Event Transcript

Company: Aconex Limited
Title: 1H 2017 Expectations and Full Year 2017 Outlook

Start of Transcript

Operator: Ladies and gentlemen, today's conference call is due to begin shortly. Until such time, the line will remain on music hold. Please continue to standby, we thank you for your patience.

Ladies and gentlemen, thank you for standing by and welcome to the Aconex Limited trading update conference call. At this time, all participants are in a listen only mode. It will be a presentation followed by a question and answer session. At which time, if you wish to ask a question, you will need to press star one on your telephone. I must advise you that this conference is being recorded today, Monday, 30 January 2017. I would now like to hand the conference over to your first speaker today, Ms Rachel Cooper, Investor Relations Manager of Aconex Limited. Thank you, ma'am, please go ahead.

Rachel Cooper: Good morning everyone. This is Rachel Cooper, Investor Relations Manager at Aconex. Thank you for joining us at such short notice this morning for our call on first half 2017 expectations as outlook.. I'm joined on the call today with Aconex CEO, Leigh Jasper, and CFO Steve Recht. We will open the lines for Q&A following a brief introduction from Leigh. We will talk to our expectations for the first half and provide an update on our FY17 outlook. All the details are in the ASX announcement that was lodged with the ASX this morning.

Before handing over to Leigh, I would like to remind you that we are currently in blackout pending finalisation of our half year results. We will provide more details about our first half performance and longer term outlook on 21 February, when we formally announce our results. I will now hand over to Leigh.

Leigh Jasper: Thanks Rachel, and welcome to everyone. We appreciate you joining the call at such short notice. Earlier this morning, we announced to the ASX our preliminary accounts, which are still being reviewed by the auditors, for the first six months ended 31 December 2016, we now expect sales revenue of $76.5 million to $77.5 million, and earnings before interest taxes, depreciation and amortisation of $6.3 million to $7.3 million.

Although we continue to see solid operating performance overall, sales in Europe and the Americas were below expectations in the first half, particularly in the second quarter. As highlighted at the AGM, we continue to see the impact of market uncertainty caused by Brexit on the European business which has delayed buying decisions. Also, compounded by impacts in the lead up to the presidential election.

I will now move to the full year guidance and talk to some of the factors that have impacted our updated guidance. As discussed, we've seen lower than expected first half sales performance, particularly in the UK and the Americas. Performance in our other regions, the ANZ region, Asia, Europe excluding the UK and the Middle East regions are in line with expectations and doing well.

We're also seeing a high proportion of long term contracts over more years than average resulting in lower additional short term revenue. So, lower flow through from those contracts.

Moving particularly to the UK and Europe, we've seen a fast-unexpected transition to selling Aconex solutions in the UK. This is a positive but has a short-term impact of reducing new business flow through over the last six months. We've also seen the impact of currency movements with the Pound and the Euro on our revenue. As I mentioned before Brexit uncertainty and its impact on buying decisions for our customers.

In the Americas, and particularly in the US, we've seen slower than anticipated ramp up in our user based contracts. The growth of these is based on the rate at which some of our key customers are winning work. We also saw softer than expected sales performance due to the US Presidential election and the transition uncertainty which has impacted buying decisions and slowed down decision making again from our customers.

We continue to invest in products, sales, and marketing, and will continue to do so to take advantage of the global opportunity we have ahead of the business. We also see a strong positive with the release of our Connected Cost product to the market in November 2016.

I'd also highlight the we released our 4C to the market today showing an increase in operating cashflow of $3.9 million compared to the prior period last year. This is a seasonably weaker quarter for us and with a very strong cash result from this seasonally weaker quarter and cashflow.

I now move to summary before taking questions. The first half FY17 revenue, is in the range of $76.5 million to $77.5 million. EBITDA is in the range of $6.3 million to $7.3 million, down on our expectations. Full year revenue growth is therefore in the range of 30% to 34%. Still very strong revenue growth for the business.

