

OneStream Q3 2024 Earnings Call

Annie Leschin, VP Investor Relations and Strategic Finance

Thank you, operator. Good afternoon, everyone. Welcome to OneStream's third-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 third-quarter results issued earlier today is posted on our Investor Relations website at investor.onestream.com, along with an earnings highlights presentation.

Now let me remind everyone that some of the statements on today's call are forward-looking, including statements related to guidance for the fourth quarter and 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 the documents we file with the SEC from time to time, including our Quarterly Report on Form 10-Q for the quarter ended September 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

Thank you Annie and thank you for joining us this afternoon to review our third quarter financial results.

We're pleased to report another solid performance. The team once again showed strong execution against the vision we outlined for you during our IPO. With one consolidated platform, OneStream is eliminating complexity for the Office of the CFO by combining a unified view of financial and operational data with analytical and performance management capabilities, to "Take Finance Further."

We grew subscription revenue 39% year-over-year in the third quarter and were once again free cash flow positive. We also hosted our second successful user conference of the year, Splash EMEA in Copenhagen, where we expanded on the slate of new innovations we've introduced thus far this year, among other achievements. All of this progress reflects our continued investment to drive durable growth.

While the macro-economic and geo-political state of affairs continue to grab headlines, at OneStream, we saw a consistent market environment relative to last quarter. We believe the need to invest in modernizing the finance function, to improve visibility, and allow the CFO to become a strategic driver of the business, has become a core requirement to effectively compete, regardless of industry or economic environment. This trend was echoed in the findings of our Finance 2035 Initiative, launched this quarter, which I will touch upon shortly.

The three factors that drove us to create a cloud-native CPM solution are still the core trends driving the market today. To quickly review:

First, finance has begun to digitally transform, but because it started the process so far behind many other operational areas, it is still very early in the transformation. More and more CFOs recognize the need for a cloud-based platform to provide a single view into financial and operational data across the enterprise. Finance departments have begun to accept, and even demand, an operating system that unifies a multitude of financial functions, providing an exceptional level of insight and analysis.

Second, CFOs are being asked to do more, transitioning from ‘just’ reporting on past performance, to steering the business toward the future. With all of the uncertainty businesses face today – from geopolitical, to macro-economic, financial, and regulatory – OneStream’s platform enables CFOs to manage these factors and start driving “real” strategic value for the business.

Finally, AI and ML are increasing the value of knowledge workers and business performance. The OneStream platform unifies financial and operational data and processes on one common data model, using embedded AI to make more informed decisions, and plan better and faster.

Our success in addressing these three trends has always centered on our extensible platform – and our ability to consistently expand its functionality both through rapid and innovative product development and successfully bringing these new technologies to market. At our Splash EMEA user conference in September, we introduced three new innovations, bringing our total this year to 15, capping what I believe has been one of the most innovative periods in the company’s history.

These include:

- 1) We introduced Navigation Center, which builds upon our advanced Narrative Reporting capabilities to streamline access to reports and bookmarks, and critical audit and narrative documents in one place.
- 2) We expanded our applied Finance AI offerings to include AI-Powered Anomaly Detection, a pre-packaged AI method that helps finance leaders detect anomalies for data cleansing, consolidation, and reporting. This is part of OneStream’s Sensible AI portfolio, which includes Sensible Machine Learning, Sensible GenAI and Sensible AI Library, which includes a growing collection of pre-packaged AI routines including ones for forecasting and scenario planning.
- 3) As further evidence of continued innovations on the OneStream platform, we showcased expanded Solutions Exchange offerings to support Tax Pillar 2 regulatory reporting. OneStream announced the availability of Pillar 2 tax criteria solutions from both BDO/Inlumi and AMCO – all

built atop the OneStream platform and all leveraging the unified data inherent within it. With these new offerings, we now have 100 solutions on Solutions Exchange, demonstrating our ongoing support for the evolving needs of global organizations and our commitment to continually adding value and utility to our customers' OneStream investments.

In the coming year, you can expect us to focus primarily on driving these many innovations into our installed base, even as we continue investing to further our technology leadership.

Now let me turn to our customers. One of the great, and unique, things about our Splash user conferences is that we let our customers do the talking. From asking questions to sharing experiences with peers on how they are leveraging OneStream to drive productivity and analytics, to working with our team to inspire the next innovation. For those of you who weren't able to join us in Copenhagen, let me share a couple of quick examples of what we heard.

Let me begin with the 10-year partnership that we have developed with a large shipping and logistics company. Their presentation during the Splash keynote demonstrated their enthusiasm for OneStream and how they have continued to expand their use of our platform. Building upon their use of OneStream's unified financial consolidation, reporting, and forecasting applications they recently added our pillar 2 tax solution, along with our ESG and intercompany transaction matching solutions. Today, they are using OneStream to support over 1,000 legal entities globally, and there is plenty of room to grow. Continuing to expand use and value with long-standing customers is at the core of our durable growth strategy.

