

OneStream Q2 2024 Earnings Call

Annie Leschin, VP Investor Relations and Strategic Finance

Thank you, operator. Good afternoon, everyone. Welcome to OneStream's second-quarter 2024 earnings conference call. Joining me on the call today is our co-founder and CEO, Tom Shea, and our CFO, Bill Koefoed.

The press release announcing our second-quarter results issued earlier today is posted on our Investor Relations website at investor.onestream.com, along with an earnings highlights presentation. Before we get started, I'd like to let everyone know that we plan to participate in two conferences in the upcoming weeks. The first is Citi's 2024 Global TMT Conference in New York on September 5th, and the second is the Goldman Sachs Communacopia & Technology Conference in San Francisco on September 11th.

Just a reminder that we previously disclosed preliminary estimates for certain Q2 operating results – including revenue, GAAP & non-GAAP operating loss and free cash flow – under the Recent Operating Results section of our IPO registration statement, filed with the SEC on July 15, 2024. As a result, please note that historical and projected financials have already contemplated these results and their impact on future quarters. Today, we are providing the complete and actual Q2 financial results, and our guidance for Q3 and the full year.

Now let me remind everyone that some of the statements on today's call are forward-looking, including statements related to guidance for the third quarter ending September 30, 2024 and the year ending December 31, 2024.

Forward-looking statements are subject to known and unknown risks, uncertainties, assumptions and other factors. Some of these risks are described in greater detail in our Prospectus dated July 23, 2024,

filed with the SEC on July 24, 2024, and in the other documents we file with the SEC from time to time, including our Quarterly Report on Form 10-Q for the quarter ended June 30, 2024. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by law.

During our call today we will also reference certain non-GAAP financial measures. There are limitations to our non-GAAP measures, and they may not be comparable to similarly titled measures of other companies. The non-GAAP measures referenced on today's call should not be considered in isolation from or as a substitute for their most directly comparable GAAP measures. Our management believes that our non-GAAP measures provide meaningful supplemental information regarding our performance and liquidity by excluding certain expenses that may not be indicative of our ongoing core operating performance. Reconciliations of our non-GAAP measures to the most directly comparable GAAP measures can be found in this afternoon's press release and the earnings highlights presentation posted on our Investor Relations website.

Now I'll turn it over to Tom, Tom?

Tom Shea, CEO

Welcome everyone and thank you for joining us this afternoon for our first earnings call as a public company. We are excited to review our strong second quarter performance with you. And for those of you new to our story, I thought I'd spend some time sharing a bit about OneStream – how we got here, how we are modernizing the office of the CFO, and the opportunity ahead.

So, let's start with a few key highlights from the quarter.

- Q2 total revenue increased 36% y/y and subscription revenue grew 44% y/y.

- We were cash flow positive for our 3rd consecutive quarter.
- And we hosted our largest ever Splash user conference in May, where we introduced a record number of platform innovations and saw a 20%+ increase in attendance.
- We accomplished all this against an improving, if still challenging, macro environment.
- With this backdrop, CFOs understand they must invest to modernize their financial architecture and go beyond just reporting on past performance to become a strategic driver of the business. The OneStream platform's ability to rationalize multiple point solutions and provide an exceptional level of insight is ideally positioned to meet this need. We're fortunate to say that even in uncertain times – and possibly because of them -- our customers are acknowledging the importance of investing in modernizing their finance departments, improving visibility, and positioning themselves for the future.

We remain convinced that our market opportunity is stronger than ever, based on three important trends.

First: while digital transformation in finance is underway, it's still in the early innings.

Finance departments have been slow to fully embrace and trust the cloud, leaving them to play catch-up with their own digital transformation. While other operational areas including Sales, IT and HR have been digitizing their environments for the last two decades, we believe only a small percent of cloud transformations from legacy finance applications have occurred thus far. Now that finance departments have begun to accept the cloud, and we believe it is just a matter of time before more CFOs ultimately recognize the need for a unified, cloud-based platform to provide a single view into financial and operational data across the enterprise.

Second: CFOs are being tasked with becoming more strategic, and integrating finance with operations is imperative in this effort.

Historically, closing the books and reporting quarterly financials were the sole focus of the CFO. Today's CFOs are increasingly being asked to work more closely with the CEO and Board to provide strategic insights and operational planning to help steer the business and drive execution. This requires CFOs to have tools like dynamic reporting to meet the requirements of a changing business and complement the static nature of a traditional ERP system. Our platform provides operational agility and a unified view into financial and operational data across the enterprise which is enabling CFOs and their organizations to excel.

