

Fiscal Second Quarter 2022 Earnings Conference Call

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PRESENTATION

Adam Rogers

Good afternoon, everyone. At this time, I'd like to welcome you all to the E2open Fiscal Second Quarter 2022 Earnings Conference Call.

I'm Adam Rogers, Senior Director of Investor Relations here at E2open.

Today's call will include recorded comments from our Chief Executive Officer, Michael Farlekas, followed by our Chief Financial Officer, Jarett Janik. Then we'll open the call for a live Q&A session.

A replay of this webinar will be available on our website. Information to access the replay is listed in today's press release which is available at e2open.com in the Investor Relations section.

Before we begin, I'd like to remind everyone that during today's call we will be making forward-looking statements regarding future events and financial performance, including guidance for full Fiscal Year 2022. These forward-looking statements are subject to known and unknown risks and uncertainties. E2open cautions that these statements are not guarantees of future performance.

We encourage you to review our most recent reports including our S-1, 10-K, and our 10-Q, or any applicable amendments for a complete discussion of these factors and other risks that may affect our future results or the market price of our stock. Finally, we're not obligating ourselves to revise our results or these forward-looking statements in light of new information or future events.

Also, during today's call we will refer to certain non-GAAP financial measures. Reconciliations of non-GAAP to GAAP measures and certain additional information are included in today's earnings press release, which can be viewed and downloaded from our Investor Relations website.

With that, we'll begin by turning the call over to our CEO, Michael Farlekas.

Michael Farlekas

Thank you, Adam, and thank you all for taking time to join us for our Second Quarter Fiscal Year ’22 Earnings Call.

Q2 was a blockbuster quarter for E2open across the board. We exceeded our targets on every dimension and accomplished a quarterly organic growth rate of nearly 13%. We reached double-digit organic growth one quarter earlier than expected and also raised our guidance for the second time in six months. E2open will reach an 11% annual organic growth rate on a standalone basis for FY ’22 as compared to our original projections of 10% growth for this fiscal year.

Before I provide more detail regarding our recent results, I'd like to share my perspective on the long-term trends that are contributing to our success and to our accelerating growth rate. Our core client base of very large global companies demand supply chain visibility and control cross their extended supply chain networks. Their networks are increasingly complex, relying on hundreds if not thousands of trading partners and tens of thousands of people to make and bring goods to market. The well-publicized product shortages, (inaudible) congestion, and overall supply chain challenges have created more focus on global supply chains than at any other point in my 30-year career in this industry.

The trend towards more complex supply chains is accelerating, and our core client base are turning to E2open to resolve this complexity. Supply chain excellence is no longer relegated to functional leaders. It's now firmly a Board and CEO imperative. Their focus is on improving the end-to-end supply chains, and to do so, they need better software.

We have a tremendous opportunity in front of us, as evidenced by our very strong second quarter earnings, a robust and growing pipeline, expanding yield on that pipeline, and expanding new client wins. Our platform helps clients avoid problems on one hand and react to problems more quickly on the other. We do this by bringing a company's entire ecosystem of partners into one interconnected platform. Our approach creates a much more accurate and granular view of future demand while allowing our clients to adapt more quickly to changes they will inevitably encounter.

The only way to solve these seemingly intractable supply chain problems is to connect real-time data with the world's best algorithms. That is E2open. Our largest clients view us as their supply chain. While companies require the ability to adapt to rapidly changing environments, they also want more sustainable supply chains. I’m proud of how we are helping our environment by making our customers’ supply chains more environmentally friendly. We do this by reducing waste and helping our clients use the lowest cost transportation, which typically carries the lowest carbon footprint.

Think ocean transportation versus air transportation. Ocean transportation is eight times less expensive than air transportation and comes with a much lower carbon footprint. I'll note that we released our first ESG report earlier this week, and it's available on our website.

Our vision is to become the supply chain operating platform for the world's best and largest companies. All brand owners operate complex supply chains, some more complex than others, some more global than others. They all invest heavily in supply chain software. We believe the current fragmented nature of supply chain technology provides a unique opportunity for E2open. We are quite simply the best positioned company to capitalize on this unique moment in time.