Another customer on stage was one of the largest retailers in Europe with over 1,300 locations and 8,500 employees. Their success turns on the accuracy of their forecasting – ensuring the right product, in the right quantity, in the right location. Today, they are using OneStream's financial planning and consolidation, and following a successful proof of value, they have begun deploying Sensible ML to advance their forecasting journey. And we're excited to see what they do next.

These are just a few examples of the customers that joined us in Copenhagen to share their excitement, satisfaction, and successful journeys thus far with OneStream.

We had 52 net new customers join OneStream this quarter, bringing our total customer count to over 1500. Let me highlight a couple of key wins that demonstrate just how important our platform is becoming to companies and governments worldwide.

I'll start with a few wins among government agencies, which are always important in Q3. This quarter we added a large government agency in Washington, D.C., which was looking to replace multiple legacy siloed applications. The organization picked OneStream as a single source of truth for reporting, planning and monitoring. We will be replacing 2 legacy point solutions used for their budget formulation & execution. These manual, error-prone, older solutions implemented more than a decade ago did not provide the enterprise-wide level detail needed to effectively manage this agency.

OneStream will consolidate their budget & financial processes and significantly upgrade their reporting as well. Users will now utilize OneStream for all their budget requests, staff planning, execution plans, and execution results.

The Defense Logistics Agency was another government agency that selected OneStream this quarter in a multi-million-dollar deal. With over 25,000 employees, the Defense Logistics Agency is the largest combat support agency, providing logistics to the DoD, civilian agencies, and foreign countries. This is a very important agency that, among other things, has provided meals, fuel, and supplies to FEMA after hurricanes.

For more than a decade, the DLA had been using an expensive combination of contractor support with a SaaS license for financial statement preparation and budget formulation. Utilizing OneStream's Core CPM, the DLA will now be able to automate everything from DoD planning programming, to providing a complete and accurate budget, creating, and performing automated reconciliations, preparing federal

financial statements and producing a consolidated annual financial report – all while simultaneously lowering its costs.

We also enjoyed a solid quarter in EMEA. Continuing to build on our position in France as a natural successor to legacy finance solutions, we added JC Decaux, the world leader in outdoor advertising. Facing the obsolescence of its current legacy consolidation and reporting tool, the company took the opportunity to rethink the scope of its current data model and processes in light of changing market standards, regulatory and financial statement requirements. The implementation of OneStream’s performance management tool will not only improve consolidation, reporting and disclosure, but also provide them with a flexible solution to adapt and support future needs such as ESG and changing regulatory requirements. Similar to the Groupe BPCE deal discussed last quarter, the JC Decaux win is a foundational win replacing a significant legacy system and solidifying our credibility in the region.

One last customer I want to highlight is a Fortune 500 equipment manufacturer, which is utilizing our Sensible ML in a meaningful way. Having implemented SML to forecast both revenue and inventory, they improved their accuracy by more than 10%. Not unlike other companies, their forecasting process required inputs from roughly 80 different finance stakeholders over a 10-day period. With SML, the company now has a process that generates more accurate forecasts in less than half an hour – all while providing explanations of leading indicators and their impact on the forecast. This kind of transparency is building confidence and driving adoption across their team. Encouraged by these results, the company is now deploying Sensible ML across multiple business segments to enhance decision-making speed and drive business performance.

The bigger message here from my vantage point is the growing recognition by the market that OneStream’s applied Finance AI solution creates more value than many of what I call “custom science experiments” currently in the market. This also reinforces our view that the productization, or applied approach, is the best and most scalable way to derive value from AI. Part of our strategy has, and will

continue to be educating the market, as we build our product acceptance one customer at a time, as we've always done.

Finally, we continue to benefit from our investments and emphasis on building out our Marketing function. Earlier this month we announced the launch of our Finance 2035 Initiative. This is a partnership with academia, economists, and Finance and business leaders to foster a fact-based dialogue on the rapidly evolving role and strategic importance of the Office of the CFO. Our initial research examines what the next 10 years hold for businesses at large, and how external forces are both elevating and impacting the critical role played by CFOs in shaping that future.

Based on a survey of 2,000 CFOs, CEOs, line of business executives and investors, the study found that the next decade will likely be defined by more regulatory convergence and technology-powered gains, where CFOs will be expected to take on a broader role in driving business strategy and growth. The research also reaffirmed what you all know too well – that the investment community puts a premium on the strategic competence of a company's CFO in making their investment decisions. The study also validated our view on what it will take for the Office of the CFO to become a strategic driver of business strategy and growth. CFOs and CEOs surveyed prioritized modernizing their legacy Finance stack, harnessing new technologies – especially AI, and making these investments with a sense of urgency to remain competitive.