Third: AI / ML is an opportunity to increase the value of knowledge workers and business performance.

As customers become efficient at managing their core financial duties and are reliably able to provide accurate reporting to their boards and management teams, CEOs are wanting even more analysis – both financial and operational – to help run their companies more efficiently. It's just the natural evolution. Together with ML, AI is increasing the value of knowledge workers, who require accurate, real-time data that OneStream's platform can provide.

To respond to these trends, OneStream developed the Operating System for Modern Finance, unifying a multitude of financial functions on our cloud-based platform and providing an exceptional level of insight to our customers.

Our platform addresses three primary growth areas:

- Core Finance Solutions or “Core CPM”
- Financial & Operational Planning and Performance Applications

- Applied AI-Driven Forecasting and Performance Management

We began by addressing the **core finance solutions**, leveraging our unique legacy and strength in financial close and consolidation, and extending to planning and reporting. Ingesting data from almost any ERP system, OneStream unifies core finance solutions on a single, modern platform, providing a Single Source of Truth across the enterprise. And unlike existing legacy systems, our unique extensible dimensionality capability delivers finance the reporting standards and controls it needs with the flexibility for business units, functions, and locations to report and plan at additional levels of detail without impacting corporate standards. We estimate that this legacy replacement alone represents a roughly \$10B market opportunity, with only a small percentage converted to the cloud thus far.

OneStream is a true software **platform** that enables partners and customers to write software on our software to build industry- or functional-specific applications atop our platform and leverage our common data model and security. This opens the door to the continued expansion of new solutions available through our Solutions Exchange, leading to higher innovation velocity, expanding revenue streams, greater utility, and faster time-to-value for customers.

Second, as customers became more reliant on OneStream, they began asking us to solve new, more diverse problems outside our core. As a result, we moved beyond solely helping customers improve their core financial close, reporting, and planning, to streamlining additional financial processes – like account reconciliation and transaction matching -- and actually steering operations. By extending past traditional CPM with expanded Operational Solutions – like Sales Performance Management, Workforce planning, and ESG -- we are now providing value far exceeding our original mandate and playing an important role in speeding and optimizing day-to-day business operations and planning across the enterprise. Importantly, moving into operations firmly solidified our position as the ‘Single Source of Truth’ for our customers.

Third, this extensibility also encompasses our approach to AI. We saw the transformational potential AI held for the Office of the CFO since our inception. We began coding to bring AI and machine-learning into our platform nearly a decade ago, with the intent of building packaged AI solutions to enhance key financial processes and decisions. Our first purpose-built Finance AI product was Sensible Machine Learning, which was created so companies could leverage real time data and analysis to improve their demand forecasting without requiring significant data science resources. The repeatable, transparent, and measurable value of Sensible ML is generating, in many cases, a significant improvement in demand forecasting for customers, which is a significant ROI for their investment. While still early days, our ML product has been proven in the market at multiple customers and become an important differentiator of our platform. We are leveraging the same customer trust and transparency generated by Sensible ML in developing our AI roadmap which you will hear more about as we continue to develop it.

We currently serve over 1,400 customers in approximately 45 countries with over 30% of total revenue coming from outside the U.S. Our blue-chip customer base represents virtually every major vertical.

Now let me turn to how our progress in our three growth areas: Core Finance Solutions or “Core CPM,” Financial & Operational Planning and Performance Solutions, and Applied AI-Driven Forecasting and Performance Management is translating into tangible results with some of our latest customer wins in Q2.

- One of the largest US manufacturers of medical devices signed a 7-figure deal for our Core CPM – financial close, consolidation, reporting and analysis – as well as our Sensible ML. More and more, we are hearing from customers that the platform vision, including Sensible ML and eventually Sensible GenAI, is an increasingly important differentiator. It’s the extensibility of our platform, as we present customers with a full journey from core to advanced analytics, that both attracts and retains customers, reflected in our historically

- strong retention. The depth of our platform also aligns with the ongoing trend to streamline the number of disparate systems utilized. In this case, we replaced six-point solutions with our platform. On average, we replace two to six-point solutions with every new customer win. This win is also an example of the power of our strategic relationship with Microsoft.
- Another new Sensible M/L and AI customer this quarter was a supplier of products and services to military and defense contractors worldwide. This customer also signed a 7-figure deal encompassing our Core CPM offerings including financial consolidation, management reporting, and our Sensible ML. Looking ahead, they plan to add Financial Planning & Analysis in their second phase. This is a great example of how we begin discussions with our customers – ‘First do the core, and then do more.’
 - Finally, I want to highlight a win we had this quarter with the second-largest banking group in France, Groupe BPCE (Banque Populaire & Caisse d’Epargne). One of the key reasons that OneStream’s Core CPM was chosen came from the bank’s stated objective to replace four consolidation systems with one modern and unified solution. This foundational win is a beachhead in a pivotal region for us. This 7-figure deal is enabling over a thousand users with our technology to service 35 million customers around the globe.