The supply chain software market is very large, over $50 billion. This market is now growing at double digits and continues to inflect upwards. Most large brand owners have a significant footprint of on-premise siloed legacy software. They need end-to-end software, they need that software in the cloud. The move to cloud has clearly begun, but it's still in very early innings.

We are an end-to-end cloud-based software company. Most supply chain software companies of our scale are converting to the cloud and provide a silo or singular solution. We are the largest cloud provider in supply chain software. We have the broadest set of functional capabilities, the largest network, and we serve a wide array of industries.

We have a powerful and proven M&A engine to further extend our capabilities and our platform. We are in the process of networking the world's industrial capacity, client by client, network by network, function by function.

Our marketing perspective informs us on how to capitalize on our unique position. Our vision is to be the definitive cloud software provider that helps the world's largest companies make and bring products to market.

Our second quarter was record setting on nearly every dimension. We accelerated our revenue growth to 13%, the highest revenue growth the Company has had in the past six years. We reached our goal of over 10% growth one quarter earlier than projected. We generated over $92 million in total non-GAAP revenue. Given the strong performance in our first half, in early September we announced E2open will be at 11% organic growth for Fiscal 2022 on a standalone basis. This raised our revenue guidance for the second time in six months.

We raised our revenue guidance again for three reasons. One, very high confidence in future revenues, given 82% of our revenue is derived from subscription contracts, most of which are three years or longer. Seventy-seven percent of that revenue is from clients with an average tenure of over 14 years. We know our clients.

Two, before growth investments, we previously outlined our materializing much, much sooner than we expected, driving increasing revenue for Fiscal '22. I'll provide more detail on this in a few minutes.

We continue to see net pipeline growth and our conversion rate and average selling price are meaningfully expanding. In addition to growth acceleration, we generated a strong Adjusted EBITDA results for the quarter of nearly $34 million.

We have previously announced building four growth levers this year to drive incremental growth next year. Those initiatives were bundling and packaging our solutions more effectively, building a new logo sales team, developing and signing strategic partnerships, and monetizing our network. Those growth levers are converting to revenue much, much sooner than we had ever imagined. I'll give you an update on our effectiveness for these four areas.

Bundling and packaging. Historically, for all contracts are every new one a year, the average subscription increased from price and upsell has been 14%. On record company bookings for the first half of FY ’22, that metric is 22%, providing us confidence that our approach to packaging and bundling is driving the intended results.

New logos. At the beginning of this fiscal year, we announced the addition of a new logo sales team. That addition to our go to market engine is clearly kicking in much faster than we had expected. On record first half bookings, our new logo composition was 22% versus our historical average of 16%.

Partnerships. We articulated our objective of signing three to four new strategic partnerships. We have now signed two in the first half and have three in total. The partnership with Vizient is a great example and very strategic. Vizient is one of the largest EPOs for the healthcare provider industry; think hospital networks. We've all have seen just how much supply chain improvement the U.S. healthcare system needs.

Monetizing our network. Our previously announced partnership with D&B is providing revenue sooner than expected. We are still in very early innings in a multi-year growth plan.

In summary, for these four growth levers, we had a plan, we thought it was realistic. It turned out to materialize much more quickly than we'd ever expected.

Moving to some highlights from our second quarter. We signed notable new and existing client platform deals this quarter; as a reminder, our platform relationship is where we have strategic alignment to roll out significant portions of the platform across a multi-year strategic plan. An existing global automotive client signed a five-year extension, more than doubling their $2 million annual subscription. A new logo in the transportation industry signed a $2.5 million annual subscription. A new logo in the contract manufacturing sector signed a $1 million annual subscription. A new logo win for nearly $1 million of annual subscription with a leading specialty apparel company.

Before I turn it over to Jarett, I'll reflect on our recent recognition by our industry and what we are doing to further build the machinery of our business. In recognition, we are the leader in multi-enterprise supply chain management, which is in fact what supply chains are. We're the number one provider with each analyst as report in this category, Gartner, IDC and Nucleus.

