. We built this Company step-by-step from our initial idea in a Motel 6 room in Silicon Valley to what it is today.

Our technology delivers critical legal, policy, and economic information in an uncertain world. This can be in a similar manner in which you might use an S&P Global Cap IQ, IHS Markit, FactSet, Avalara Tax Research, or Bloomberg Terminal.

So, how does it all come together? We've invested in our technology since 2013 and have built a robust technology stack for the ingestion, storage, processing, access, and delivery of this large amount of policy and regulatory data that forms the foundation of our business.

Additionally, our patented AI-enabled core technologies offer trend identification, discovery and alerting, entity extraction, and predictive analytics. We leveraged our technology to provide users with curated data for analysis and present them with relevant mission-critical (inaudible) policy information and market intelligence within the context of tailored SaaS cloud-based workflows to guide our customers across a complex information ecosystem.

These intuitive and embedded workflow products, combined with our data network effects and analytics, form the basis for a highly sticky and defensible (phon) product over time. We believe we have a massive \$37 billion global market opportunity that we're chasing, which is a wide-open space driven by clear market tailwinds.

These tailwinds are driven by a couple of things. Number one is the proliferation of regulatory complexity. As the complication of regulations continue to increase, they drive more impact. From a public policy perspective, we strongly believe that that's going to continue to drive demand for our products. That's augmented by the need for demand in terms of workflow efficiency and automation in the legal space, and the need for aggregation and standardization when it comes to legal and policy information in particular. We are still extremely early in the adoption of cloud- and AI-enabled tools for understanding geopolitical updates and believe we are well-positioned to win in this space.

In order to capture this growing opportunity, we need to increase the growth trajectory of the business by increasing our sales capacity and continuously acquiring more customers. From there, we tactically drive broader land-and-expand, effectively looking at our existing customer base and being able to upsell the more. Simultaneously, we are looking at incremental growth opportunities in new customer segments such as sustainability and ESG professionals and geographies such as our continued growth in the European and APAC markets.

We've had great historical success driving increases in average contract values through our larger deals and bundles of products, as well as multi-year engagement to support base of our renewals. This is the result of our multi-product value proposition and our market leadership that we've established through our product portfolio. We see further expansion of our TAM as we grow our suite of products to offer solutions for regulated industries of the future, such as gig economy, autonomous vehicles, ESG, or cryptocurrency.

From a customer's standpoint, we are quite diversified, with a high-quality blue-chip customer base touching heavily regulated industries and expect those characteristics for our business to continue. Our growing scale and customer base is anchored by various government entities that collectively comprise about a quarter of our revenue and consistently and reliably deliver the foundation of our revenue, while the rest of our verticals include industries like healthcare, finance, energy, retail, business services, and others.

This customer base spans multiple geographies, sizes, and industries, and we're proud of the growing ubiquity of our products. We're largely an inside sales model, and our buyers are not only very senior executives of companies but also senators, members of Congress, and elected officials at the federal, state, and local levels.

M&A is also an important part of our value creation. We leverage M&A to build, buy, and grow a number of different assets within our product portfolio. Our strategy enhances the number of content and datasets we're delivering for our customers, as well as builds new workflow or software capabilities that add more value collectively to our customers and subsumes more of our client's workflow over time.

The investments that we made in cloud and artificial intelligence technologies enable us to rapidly ingest these datasets into our platform and bolt on new workflow capabilities to enrich our customer experience. Our M&A strategy revolves primarily around identifying new content or datasets we can bring into our platform or new workflow capabilities that enhance the usability of our customer experience over time.

Our recent acquisition of Aicel is a prime example of the type of business we seek to bring into the FiscalNote family. Aicel is a rapidly growing alternative data company collecting and selling information pertaining to macroeconomic conditions through the use of credit card transaction data, e-commerce activity, etc. They're based in Seoul in South Korea, and the Company greatly enhances the breadth and scope of our offerings that we provide, and it enriches a new way of getting information on macroeconomic performance.

The addition of their business also accelerates our market leadership, not only in that macroeconomic information space but also in the APAC region as a whole, catalyzing increased opportunities for our growth, access to a wider base of customers, and the addition of key engineering, AI, and R&D talent.

Particularly when we perform M&A, we're extremely stringent and disciplined about transaction structure, price, and about the alignment to our core competencies, whether they be around government or some form of emerging regulated issue or around our commercial competencies as defined by our business model, selling information and workflow on a recurring subscription basis.

