AudioEye, Inc. NasdaqCM:AEYE

FQ3 2020 Earnings Call Transcripts

Thursday, November 12, 2020 9:30 PM GMT

S&P Global Market Intelligence Estimates

	-FQ2 2020-	-FQ3 2020-	-FY 2020-	-FY 2021-
	CONSENSUS	CONSENSUS	CONSENSUS	CONSENSUS
EPS Normalized	(0.13)	(0.24)	(0.68)	0.06
Revenue (mm)	4.33	4.89	19.99	28.05

Currency: USD
Consensus as of Nov-03-2020 7:32 AM GMT

- EPS NORMALIZED -

	CONSENSUS	ACTUAL	SURPRISE
FQ3 2019	(0.25)	(0.23)	NM
FQ4 2019	(0.27)	(0.14)	NM
FQ1 2020	(0.18)	(0.16)	NM
FQ2 2020	(0.13)	(0.08)	NM

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Call Participants

EXECUTIVES

Carr Bettis
Executive Chairman

David D. Moradi
Interim CEO, Chief Strategy Officer & Director

Sachin Barot
Chief Financial Officer

ANALYSTS

Zachary Cummins
B. Riley Securities, Inc., Research Division

Presentation

Operator

Good afternoon, and welcome to AudioEye's Third Quarter 2020 Earnings conference call. Joining us for today's call are AudioEye's Interim CEO; Mr. David Moradi, Executive Chairman, Dr. Carr Bettis and CFO, Mr. Sach Barot. Following their remarks, we will open up the call for questions from the company's publishing analysts. I would like to remind everyone that this call is being recorded and made available for replay via a link available in the Investor Relations section of the company's website at www.AudioEye.com.

Before I turn the call over to AudioEye's Executive Chairman, the company would like to remind all participants that statements made by the AudioEye management during the course of this conference call that are not historical facts or considered to be forward-looking statements. The Private Securities Litigation Reform Act of 1995 provides a Safe Harbor for such forward-looking statements. The words believe, expect, anticipate, estimate, confidence, will and other similar statements of expression identify forward-looking statements. These statements are predictions, projections or other statements of future events and are based on current expectations and assumptions that are subject to risks and uncertainties. Actual results could differ materially from those factors discussed in today's press release and in the comments made during the conference call and in the Risk Factors section of the company's annual report on Form 10-K, its quarterly reports on Form 10-Q and in its other reports and filings with the Securities and Exchange Commission. Participants on this call are cautioned not to place undue reliance on these forward-looking statements, which reflects management's beliefs only as of the date hereof.

AudioEye does not take any duty to update or correct any forward-looking statements. Further, management's remarks today will include certain non-GAAP financial measures. A reconciliation of the most directly comparable GAAP financial measures to these non-GAAP financial measures is available in the company's earnings release posted in the Investor Relations section of the company's website at www.AudioEye.com.

I would now like to turn the call over to AudioEye's Executive Chairman, Dr. Carr Bettis. Thank you, sir. Please begin.

Carr Bettis
Executive Chairman

Thank you, operator. Welcome, everyone, and thank you for joining us today. After the market closed, we issued a press release announcing our results for the third quarter ended September 30, 2020. A copy of the press release is also available in the Investor Relations section of our website at AudioEye.com. I'll now begin, as we always do, with an overview of our business. AudioEye is a leading provider of SaaS-based digital content accessibility platform and solutions. Our mission, eradicate all barriers to digital accessibility.

We pride ourselves in addressing the largest range of issues that impact many people around the globe. At AudioEye, we also do more than just identify accessibility issues. We strive to fix, maintain and continuously monitor them. We also certify websites to demonstrate compliance with both the American with Disabilities Act, or ADA, and the latest web content accessibility guidelines.

Because many of the remediation capabilities we provide are highly automated, our customers can more quickly gain compliance with accessibility standards, regulations and loss. For our managed and enterprise offerings, these automated processes are coupled with manual testing and remediation by subject matter experts. The result is that we provide our clients with what we believe is the best platform to make their websites and digital content more accessible. We keep their content more accessible through continuous monitoring and remediation, and we offer a trusted certification of conformity with standards.