In additions to our business, on September 1 we announced the closing of our largest and latest acquisition of BlueJay Solutions. Like the previous 11 combinations we have made in the past five years, we integrate quickly, having already effectively combined the business into one organization and selling platform. The first release of the combined solutions will occur in February. We are well on our way and ahead of pace when compared to the previous 11 combinations.

Jarett will speak in more detail about the integration shortly.

With the progress that E2open has made achieving its growth target and to capitalize on the momentum in the marketplace, we continue our investments in sales and marketing, most recently hiring Chief Marketing Officer, Kari Janavitz. Kari joins us from TE Connectivity and is known as an innovative and game changing CMO with a proven track record growing companies and brands. She'll be a vital part of our leadership team as we continue to accelerate growth.

Lastly, as I mentioned in my opening, E2open released its inaugural environmental, social and governance report this week. While our own Company's environmental impact is small, we believe our software can have an enormous impact by reducing the environmental impact for our clients as they produce, transport and distribute their products. You can find the report on our website at e2open.com.

With that, I'll turn it over to Jarett to provide more detail regarding our financial results.

Jarett.

Jarett Janik

Thank you.

As Michael mentioned, we're pleased with our results for the second quarter and we continue to see positive momentum in the market. Today, I'll begin by giving an update on the BlueJay integration and then review our fiscal second quarter results. I'll comment on our outlook for the remainder of our full Fiscal Year 2022. Then finally, quickly touch on our long-term growth targets. Thereafter, we'll open the call to your questions.

We'll start with an update on the BlueJay integration. We are deep in the execution phase of our integration of BlueJay Solutions which we closed on September 1. Total synergies related to the recent BlueJay combination are projected to be $25 million, or 25% better than previously announced $20 million. The Company expects to achieve between 50% to 60% of run-rate savings by the end of Fiscal 2022. The action

synergies of 50% to 60% represent the achievement of run-rate savings as compared to the total annual synergy value.

Realized synergies of between 25% to 30% will be earned in Fiscal ’22, and they represent the portion of those action synergies that have been recognized in earnings during the periods presented. We anticipate this metric moves to nearly 90% for Fiscal 2023, with 100% of the synergies being executed, and just the remaining year-over-year growth in earnings from those synergies that we anticipate will action in the first half of 2023 to come in the following fiscal year.

As a reminder, one aspect of this transaction I'd like to highlight is that most of our core investors that were subject to a lockup, that was set to expire on August 4, have agreed to extend their lockup as part of the transaction for an additional six months from the closing of the combination which occurred on September 1, including the significant selling shareholders of BlueJay Solutions.

This afternoon, I'll talk about our results on a non-GAAP basis. We show a reconciliation of GAAP measures in our press release, which is available in the Investor Relations section of our website at e2open.com.

We generated total revenue in the fiscal second quarter of $92.3 million, representing an increase of 12.8% from the fiscal second quarter of 2021. As Michael mentioned earlier, we're very excited to have achieved this important milestone one quarter earlier than we had planned at the beginning of the year.

Broken down by reporting segment, subscription revenue was $75.9 million, up 10% over the prior year period. Our professional services revenue was $16.4 million, a 27.9% increase from the fiscal second quarter in 2021.

The principal non-GAAP adjustments to revenue in the period is related to the amortization of a fair value adjustment to our deferred revenue balances resulting from the business combination with CCNB1 in February. We expect to have a similar adjustment related to the acquisition of BlueJay.

The increase in subscription revenue was mainly due to new organic sales in prior periods across our customer portfolio. The increase in services revenue reflects a return to normal for our business, as the prior year quarter was impacted by delayed delivery of services due to the COVID-19 pandemic.

Our services margin also improved and was due to this return to more pre-COVID levels, and was partially offset by our ramping of headcount for increased services demand that we are currently seeing in the business and projecting in the back half of this year.

Continuing down the income statement. The gross profit was $68.1 million in the fiscal second quarter, up 16.5% from the prior year period. The increase in adjusted gross profit was primarily related to new subscription sales from the prior year, coupled with the return to normal of our services business. Gross margins improved to 73.8% for the second quarter of Fiscal 2022 from 71.5% for the second quarter of Fiscal 2021.