Historically, our sweet spot has been companies that are between \$5 million and \$15 million recurring revenue, have deeply embedded customers, and are sizable for us to bolt- n and manage appropriately within our growing base of customers. This helps us efficiently manage our executives' attention, drive quick and decisive acceleration of growth, while preserving and protecting the organizational culture that we've developed over time. As such, we have developed an organizational playbook for acquisition and integration and a track record of value creation that involves bolting on products and rapidly accelerating growth through commercial execution.

The completion of our listing and the fortitude of our balance sheet will only accelerate our historical pace of M&A. We have a robust M&A pipeline and are very excited about these prospects as we look forward to providing you further updates around our efforts through 2022 and beyond.

Overall, for FiscalNote, we are excited about our targeted investments and new high-growth opportunities such as global geopolitical insights and macroeconomic market intelligence that will continue to provide a sustainable competitive advantage and solidify our position as a category creator.

For instance, we recently launched our ESG Solutions business, further enhancing our emerging ESG business that provides carbon, climate, and ESG data management software, as well as news, research, and analysis for ESG professionals, and continue to make investments in products like Curate that offers local information on the activities of municipalities, counties, and now school boards around the United States to organizations and businesses who sell into these trillions of dollars in local and state government spending.

Further, our expanding product portfolio continues to position us to more efficiently deliver incremental value to our customers and increase retention through cross-sell opportunities to help them navigate current hot topics such as inflation, supply chain issues, and emerging ESG challenges.

As a result of all these characteristics and our continued financial performance, we strongly believe that we are a long-term growth compounder and are well-positioned to grow in both good times and bad.

Finally, we believe we're building a disruptive global data Company in a new era of technology that will position FiscalNote to gain greater scale and drive significant shareholder value over time. We are aligned in our mission to build the next great technology information business, and I'm confident that our experienced and talented Management team will continue to deliver and execute toward this goal. Thank you for your time.

With that, I'll hand over the call to Jon Slabaugh, our Chief Financial Officer and Chief Investment Officer.

Jon Slabaugh

Thank you, Tim.

It's great to connect with both existing and prospective shareholders in FiscalNote's first call as a public company.

As Tim mentioned, we're excited about the listing for many reasons. One of them is the simplification of our capital structure. We have entered the public markets with approximately \$92 million of cash on the balance sheet and a senior term loan of \$150 million with additional availability of up to \$100 million. Accordingly, we have the liquidity to execute on our M&A strategy and make all the necessary investments to achieve year-end run rate revenue of \$173 million. Our capital position fully funds FiscalNote's path to positive Adjusted EBITDA within the fourth quarter of 2023.

In summary, FiscalNote has a strong and durable organic growth profile, and we will realize increasing margins as we scale and drive operating efficiencies. Combined with our current M&A pipeline, we are confident in the run rate revenue guidance for the year.

Q2 was a solid quarter for the Company on many fronts. I'm excited to share these results and update our 2022 expectations.

Before jumping into second-quarter results, I want to point out that I will reference some KPIs and non-GAAP financial metrics. You can find a reconciliation of GAAP to non-GAAP financial measures in the financial statement tables included in the earnings release issued earlier today.

For the second quarter, GAAP revenue was \$27.2 million, up 41% versus \$19.3 million for the same period last year. In Q2, GAAP revenue was affected by currency fluctuations, a shift in timing for a few large enterprise and government contracts, and in this year, the timing of a public listing. Overall, we're proud of this result. The year-over-year growth demonstrates strong customer demand for our products and continued execution of our inorganic growth strategy.

Subscription revenue, which makes up approximately 90% of our revenue, was \$24.3 million, up 40% from \$17.4 million a year ago. This growth is attributed to new logo acquisition, as well as the successful integration and cross-selling for the 2021 acquisition cohort. For Q2, advisory, advertising, and other revenue was \$2.8 million as compared to \$1.9 million a year ago. Total adjusted revenue for Q2, factoring in deferred revenue adjustments, was \$27.9 million, up 42% from \$19.7 million in the same quarter last year.

As Tim mentioned, FiscalNote's run rate revenue exiting June was \$115 million, up from \$109 million exiting 2021. For context, run rate revenue is a key management metric defined as ARR plus non subscription revenue earned during the last 12 months. On a pro forma basis, FiscalNote's ARR rose to \$103 million as of June 30, 2022, compared to \$89 million on June 30, 2021.

Net revenue retention, or NRR, measures our success in retaining and growing ARR from our existing customers. NRR was 99% for the quarter ending June 30th, 2022, versus 101% for the same period in 2021. Net revenue retention can fluctuate from quarter to quarter, especially as we fold in results from prior-year acquisitions.