In our continuing effort to engage with and further enable our customers, our Splash user conference in May once again attracted a record number of customers and prospects.

As you know, everything about our User Conference is focused on customers. Our goal from the very beginning was 100% customer satisfaction, and today is no different. Every customer serves as a reference for OneStream.

At Splash, where more than 80 customers shared how they are utilizing the OneStream platform to deliver not only performance, but also to start leveraging the platform to strategically steer their business to the future.

We were particularly excited about the 12 product innovations that we shared at this year's event – the most we have ever delivered at one time. Let me give you a couple of notes:

1. Our **certified Microsoft Power BI Connector** provides a no-code seamless integration that allows finance leaders to quickly connect and consume trusted financial and operational data from OneStream within Microsoft's Power BI.
2. Our **Advanced Narrative Reporting** is an intelligent capability that unifies and streamlines financial report creation — all linked to validated OneStream data. Capabilities including centralizing narrative report assembly and automating the gathering of key data, charts, and spreadsheets into narrative books are helping customers save hours of time and reduce risk and reporting errors.
3. Our **CPM Express** product creates a simplified and pre-packaged version of our core CPM capabilities including financial close, consolidation, budgeting, reporting, and forecasting. With pre-built functionality, pre-defined reports and guided configuration, CPM Express targets our commercial customers, simplifying core activities and speeding up processes across the finance function.
4. Finally, demonstrating the extensibility of the OneStream platform, we announced a new partner solution built on OneStream. The new PartnerPlace solution, **Infinity Sales Performance Management**, empowers FP&A and Revenue teams to plan, manage and analyze sales performance across the enterprise. This unified approach eliminates data siloes and misaligned objectives and helps finance leaders steer the business towards growth.

We look forward to continuing momentum at our EMEA Splash user conference in mid-September in Copenhagen, and at our Wave developer conference in November.

Now let me turn the call over to Bill for a more detailed discussion about Q2 and our outlook for the balance of the year.

Bill Koefoed, CFO

Thanks Tom. Let me just echo Tom's comments about how excited we are to have completed our successful initial public offering and to welcome you all to our Q2 earnings call.

As this is our first call, I'd like to begin with a quick review of our model. After that, I'll walk through our Q2 financials and then end with our guidance for Q3 and the full year.

We have a highly predictable subscription revenue model, which continues to show impressive growth at scale. Currently, a large percentage of our revenue comes from our subscription business, which includes SaaS contracts, post-contract customer support and cloud computing fees. The remainder of our revenue comes from term-based software license renewals, which we expect to continue to decline as we convert customers to SaaS – as well as Professional Services & Other revenue associated with implementation, consulting services and training.

Our best-in-class gross retention rate offers consistent predictability and visibility. The leverage in our model can also drive significant free cash flow, even as we continue to invest in the expansion of our platform and maintain our industry-leading position.

So, let's turn to the quarter.

As Annie mentioned earlier, as part of the Recent Developments section of our S-1 filed with the SEC on July 15, 2024, and our IPO prospectus filed on July 24, 2024, we disclosed preliminary estimated Q2 results in ranges as we had not quite finished all of our close procedures and review. We are pleased that our actual revenue results came in at the high end of the range. Total GAAP revenue in Q2 increased 36% year-over-year to \$118 million. Subscription revenue grew 44% year-over-year to \$103 million. Professional Services and other revenue for the quarter was \$7 million, down 7% from the second quarter last year. This was driven mainly by the continued leveraging of our expanding partner ecosystem for implementation work.

International revenue represented roughly 31% of total revenue.

Consistent with prior quarters, more than 60% of our business came from new customers this quarter, as our new logo engine continues to be a key differentiator. That growth, coupled with our strong gross retention, is also enabling ongoing expansions by existing customers, both of which we expect to drive revenue growth for many years to come.