We saw lower than expected sales performance in the first half particularly in the UK and the Americas. As I mentioned before performance in our other regions, ANZ, Asia, Europe excluding the UK, and the Middle East being in line or ahead of expectations. FY17 growth rate has been impacted by Brexit and the delayed decision making as mentioned before both within the UK and also in the US.

We saw an increase in our operating cashflow to $3.9 million compared to the prior quarter last year. Overall our operating performance remains solid and we have a strong opportunity pipeline across our regions, including a building pipeline in the UK, and a strong pipeline in the US.

We will see continued investment in product and sales and marketing to capitalise on the large global market opportunity, and continue to balance our long-term growth with profitability. I will now touch on the group outlook. Our revenue is updated to be in the range of $160 million to $165 million of revenue, a year-on-year growth of 30% to 34%, and EBITDA is updated to the range of $15 million to $18 million. Down from our $22 million to $25 million guidance previously. And a year-on-year growth rate of 10% to 32%.

I'd like to thank you all again for joining us on such short notice this morning. Before I open to Q&A, I'd like to remind you that we do remain in communications blackout pending finalisation of our half year results. We will focus today on the details outlined in the announcement lodged with the ASX earlier this morning.

Additional information on first half performance will be provided when we release our half year results on 21 February 2017. I would now like to open a Q&A session for questions. Thank you.

Operator: Ladies and gentleman, we will now begin the question and answer session. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request at any time, please press the pound or hash key. Your first question comes from the line of James Bales from Morgan Stanley. Please go ahead.

James Bales: (Morgan Stanley, Analyst) Hi guys. Firstly, I'd just like to understand a bit more about what has happened. It implies a big miss especially in the Americas and UK in a business where at the start of the year you have 72% of revenue is locked in. Can you explain what happened and has the miss all been a result of new sales? Or has there been work that's been locked in that hasn't come to fruition?

Leigh Jasper: Thanks James. This is a combination of factors. We have seen slightly slower new sales in the UK and the US being primary markets where we were down in our expectations. That said, primarily it hasn't flown through to revenue quite as quickly as we'd expect given a high proportion of very long contracts in our sales results over the last six months.

We also saw some one-off impacts associated with bringing the Conject business into Aconex. Our aligning financials to how we recognise revenue and how we bring revenue into account in the Aconex business. So, that accounts for some of that miss in Europe. In our other regions, we're seeing sales progress as expected, and seen revenue progress as expected in those regions.

The other point I would note is that there is a currency impact as well of around $1 million on revenue from the Pound and the Euro.

James Bales: (Morgan Stanley, Analyst) That's since the last guidance?

Leigh Jasper: It's in addition to guidance. I think that's right.

James Bales: (Morgan Stanley, Analyst) What about the change in the total value of pipeline? Has that decelerated materially?

Leigh Jasper: No, we're seeing, I mean in terms of pipeline growth we're seeing the pipeline grow as we would have expected during the year. I think we have seen some delays in decision making, so by definition that also tends to increase your pipeline if deals get pushed back. But certainly, given large infrastructure programs, uncertainty can mean that those get pushed back. At this stage, we've seen no issues with the overall pipeline and that continued to grow in line with expectations.

I think the way we see this is really a, if you like, a pause in the growth in business rather than a change in the long-term outlook for how we would expect the business to grow.

James Bales: (Morgan Stanley, Analyst) So, you still believe in the 20% long term sales growth target?

Leigh Jasper: At this stage, yes. We will obviously do more work on our forward forecast over the coming weeks. At this stage, we and I believe that we still have a very large market we're selling into. We've had growth rate in excess of 20% to 25% on a compounding basis for many years. Given the fact that we're selling to a large market, big market opportunity and we've been able to grow consistently at that growth rate or higher, we believe that we will be able to operate high growth rates moving forward.

James Bales: (Morgan Stanley, Analyst) Then finally the cost base that's implied in guidance is lower, is there any scale back of sales marketing and R&D as a result of the softness in revenue you've experienced?