Furthermore, for our private sector clients, we also provide them a product that gives them an opportunity to gain an ROI from their investment in and commitment to the large population of individuals with disabilities. With the overview of the business completed, I'll move on to highlights around our Q3 execution and what we are seeing so far in the fourth quarter. We had another good quarter. Q3 marks the 19th straight quarter of record revenue. We ended the quarter at just over $5.3 million for the quarter, which was over 90% year-over-year growth from 2019. Our results continue to be driven largely by growth in adoption in our vertical partner and enterprise channels. The monthly recurring revenue, or MRR at the end of the third quarter of 2020 was about $1.7 million, a 67% increase over MRR at the end of the third quarter of 2019.

Gross profit for the second quarter was $3.8 million or about 71% of revenue, which was an approximately 130% increase from $1.6 million or about 59% of revenue in the third quarter of last year. The increase in gross profit and gross margin were a result of our continuous focus on increasing efficiency and remediation automation as revenues grow.

As mentioned in the past, while it may fluctuate somewhat between quarters, overall, we do expect our gross margins to continue to improve on an annual basis. We remain very excited about AudioEye's increasingly scalable SaaS business. New customer acquisition was still strong in Q3, driven largely by traction in our vertical partner channel and some very early results in our marketplace and platform partners. We ended Q3 with approximately 22,000 customers, representing over 500% growth year-over-year, and we more than tripled our customer count since year-end.

As you saw in the press release, on a non-GAAP basis, our EPS loss was $0.02 this quarter. We have previously talked about being cash flow positive at some point in 2021. And based on our results, it is now apparent that we have positioned the business towards that goal. In terms of guidance, we remain committed on growing MRR and becoming cash flow positive in 2021, subject to ongoing economic conditions. Like other businesses, we continue to operate in a challenging economic environment, driven by the global pandemic. Although demand for digital accessibility solutions is strong, as discussed in our Q2 conference call, we continue to see some impact due to COVID-19 with our customers and prospects and across all of our channels, enterprise vertical partners and the marketplace.

On the new business front, we have seen some deals that have been delayed. We've also continued to extend some more flexible pricing and other options to our customers on a case-by-case basis to help them manage through the impact on their own businesses from the pandemic. So far, we have seen some impact on renewals, substantially due to events that are out of our control, such as bankruptcy proceedings or outright business closures. Overall, though, we are still pleased to see retention levels near the 90% rate. We also have a Net Promoter Score or an NPS within our installed enterprise client base in the top quartile for technology and SaaS companies.

Our priority throughout this period has been to continue to strive to deliver best-in-class product and service and to focus heavily on customer and partner success. This is the right thing to do for the long-term in any event, but especially during the current economic conditions. We don't know how long the COVID-19 related economic factors are going to persist, but it is reasonable to expect potential impacts to AudioEye's financial and operating performance going forward.

In short, we believe the business will improve if and when the COVID situation improves. But to be clear, even in the uncertain COVID environment, we do expect continued growth in MRR in the quarters ahead. Furthermore, as David will discuss later, we continue to make investments in key areas that we believe will enable us to continue to grow our customer base. I'm now going to provide a brief update of our different sales channels.

Beginning with our enterprise or direct channel. We continue to bring on new customers, even as the overall business mix has been shifting towards higher growth vertical partners in that channel. In the third quarter, we added prominent brands, and we continued to focus on renewing our contracts. Our PDF remediation business also contributed to enterprise revenue growth in Q3, but not surprisingly, not at the same pace as in Q2. This business continues to provide a good complement to our core web accessibility offerings. Just as a reminder, the PDF remediation business is a project-based service and is not included in our MRR metric.

Moving to our vertical partner, or indirect channel. Customer growth in Q3 continued, and we are very pleased with the momentum we're seeing in this channel. We do expect very strong growth over the next few quarters in the vertical partner channel. We launched marketplace as part of our strategy to make AudioEye more accessible to even more businesses and organizations. In the second quarter, we released more clearly defined simplified pricing that enables our marketplace customers to quickly and easily identify the AudioEye plan that's most appropriate for their current needs, making it a much better usability experience for them.

While I remain the primary point of contact for investors, as you recall from our last call, David Moradi joined as Chief Strategy Officer and interim CEO in mid-August. I am personally thankful for David's willingness to bring his leadership, business acumen and focus as well as his great strategic mind and business instincts to the daily operations of AudioEye.

As a reminder, David is our largest shareholder and a member of our Board of Directors. As our CEO, he is fully in charge of the business operations. Before I turn the call over to David, I have a couple more things worth repeating. David has had a significant influence on the company's strategy and operations since he joined the board in the fourth quarter of last year, and Wally served as the Chairman of the Strategy Committee of the Board of Directors. His guidance and insights significantly help the business scale and gain efficiencies. His commitment and confidence in AudioEye are reflected in the structure of this compensation plan.