Our billings increased 23% year-over-year to \$126 million.

We ended the quarter with 1,482 total customers, up 19% year-over-year. Of those, over 80 customers had greater than \$1 million in ARR.

Remaining Performance Obligations, or RPO, increased 37% year-over-year to \$972 million, demonstrating the value of customers making long-term commitments to OneStream. Twelve-month cRPO was up 41% year-over-year.

Our non-GAAP gross margin was 69% for the second quarter, up about 200 basis points from last year, reflecting the growth of recurring revenues and programs put in place to improve efficiency and execution.

Non-GAAP operating expenses for Q2 increased 25% year-over-year. We continue to manage the business for efficient growth and operating leverage and have prioritized our spending accordingly.

Our non-GAAP operating loss for the quarter was \$9 million compared to a loss of \$13 million in Q2 last year. This translated to a non-GAAP operating margin for the quarter of negative 7%, an 800 bp improvement over last year.

For the third consecutive quarter, we were free cash flow positive, having generated \$8 million in Q2. We ended the quarter with \$141 million in cash and equivalents.

Subsequent to the end of the quarter, we completed our Initial Public Offering. We sold 28.2 million shares of Class A common stock, including shares sold by the company and selling stockholders, and the full exercise of the underwriter's over-allotment option. We increased our cash balance by roughly \$350 million after deducting underwriting discounts and commissions, which will be used for general corporate purposes.

Outlook

Before I give guidance, just a reminder of Annie's earlier comments on our Q2 results. As part of the Recent Developments section in our S-1 dated July 15, 2024, and our IPO prospectus filed with the SEC on July 24, 2024, we disclosed preliminary, estimated Q2 results for revenue, operating income, and cash flow. As such, future expectations have already contemplated these results in the outlook.

Let me also review some of the factors you should keep in mind when considering our outlook for the third quarter:

First, just a reminder that our third quarter revenue is impacted by term license renewals, predominantly with U.S. government agencies whose fiscal year ends in September. These large, multi-year deals are generally recognized annually per their contract requirements. Additionally,

in 2023, we had a large, 3-year term renewal that resulted in significant license revenue in Q3 2023.

Next, for Q3 we expect Sales & Marketing to increase as a percentage of revenue while we invest in key areas including our branding strategy. Additionally, R&D remains an important investment area for us, especially as we expand our ML & AI efforts and build out the Solutions Exchange.

We also currently anticipate stock-based compensation charges of approximately \$275-280 million, \$260 million of which is non-recurring related to the IPO.

Finally, we expect to drive efficient growth and to be free cash flow positive for the full fiscal year.

Our guidance for Q3 2024 is as follows:

- We expect subscription revenue growth to continue at more than 35% in Q3, but due to the term license revenue headwinds I noted, total revenue for Q3 is expected to be \$123 million to \$125 million.
- Non-GAAP operating margin is expected to be (2%) to 0%.
- Non-GAAP net loss per share is expected to be (\$0.01) to \$0.01.

Our Full Year 2024 Guidance is as follows:

- Total revenue for 2024 is expected to be \$476 million to \$480 million.
- Non-GAAP operating margin is expected to be (5%) to (1%)
- Non-GAAP net loss per share is expected to be (\$0.05) to \$0.01.

Before I turn the call back to Tom for his closing, I just wanted to share my excitement about OneStream. I am all too aware of the need for CFOs to become more strategic and operationally focused.

I believe OneStream is incredibly well-positioned to meet the accelerating demand of the market.

Matching our platform capabilities with the increased visibility we enjoy as a public company leaves us very optimistic about the opportunity ahead.

Now let me turn the call back to Tom.

Tom Shea, CEO

Thanks Bill.

I want to take a moment to thank the global OneStream team for their incredible commitment, hard work, and loyalty. From our founding to our most recent achievements including our successful IPO and solid start to 2024, none of this would be possible without you as well as our amazing partners and customers around the world.

I want to be clear that we recognize the IPO as the start of the next chapter in OneStream's story. When we met with many of you over the past weeks and months, we shared a very exciting and ambitious plan for OneStream. As CEO, my job is to ensure we never lose sight of those commitments, and that we make the right investments to continue building out our platform with industry-leading products and solutions. I want to be sure the foresight and long-term focus we have shown in making important investments such as ML and AI, continue to drive our future decisions.

As proud as I am of OneStream's achievements to date, I have never been more optimistic about our future, and I believe we are just getting started.