Leigh Jasper: The nature of the business of course is that we have very high gross margin. So, if we see a blow on revenue that can flow straight through to the bottom line. Through to EBITDA. We are of course looking to balance profitability and growth. We have been controlling some of that investment. As I mentioned before, we will continue to invest in growth. We have pulled it back a little bit from our original expectations, but certainly moving forward we expect to continue to invest in growth and we'll do it in the next half. We continue to invest in sales, in marketing, and in the product.

James Bales: (Morgan Stanley, Analyst) Right, thanks.

Operator: Your next question comes from the line of Wassim Kisirwani from Deutsche Bank. Please go ahead.

Wassim Kisirwani: (Deutshce Bank, Analyst) Good morning guys. Just interested in that comment around its slower than expected ramp up in the user based enterprise contracts. Can you just elaborate on what's brought that on what's sort of be expected once an enterprise agreement or any sort of agreement is in place that that visibility over the user base, I assume, will be pretty good. Can you maybe elaborate on where the shortfall there is?

Leigh Jasper: Just to refresh our investor we have two types of enterprise contracts. The majority of enterprise contracts are in fixed volume contracts based on the amount of work that our customer is delivering over a period. We essentially recognise revenue evenly on those contracts.

In the US, however, we have a number of our large customers there, without mentioning any names, who are on user based contracts. We of course are dependent on how quickly they win work and how quickly they move those projects across on to Aconex. We're seeing I think generally due to the weakness in the US, particularly in the oil and gas sector, and in the mining sector, that if some of those customers have not brought on projects quite as quickly as we expected. We are seeing positive signs that is starting to ramp a bit now, but we are certainly below expectations of just how quickly the number of users this would ramp.

We still have strong buy-in from those customers and strong use of the Aconex product. We would expect to ramp as their business refuels after the downturn in those sectors.

Wassim Kisirwani: (Deutsche Bank, Analyst) Just given the sort of perhaps volatility and visibility around some of those contracts, any change of thought around particularly in the user based model any differently at this stage?

Leigh Jasper: I think we'll continue to use that model where it makes sense for us and our customers. I think for very large contractors and very large owners, it's a pretty good way to engage because it allows people to ramp up their usage over time. I think in most markets we'll tend to do fixed price contracts based on the volume of work they're doing. But, as required, and this is often just more just doing the right thing for us and the customer in getting the best agreement that works for both of us, we will still see some user based deals moving forward.

I think one thing we would of course be a little bit more cautious on how fast we expect those to ramp as that's where our expectations are just a bit higher on how quickly those would ramp this year.

Wassim Kisirwani: (Deutsche Bank, Analyst) Okay, thank you.

Operator: Your next question comes from the line of Adam Simpson from Macquarie. Please go ahead.

Adam Simpson: (Macquarie Analyst) G'day Leigh. Just wanting to talk a little bit more about Conject and how you're seeing that performance. Are we right to annualise the $9 million of sales cash receipts that [is that businesses] revenue for this period, for this year? Is that right?

Leigh Jasper: Look, I think that's broadly right. I think in hindsight we expected to be able to grow that business during integration. I think in hindsight that was probably a little aggressive. That business is performing well now. We've integrated it. Strategic rationale for the acquisition we believe is maintained. It's a good business. I would also point out in particular, the pipeline in the UK has seen very good performance. It's a German business now and across the rest of Europe, and a transition in a number of those markets to selling Aconex which has been faster than expected.

Notwithstanding in the UK, I think that business is performing well, and we expect the UK to go through this transition period and filling out their pipeline is filling Aconex and we expect that to step up in coming quarters.

I think integration is going well. We still maintain - we've maintained all the customer base. We have, in terms of staffing – all the key staff that we've wanted to retain in the business have been retained, and so that integration we think has gone very well. Just a pause in terms of its growth and we would expect to be able to get back to higher growth rates over the next six to 12 months.

Adam Simpson: (Macquarie Analyst) So, are you saying the Conject is sort of flat year-on-year through that integration process?

Leigh Jasper: Essentially yes, flat and I think we covered revenue and obviously EBITDA to account a one-time dip down in some of the revenue recognition for certain deals that they have so if it it will be a little bit down in the first three to six months before things are stepping up.