David has an annual salary of $1. He only receives his CEO role, related equity compensation if the company achieves significant MRR and stock price growth. He's incentivized to grow the business and create value for shareholders. I'm going to turn the call over now to David. We're really happy to have him here. He can provide you with some organizational and personnel updates and briefly discuss some of our strategic initiatives. David?

David D. Moradi
Interim CEO, Chief Strategy Officer & Director

Thank you, Carr. It is my pleasure to speak with you today. I took on this role believing that we have a special opportunity, which is captured by our single minded determination to achieve our mission, eradicate all barriers to digital accessibility. This is a bold, uncompromising mission and one that requires execution and a great team of leaders and employees. During my tenure as CEO, we have added depth and experience to our leadership. As was discussed on the last earnings call, building on the strategic initiatives put in place last November, we have continued to implement organizational changes in order to accelerate our efforts to build out scalable technology and our go to market.

The center for our technology base is now Portland. This transition has gone very well, and our pace of technology innovation has accelerated even during this transition. Over the past two months, we have added top-tier talent at the company, including Bryan Rodrigues, our recently hired CMO. Most recently, Bryan was Vice President of Marketing and E-Commerce at tile, helping drive significant growth of Tile's core business and playing a key role in the company's expansion through partnerships and subscription services. Prior to Tile, Bryan was part of Livescribe's Executive Management Team, where he oversaw the company's marketing, e-commerce and customer support organization, leading up to its acquisition by Anoto, a publicly traded Swedish firm.

Last week, Russell Griffin joined the leadership team as CRO. Most recently, Russell was Vice President of Global Solution Partnerships and Head of U.S. Sales of ShipStation, driving overall revenue growth 100% year-over-year. Prior to that, Russell was Vice President of Enterprise Sales and Agency Partnerships at BigCommerce; the world's leading Cloud e-commerce platform, where we increased new sales by 50% year-over-year and set record revenue numbers.

This Tuesday, we announced a strategic partnership to integrate AudioEye's digital accessibility platform with Neil

Patel's Ubersuggest SEO platform. The Ubersuggest platform has an average of over 100,000 URL's and over 300,000 keywords check daily and currently provides content ideas, strategy and SEO recommendation. We're giving companies on the platform a free accessibility score and report. This one-of-a-kind tool will give companies unique insights into the accessibility of their websites, providing the knowledge and power to make digital content accessible.

SEO is a top priority in the marketing industry, with 64% of marketers actively investing time to learn SEO. Accessibility is not given the same spotlight with only 2% of websites with a million visitors per month fully accessible to people with disabilities. However, things like all text for images, transcripts of video and audio, proper heading tags and consistent, predictable structures can improve both accessibility and SEO; a win for both consumers and companies. Anyone interested in improving their accessibility will have the option to click on a link, which will direct them to AudioEye's site to sign up for a free trial.

Our focus remains on acquiring customers, growing MRR, increasing margins and becoming cash flow positive in 2021. In short, we believe our strategy is working, and we are well positioned to see explosive growth. I will now turn the call over to Sach to walk through some additional financial results. Sash?

Sachin Barot
Chief Financial Officer

Thanks, David. As Carr mentioned, it is great to have you on board and partner with you to drive long-term growth and deliver shareholder value. I hope everyone continues to be safe and well during this historic and challenging time. As Carr and David described, this was a strong quarter for AudioEye; both the company and our customers continue to find ways to navigate through the ongoing crisis.

Now on to the results, starting with revenue. Revenue in Q3 was a little over $5.3 million, reflecting a 92% increase over Q3 last year. Our revenue performance continues to be led by improved penetration in our vertical partner channel and also contributions from enterprise channel. As mentioned earlier, we continue to better our gross margins, which came in at 71% for this quarter. While this may fluctuate, we expect our margins to continue to grow over time.

Moving to operating expenses. In Q3, opex was $5.4 million, which was an increase of about 43% versus Q3 last year. The drivers of the increase in opex were mostly the same as the last few quarters. That is increased investments in talent across various functions, infrastructure and product development and sales and marketing to drive further growth.

Q3 this year also had about $360,000 of costs related to severance for our teams restructuring. Turning towards the bottom line. Net loss available to common stockholders for the third quarter of 2020 totaled $1.1 million or a loss of $0.12 per share. This compares with a net loss of $2.2 million or a loss of $0.27 per share in Q3 last year. This improvement in net loss [reflects] the increase in our gross profit as we scale and also includes a reversal of warrant liability costs as the line of credit-related warrants were exercised in August.