Adjusted EBITDA was $33.5 million compared to $26.2 million in the prior year's fiscal second quarter. Adjusted EBITDA margin improved to 36.3% for the second quarter of Fiscal 2022 compared to 32% for the second quarter of Fiscal 2021 as a direct result of strong operating results related to organic revenue growth, coupled with the leverage we built in our business around scaling up our costs. Also, we are just beginning to return to normal as it relates to travel in certain office related expenses.

Now I'd like to reaffirm our non-GAAP revenue guidance and increase our guidance for Adjusted EBITDA for the remainder of Fiscal Year 2022. For the full Fiscal Year 2022, we expect total non-GAAP revenue to range from $470 million to $474 million, representing an organic revenue growth rate of over 10% and up from the initial guidance of $466 million on a like-for-like basis.

Adjusted EBITDA is expected to be in the range of $161 million to $163 million, an increase of $3 million to $5 million from the $158 million guidance provided at the announcement of the BlueJay transaction, again on a like-for-like basis. Non-GAAP gross profit margin is expected to be in the range of 70% to 72%.

To provide the appropriate comparison of our actual results, we've included in the press release some tables that will help walk forward the projected pro forma performance of the business, including BlueJay, for the full Fiscal Year 2022. We have for comparison purposes shown the full Fiscal 2021 for E2open and the period September 1, 2020, through February 28, 2021, for BlueJay.

Similarly, for the as reported guidance, we are incorporating the full year of E2open and the period from closing September 1, 2021, through February 28, 2022, based on our original acquisition model. We are increasing our guidance based on the anticipated performance of the combined business.

I want to finally quickly touch on our long-term growth targets and remind everyone what we said last year, and how we are progressing towards them today. Because of our momentum and progress, we are confident in reaffirming our long-term growth objectives. We believe we can grow in the low double digits for a very long time. This quarter, we achieved that important milestone. We have a lot of operating leverage in our business, which you can see in our margins, which we will operate in the mid-70s for gross margin and mid-30s for our EBITDA for our margin.

We will continue to invest in our ability to grow faster as we grow larger, balanced with the appropriate return on those investments. We will continually reevaluate these targets and update you as our business expands and as we continue to invest in the Company to accelerate our growth rate.

In summary, E2open had a fantastic second quarter from both a financial and operating perspectives. We remain laser focused on executing our growth strategies to capitalize on our multi-billion dollar market opportunity.

With that, we would now like to take your questions.

Adam, we're ready to begin the Q&A session after a brief pause.

Adam Rogers

Thanks, Jarett. Please give us a moment to turn our cameras on and get situated.

Our first question will be from Taylor McGinnis from UBS. Taylor, your line should be

Taylor McGinnis

Great. Can you hear me?

Michael Farlekas

Yes. Hi, Taylor.

Taylor McGinnis

Perfect. Hi, everyone, congrats on the quarter. Thanks for taking my question.

Maybe at the start, I think you mentioned bookings growth of 22%, which I think compares to 80% last quarter. Since we don't have much visibility into the trends historically, can you maybe bridge the gap between the two, like whether it was easier compare, or if there was a difference in large deal volume?

Also, maybe on that, too, I know you've just made some pricing and packaging changes, so curious if that's starting to contribute at all.

Michael Farlekas

Yes. That bookings number is not the bookings growth overall. That was to compare upsell from the previous periods, which historically ran 16% in historical periods and now is running 22%. That's a result of our effectiveness in packaging and pricing on just the upsells. That's not our entire bookings number. I just want to focus on that one area of growth.

Taylor McGinnis

Got it. Are you able to provide maybe like color, or even directionally, how the business has been trending from a bookings perspective or pipeline perspective, relative to what we saw last quarter?

Michael Farlekas

Sure. The pipeline continues to expand. We've seen that through the first half. It continues to expand even at the start the third quarter, as well as our yield is expanding as well. We had a record first quarter and a record second quarter. We're hitting on all cylinders in booking. Very positive results in the booking side.

Taylor McGinnis

Got it. Maybe my last one, just on BlueJay. Now that is part of the business, can you talk a little bit more about the cross-sell potential and overlap between the two businesses? Maybe anything that could be embedded in the guide or what could be potential upside going forward. Then as a part two to that, just on the EBITDA margin raise and the additional synergies. Can you just provide a little bit more color on what are the drivers there?