Moving down the income statement, cost of revenue in Q2 was \$7.7 million, up from \$5.1 million in the same quarter last year. Adjusted gross profit for the quarter was \$22.2 million, up 39% from \$15.9 million a year ago. The increased cost relates to integrating acquisitions and the overall adjusted gross profit margin remains relatively consistent at 80% in Q2 when compared to 81% a year ago.

We continue to invest in our sales force. Sales and marketing costs were \$10.4 million in Q2, up 49% from \$7 million in Q2 of 2021. R&D expenses were \$3.8 million, down 37% from \$6 million a year ago. Please note that the decline in R&D expenses was in part due to increased software Capex. Editorial costs in Q2 were \$3.3 million, down 10% from \$3.7 million in Q2 2021. G&A expenses were \$10 million, up 32% from \$7.6 million a year ago. The G&A increase was primarily related to the cost of becoming a public company. Net loss for Q2 2022 was \$37.8 million, compared to \$34.1 million a year ago. Adjusted EBITDA for Q2 was a loss of \$5 million, a 24% improvement from a loss of \$6.6 million a year ago.

Turning to our guidance for 2022, FiscalNote is a growth Company, and Management measures success through the growth of our run rate revenue in ARR KPIs. We feel these metrics best capture revenue growth and provide insight into future performance. At this stage, we do not provide forward-looking GAAP revenue guidance.

For our business, GAAP revenue is a lagging measure of performance, often affected by currency fluctuations, the timing of large enterprise and government contracts, and in this year, the timing of our public listing.

FiscalNote has a track record of strong second-half sales, and we have confidence in achieving our year-end organic run rate revenue target of \$136 million. With a robust M&A pipeline and the capital to execute our acquisition strategy, we're confident in achieving our year-end total run rate revenue target of \$173 million. As always, Management will prioritize these strategic acquisitions to drive the highest return for FiscalNote's shareholders.

FiscalNote will fund acquisitions with a combination of existing cash, equity grants, and increases in our senior debt accordion. Our capital allocation strategy will optimize for the lowest weighted average cost of capital. FiscalNote has been very successful using private stock to attract entrepreneurs and business owners who want to be part of a larger growth story. FiscalNote's public equity will be even more attractive in this regard.

Our Adjusted EBITDA loss is expected to be approximately \$23 million for 2022 as we continue to make progress in driving efficiency toward our reiterated goal of positive Adjusted EBITDA within the fourth quarter of 2023.

In summary, we are very pleased with our performance in the second quarter. FiscalNote looks forward to building on this track record of success as we move ahead.

In closing, we're very excited about the future and continuing Tim's mission to build a sustainable, high-growth business. We are a category creator addressing a critical need for geopolitical and market information. FiscalNote's growth is accelerated by the adoption of workflow software. We continue to invest in our people, innovation, and customer relationships to drive growth. FiscalNote is a first mover in a massive market opportunity. We capitalize on our strong market leadership position, and we believe FiscalNote is very well-positioned for the long term.

With that, I will now open it up to questions.

Operator?

Operator

Thank you.

Your first question is from the line of Mike Latimore with Northland Capital.

Mike Latimore

All right. Thank you.

Yes. Congrats on being public and the strong outlook out of the gates here.

Tim Hwang

Yes. Great to be on and great to be public here.

Mike Latimore

Definitely. I guess just a couple of things.

Part of the strategy is obviously to cross-sell and upsell. I guess, can you talk a little bit about how your deal sizes are trending? Also, do you have price increases kind of embedded in these current contracts, and how do you deal with price increases (multiple speakers)?

Tim Hwang

Yes, absolutely. Obviously, as we've continued our strategy to diversify our product lines, both through organic and inorganic strategies, we have been fairly successful at driving that cross-sell and upsell approach. That has resulted, generally speaking, in increasing average contract values relative to what they were in prior years. So, it's something that we'll continue to monitor as an organization.

Part of that is driven by some annual price increases, which I think are potentially in line with inflation and other things, but those are subject to our desire, of course, to also drive multi-year engagement with our customers as part of our ongoing negotiation.

I guess, Jon, I don't know if there's anything else you wanted to add there as well.

Jon Slabaugh

The only thing I would add is this year in light of increased inflation, we have been diligent about putting minimum and inflation-indexed inflators into the contracts.

Mike Latimore

Okay.

In terms of the sales headcount, I know that's part of the investment here, maybe can you give an update on just the quarter-carrying sales headcount and how fast you expect to grow that this year?