We are using this research as a foundation for a global series of roundtable discussions with CFOs, CAOs, and other Finance leaders. We look forward to Finance 2035 fostering dialogue among senior executives, raising OneStream's visibility in the business community, as we take additional steps to put our platform at the forefront of the conversation. Before I turn it over to Bill, let me just thank our employees for their innovative ideas, hard work, and dedication to customer success; our partners for sharing that commitment and helping our customers achieve incredible results; and our investors for their confidence in OneStream.

Now let me turn the call over to Bill.

Bill Koefoed, CFO

Thanks Tom. Good afternoon everyone and thank you for joining today's call.

As Tom mentioned we had a solid Q3 with both strong subscription growth and positive free cash flow. We turned free cash flow positive in 2023, and over the past four quarters we have generated over \$60 million in free cash flow. We are pleased with our ability to drive both revenue growth and free cash flow in this environment.

Overall, total revenue grew 21% year-over-year to \$129 million in Q3. Our subscription business model continued to show impressive growth at scale, as subscription revenue increased 39% year-over-year to \$111 million and ARR increased more than 30% year-over-year. License revenue came in at \$12 million in Q3 compared with \$19 million last year. We also continued to see a number of conversions from term licenses to SaaS this quarter, including 3 significant ones with ARR greater than \$500,000. We expect that trend to continue in Q4 and 2025 as we progress toward a 100% SaaS business model. Professional Services and Other revenue came in at \$6.7 million compared with \$8.1 million last year. Professional Services revenue was lower than expected due to the continued success of our partners as we strategically transition more implementations of OneStream software to them. As such, you should expect a similar professional services revenue run-rate going forward.

International revenue continues to represent roughly 30% of total revenue, reflecting our continued focus on growing our global business.

More than 60% of our business came from new customers in Q3. We ended the quarter with 1,534 total customers, up 18% year-over-year.

Billings increased 25% year-over-year to a record \$149 million. As a reminder, due to a variety of factors including timing, we encourage you to look at billings on a trailing 12-month basis, where billings grew 27%.

Our 12-month cRPO was up 41% year-over-year. Total Remaining Performance Obligations grew 35% year-over-year to \$997 million.

Our Q3 non-GAAP gross margin was 71% compared with 72% last year due to the strong license revenue last year, offset by efficiency improvements. We continue to work to optimize our infrastructure and expect margin improvement over the long term.

Third quarter non-GAAP operating expenses increased 25% year-over-year due in part to IPO-related expenses. R&D spending increased 48% year-over-year as we continue to strategically invest in new products to drive the durable growth of our business.

Total equity-based compensation expense for the third quarter was \$260 million, of which \$204 million was a one-time charge that we recognized in connection with our IPO. This charge was lower than expected due to the effective timing of modifications we made to outstanding options as part of the IPO.

Non-GAAP operating income was \$5 million or 4% operating margin in the quarter. Non-GAAP net income was \$11.3 million.

For the third quarter we generated \$1 million of free cash flow, bringing our trailing 12-month free cash flow to over \$60 million. We ended the quarter with \$495 million in cash and cash equivalents.

Turning to guidance. Our fourth quarter is an important one for us as it's traditionally our largest seasonal bookings quarter.

Our guidance for Q4 2024 is as follows:

- Total revenue for Q4 is expected to be \$127 million to \$129 million.
- Non-GAAP operating margin is expected to be breakeven to positive 2%.
- Non-GAAP net income per share is expected to be between 1 cent to 3 cents.
- Stock-based compensation of approximately \$50-55 million.

We are also raising our full year guidance for both revenue and profitability.

- Total revenue for 2024 is expected to be \$484 million to \$486 million.
- Non-GAAP operating margin is expected to be negative 2% to negative 1%.
- Non-GAAP net income per share is expected to be between 6 cents to 8 cents.
- Stock-based compensation will be approximately \$315 to \$320 million.

And finally, while we aren't providing 2025 guidance this quarter, the combination of our strategy to transition the majority of implementations to partners, together with our accelerated SaaS conversion rates, leaves us comfortable with current Wall Street consensus for full year 2025.

Now let's turn it back to Tom.

Tom Shea, CEO

Thanks Bill.

The message you will hear from me every quarter is the importance of the long-term view we are taking in building the OneStream business and brand. Be it advancing our product roadmap to expand our platform or increasing our marketing efforts to grow our brand and pipeline, the investments we are making today are laying the foundation for durable growth in the years to come.