Michael Farlekas

Yes. Jarett, you want to take the second question and then I'll swing back and answer the first.

Jarett Janik

Yes, absolutely.

Just a quick update, Taylor, on where we are on the synergies.

We've executed all of the people, synergies and communications during the month of September. In finalizing all those plans and putting the right people in the right seats and assigning reps to accounts and the like, we ended up doing better than we had originally built into our forecast model to underwrite the deal. We ended up landing on total run-rate savings of $25 million. Part of that is reflective up in the EBITDA guidance, part of that is just from the normal health of the business doing better than we had anticipated at the beginning of the year. It's a little blend of both.

The bulk of the synergy realization will happen next year. And then there's a little bit of year-over-year that will benefit from looking '23 versus '24. But all of the synergies will be done in our next fiscal year in terms of achieving that run-rate save.

Michael Farlekas

On the opportunity with BlueJay, our acquisition strategy or combination strategy is predicated on functional additions where we don't like to think about overlapping products. This is no different. BlueJay has about

250 or 300 enterprise customers. That's the same number we have. There is very little overlap, maybe 10%. BlueJay had primarily the TMS focused on that enterprise class customers to one product. We had seven other product families. So we think the upsell, cross sell is opportunity is extraordinary, because they sell to the same types of customers that are large, over $10 billion in revenue, and have the complexity and need for all of our products.

That process starts immediately. We reset the team to one go-to-market platform, starting on September 22. We are actively pursuing opportunities as we speak. We think there's a tremendous opportunity for us to continue cross selling, upselling just into a much larger overall customer base.

Taylor McGinnis

Great. Thanks so much.

Michael Farlekas

Thank you, Taylor.

Adam Rogers

All right. Our next question is from Andrew Obin of Bank of America. Andrew, your line should be open. Andrew, I think you're still on mute.

Andrew Obin

Okay. Can you hear me now?

Michael Farlekas

Hi, Andrew.

Jarett Janik

How you doing, Andrew?

Andrew Obin

Hi. Let's try this Zoom thing.

Now, I guess one of the questions in terms of client response to supply chain pressures. Have you seen any noticeable shift in the sales cycle, basically a client speeding up or slowing down over the last six months?

Michael Farlekas

Yes. I think overall, projects are moving through our customers' system faster. I think that shows up in our new logo uptick. Usually, those cycles take much less longer. We're seeing those kind of actually happening more quickly. We noticed one automotive customer, and we're going to start with the chip side. We think we did a great amount of opportunity to help them smooth out some of those issues. I do think things are moving faster. The big reason is, this is now a much more cross-functional decision at a much higher point in the Organization. No longer our sales cycles at functional levels mostly. They're much higher. That will be at the Board and CEO level. Those projects tend to move faster than a functional leader trying to drive a project. We do see kind of acceleration in our overall sales cycles.

Jarett Janik

I'd add to that, I think you can see some of that too in where clients would have bought in three parts are now buying in one part. We don't have enough data points yet, Andrew, to say it's a complete trend, but the ASP and the number of things that are being bought together has, I believe, increased so far in this fiscal year.

Andrew Obin

Got you. Maybe among the seven product groups, sort of just to talk about demand across solutions. What's seeing the strongest uplift in demand currently versus the start of the year?

Michael Farlekas

Yes. I think transportation logistics, for sure. Then we're also seeing a pretty big uplift in our collaboration side of our business. That part of our business connects the supply base to the manufacturers and multi-tiers. We've seen significant traction in that area. So those are two big areas. The demand sensing for us is a very differentiated product, and that always has a high demand. But I think from an update from maybe nine months ago, I think those two areas I mentioned would be the greatest uplift.

Andrew Obin

I'm going to be very selfish, but it's just a question I get asked every day. When do you guys think supply chain pressures will get better?

Michael Farlekas

They're going to get incrementally better, it's going to take some time. I know that obviously the President made some comments today about focus on ports, which will be helpful. But you essentially have a supply/demand imbalance going on at this point. It's going to take a while for that to work its way through the system. I think this issue is going to be here with us for six, nine months at least.