Tim Hwang

Yes. We don't disclose in particular the number of sales capacity heads that we have on any given basis, but what we will say is that we have continued to increase that capacity quarter-to-quarter and year-over-year. On top of that, it is an ongoing part of our strategy from a growth perspective to continue to get new customers and new logo, in addition to driving that cross-sell and upsell.

In particular, I think we had talked about this in the prepared remarks but also in prior presentations, we're very excited about new customer growth categories in places like Europe and Asia, in addition to kind of these regulated sectors of the future in ESG or compliance or state and local contracts that require a little bit of specialization in terms of our sales capacity hires, but we're obviously continuing to make good progress on extending that capacity.

Mike Latimore

Great. Thank you. Best of luck for the rest of the year.

Tim Hwang

Great. Thank you.

Operator

The next question is from the line of Rudy Kessinger with D.A. Davidson.

Nima Rad

Hi, guys. This is Nima on for Rudy. Congrats on the good quarter and your first quarter as a public company.

I was wondering, of the 2021 acquisition cohort, do you have any that you would call out as seeing the most success, and then any way to quantify that success?

Tim Hwang

Yes. Well, appreciate the question.

We don't disclose the individual performance of our acquired companies, and that's largely because we effectively fold the companies into some product categories or some bundling strategy that makes it fairly difficult to pull those things out overall.

Generally speaking, I would say, in line with what's going on in the world today, some of the fastest-growing elements of our business, which we've kind of bolstered on over the course of the last couple of quarters, are places like really helping our customers understand geopolitical risk or macroeconomic risk

as it pertains to the conflict in Eastern Europe, monetary and fiscal policies by policymakers around the world, and ongoing kind of political challenges in the United States.

The general kind of product lines that kind of support those types of initiatives, I think have been fairly successful. So, I'll call out two as the kind of most recent examples. Curate, which we called out in our earnings release, is a kind of local and state government monitoring platform that obviously bolstered our capabilities in looking at municipalities and county governments and school boards and the like. That, of course, has been very successful in terms of bolstering on our existing policy-monitoring capabilities.

The other, I would say, is FrontierView, which has quite a significant amount of information, helping decision-makers and customers navigate ongoing macroeconomic challenges or investment decisions in emerging markets as it pertains to policymakers and the decisions that they're making on a day-to-day basis.

Those are obviously in line with general macro trends, and to my earlier remarks have been a great success in terms of kind of plugging into our existing go-to-market machine and really being able to drive acceleration.

Nima Rad

Got it. That's very helpful. Thank you.

I was also curious with regard to the VoterVoice product, do you guys expect any tailwinds in the second half as a result of the midterms coming up?

Tim Hwang

It's a good question.

I would say, as a general rule, whenever there is increased political activity and political focus, many of our customers do use our VoterVoice product line to effectively go out there and go to the membership bases and try and rally them up or contact members of Congress or whatever the case may be, and so we do see, generally, increases in activity or usage of the individual product line, but given the elevated rate of political activity, particularly in the United States over the course of the last couple of years, I wouldn't say that there's a significant level of fluctuation only because there's just been such an increased rate of political activity.

So, hard to say with respect to any particular elections, but obviously we've been great beneficiaries of that political activity over time.

Nima Rad

Got it. Then, one last one for me.

I see you guys in the outlook for '22 that you reiterated, you're calling out organic run rate revenue to accelerate to \$136 million, and I was just wondering, is it possible to get that number for this quarter to see where you guys are at?

Tim Hwang

Are you talking about the upcoming Q3 or Q2?

Nima Rad

For Q2.

Tim Hwang

We do call it out in our earnings release. With respect to just as we think about sort of quarter-to-quarter kind of run rate guidance, I would generally say that because of the way in which we kind of book our contracts, some rates kind of fluctuate from quarter-to-quarter, but we do have very strong visibility as you look toward the end of the year. That's what gives us a pretty significant level of confidence as we kind of go into the reaffirmations we made.

I'll kind of defer to Jon to talk about this quarter and ongoing trends for the rest of the year.

Jon Slabaugh

Sure. Hi, Nima.

The press release highlights \$115 million this quarter. As Tim said, we're on pace and review the pipelines weekly with the teams here, and that's what gives us confidence in kind of the continued ramp towards the end of the year.

Nima Rad

Got it. Thank you very much for taking my questions.

Operator

At this time, there are no further questions. I will now hand today's call over to the presenters for any closing remarks.

Tim Hwang

Great. Well, thanks, everybody. Obviously appreciate everybody jumping on here. We're very excited about the beginning of our life as a publicly traded company, and so absolutely looking forward to continuing to post great results and really build a great transformation business.

Operator

This concludes today's call. Thank you for joining. You may now disconnect your lines.