This net loss also reflects higher equity comp and severance-related charges. From a non-GAAP perspective, our net loss was about $200,000 and EPS was a loss of $0.02. With non-GAAP earnings and EPS reflects adjustment for share-based compensation, costs associated with warrant accounting, interest expense, which mainly includes expense for debt issuance and certain severance cost.

Now on to some additional metrics. As Carr noted, as of September 30, monthly recurring revenue, or MRR, was $1.7 million, which was an increase of about 67% year-over-year. We ended the quarter with about $10.3 million in cash compared to about $2.1 million at the end of the second quarter. Our cash balance reflects contribution of about $900,000 from the warrants exercised by Sero Capital and from the secondary offering we conducted in August.
In closing, I would like to thank all our employees, customers, partners and our shareholders for their continued support as we execute against our vision to bring equality in digital access. And I wish everyone and their families safety and

sound health. With that, we'll open the call for questions. Operator, please give instructions.

Question and Answer

Operator

Thank you. [Operator Instructions.] Our first question today is coming from Zach Cummins of B. Riley FBR. Please go ahead, sir.

Zachary Cummins
B. Riley Securities, Inc., Research Division

I guess, just first question is really going to be around the progress you've seen with transitioning your development resources to Portland. It sounds like that's been relatively smooth. And just additional perspective on that would be helpful.

David D. Moradi
Interim CEO, Chief Strategy Officer & Director

Yes. We are upgrading the product and technology stack. The transition of technology leadership in Portland has gone very, very well.

Zachary Cummins
B. Riley Securities, Inc., Research Division

Understood. That's helpful. And then, Carr, I know you mentioned in your script there, a little bit of elevated level of attrition here in some of these recent months. It sounds like some of that's out of your control. But I mean, can you give us a sense of how we should maybe be thinking about attrition as we go forward from here?

Carr Bettis
Executive Chairman

Yes. So thanks, Zach. Again, the overall level is around 90%. We have seen some churn. We'd say they're primarily driven still by economic conditions like bankruptcies and business closures. And if you think about the retail space and even to some extent, some of the automated space is impacted as well. We do really expect renewals to continue to be strong and even strengthen with the economy strengthening, we expect it to strengthen as well.

Zachary Cummins
B. Riley Securities, Inc., Research Division

Understood. And then in terms of renewal cycles and sales cycles, I mean, it sounds like there was a few delays on both of those fronts and giving some flexible pricing to some customers when necessary. But can you give us an update on kind of what you've seen here in the first kind of month and a half of Q4. It's -- has there been any improvement in either of those metrics? And what we should really be expecting moving forward?

Carr Bettis
Executive Chairman

So looking beyond the third quarter, we do feel pretty good about our growth over the coming quarters. We -- we're not talking specifically about Q4 numbers, right? Zach, you know us pretty well in that regard. But again, we are expecting -- we are -- we like the momentum in the fourth quarter, and we're -- we feel very good about the growth we expect to see over the coming quarters.

Zachary Cummins
B. Riley Securities, Inc., Research Division

Understood. And then kind of just final question for me. I'll gear it towards you, David. Can you outline some of the areas that you think are going to be the biggest opportunity moving forward? We've seen this indirect partner channel really drive a lot of the momentum in recent quarters. But just be curious to hear some of the major growth areas that you're thinking about moving forward and how your new executive hires are going to help play into that strategy?

David D. Moradi
Interim CEO, Chief Strategy Officer & Director

Yes. I think the digital marketplace is going to be huge. This segment has the biggest potential for our business and fits our mission to eradicate all barriers to digital accessibility. Our technology and platform is the best available, and we can deliver at scale. So that's what I'm most excited about.

Operator

Thank this concludes our question-and-answer session. I'd now like to turn the floor back over to Dr. Bettis for his closing remarks.

Carr Bettis
Executive Chairman

Thank you. Thank you very much, everyone, for joining us today. I do want to especially thank our employees, our partners and our investors for their continued support, and we are looking forward to updating you on our next call. Thanks, everyone. Have a good evening.

OperatorThank you. Before we conclude today's call, I'd like to remind everyone that a recording of today's call will be available for replay via a link in the Investors Section of the company's website. Thank you for joining us for AudioEye's Third Quarter 2020 Earnings conference call. You may now disconnect.