I think the implication for us is that people need a different kind of infrastructure to manage a more complex supply chain. What companies really want to do is understand demand more clearly and then be able to react to problems more quickly. Our platform does just that. I think companies that invest in these areas will do better; the ones that don't will continue to struggle.

Andrew Obin

All right. Really appreciate your questions. Thank you.

Michael Farlekas

Thank you.

Jarett Janik

Thanks, Andrew.

Adam Rogers

Our next question comes from Mark Schappel with Loop Capital. Mark, your line is open.

Michael Farlekas

Hi, Mark.

Mark Schappel

Hi, guys. Can you hear me okay?

Michael Farlekas

Yes.

Jarett Janik

How you doing, Mark?

Mark Schappel

First off, very nice job in the quarter. Congratulations, and thanks for taking my question here.

Some of my questions have already been answered. But Michael, starting with you, given the growing headlines around the log jams we're seeing in the U.S. ports, are you seeing increased interest in your INTTRA ocean shipping platform along that front?

Michael Farlekas

More on the visibility side. We already have the very large percentage of ocean bookings, and that continues. But we definitely see visibility being one of the very hot topics. Companies, obviously if they don't know where their products are in the cycle, they want to understand first where it is. Then they also want to link that to what the order was so they can start to understand what implications they have upstream and downstream.

Companies ship product for a specific reason. Our platform allows them to understand not only where the product is but also understand why we shipped in the first place. What that means is they can react more proactively to try to meet the needs of the business on ongoing basis.

Mark Schappel

Great, thanks. Then, while I'm on the ocean shipping theme, on the partner front, I realize it's still early days. But I was wondering, if you just give us an update on your partnership with shipping giant Maersk.

Michael Farlekas

Going really well, going really well. I think we're seeing a lot of positive momentum and uptick. We are in the process of kind of calibrating for what they see is very, very large demand. We're super excited about what that means to us on a very long-term basis. So couldn't be any happier with that partnership, and couldn't be any happier with the reception in the marketplace for that product.

Mark Schappel

Great. And then final here, I was wondering if you just comment a little bit on pipeline yields. I mean, they have been growing for the last couple of quarters, which is good. I assume it's fair to assume that pipeline yields continue to improve for you.

Michael Farlekas

Yes. We measure pipeline and yields very carefully. The pipeline size gives us an indication of what the future is going to hold. Pipeline continues to grow even though we're having very large booking quarters. We're getting incrementally better yield on a larger pipeline.

We see that as very positive for our business and very positive for next several quarters.

Mark Schappel

Okay, great. That's all for me. Thank you.

Michael Farlekas

Thank you, Mark.

Adam Rogers

Our next question comes from Will Kafoure. Will, your line is open.

Michael Farlekas

Hi, Will.

Will Kafoure

Hi, guys. Congrats on the results.

Michael Farlekas

Thanks.

Jarett Janik

Thank you.

Will Kafoure

You mentioned this year some new logo wins and partnerships this year in I guess what I would consider less represented industries for E2open historically, like as healthcare was mentioned this most recent quarter. Maybe talk about what you're seeing from more broad basis and demand from those industries, and how large this might be potentially.

Michael Farlekas

Yes. It could be very large for us. We expect it to be. It'll take time, because what we're really identifying are markets that really need our platform but are a little off-center for us in terms of our core market presence. We identify companies that have large market presence in those areas but don't have technology solutions that we would like to offer them.

For us, it's a matter of developing a much more larger indirect channel and allowing us to participate in markets more quickly than we otherwise could. We think we can add these partnerships sequentially over time. We think they grow larger as they go. We think there's a compounding element to these partnerships. Maersk is the one where we signed earliest. We're actually seeing that compounding opportunity happening as we enter the quarter.

We're super excited about those. We have several more of those types of partnerships in the pipeline that we're actively pursuing.

Will Kafoure

Great. Thank you.

Adam Rogers

Okay. That concludes our conference call this afternoon. Thank you, everyone, for attending.

Michael Farlekas

Thank you all. Have a great day.

Jarett Janik

Thank you.