Adam Simpson: (Macquarie Analyst) [That's fine for me]. Just looking at this sector what's implied by your guidance for the second half? You are still seeing a reasonable step up there. Can you talk about your visibility of work locked in for the second half?

Leigh Jasper: Yes, we have - without giving exact figures we have very - and we can talk to this perhaps at the half year results - we do of course - we still have very strong visibility and I would think that visibility - we feel confident on that forecast because of (a) the work we've done in integrating the business and making sure it all aligns to our revenue recognition policies, but more broadly across the business the trail that we continue to build up obviously underpins a lot of that revenue guidance.

So, a high degree of certainty over that forecast moving forward and a much higher degree of certainty than what we would have at the start of the year for example, just given the much high percentage of, you know sort of 90%-plus of the total of the year locked in.

Operator: Your next question comes from the line of Ross Barrows from Citigroup. Please go ahead.

Ross Barrows: (Citigroup, Analyst) Good morning, I just have two questions. Firstly, in terms of the guidance, if you could give us a bit more colour on the second quarter versus the first quarter? I'm just - I guess the angles I'm looking for is whether or not Aconex factored in an improvement in the second quarter that didn't eventuate, that you've alluded to from the considerations you spoke to, or were there some other factors that we could think about outside of that? Was it primarily just not getting the traction in those two regions?

Leigh Jasper: Yes, we still saw growth in the second quarter but it just wasn't to the degree we expected. We expect quarter on quarter growth to step up over the year and we saw that second quarter was weaker in terms of revenue and - yes, revenue growth and also the major reasons I've already discussed was weaker than expected. So that then - so certainly that second quarter was - the first quarter was – we already talked to some of the factors there. We saw some of those flow through the second quarter plus another compounding factors such as a slowdown in throughput in the US.

Ross Barrows: (Citigroup, Analyst) Just a second one on the cash flows; $42 million roughly for the second quarter seemed to be quite strong and pleasing I guess in your words. Could you I guess give some insight given it is specifically a tough quarter from a cash flow perspective what the pleasing components in that were?

Leigh Jasper: We saw a very good collections, so collections stepped up markedly on this time last year. Of course we have Conject numbers included in that, but including the Conject numbers a 60% increase in collections over the prior period. I think we still have bonuses of course that are paid in that quarter which is one of the reasons why it's seasonably a bit weaker - I think was a good sign.

But I think one of the things that - we still see very strong cash flow in the business and it can move more into quarter but that cash flow - it generates and collections generate in line with revenue. Of course, we're still seeing an unwind as we talked to at the AGM of that upfront invoicing. That's been unwinding through our collections, but that's an effect that is depressing in the short term, but nonetheless we still saw very strong cash flow. As that realigns we'll see our collections and our revenue will be very closely matched.

Ross Barrows: (Citigroup, Analyst) Thank you.

Leigh Jasper: The other thing I'd say is that just directionally we saw our strongest ever invoicing in the quarter and that's both in the first quarter and the second quarter. So, we continue to grow the business quarter on quarter and there's been strong trends both in sales so record sales quarters, and also record invoicing quarters.

Operator: Ladies and gentlemen just a reminder, if you do wish to ask a question today please press star one on your telephone and wait for your name to be announced. Once again ladies and gentlemen, if you do wish to ask a question today please press star one on your telephone and wait for your name to be announced.

There are no further questions at this time. I would now like to hand the conference back to today's presenters. Please continue.

Leigh Jasper: I think that wraps up the questions. Just a reminder that we are in blackout. I think we can comment, correct me if I'm wrong, general counsel, on information that we've disclosed to the markets today, but anything to do with the half results and obviously further guidance, will be at our first - our results on 21 February.

Thank you all for your questions. [Unclear] anything else?

Leigh Jasper: I think we're all done. Thank you all and thanks again for the questions.

Operator: Ladies and gentlemen that does conclude our conference for today. Thank you for participating. You may now disconnect.

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