

HD SPS Commerce Inc Acquires Leadtec - Final

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Presentation

OPERATOR: Good day, ladies and gentlemen, and welcome to today's SPS Commerce call.

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(Operator Instructions)

As a reminder, this conference call is being recorded. I would now like to turn the call over to your host, Stacie Bosinoff. Please go ahead.

STACIE BOSINOFF, IR, THE BLUESHIRT GROUP: Good afternoon, everyone, and thank you for joining us on today's call to discuss SPS Commerce's **acquisition** of Leadtec. This is Stacie Bosinoff from The Blueshirt Group. Joining me on the call today is CEO and President, Archie Black, and Chief Financial Officer, Kim Nelson.

Before turning the call over to the **Company**, I will read our Safe Harbor statement. We will make certain statements today including with respect to our business expansion in Australia and New Zealand, expected financial results, go-to-market strategy, and efforts designed to increase our traction and penetration with retailers and other customers.

These statements are forward-looking, and involve a number of risks and uncertainties that could cause actual results to differ materially. Please note that these forward-looking statements reflect our opinions only as of the date of this call, and we undertake no obligation to revise or publicly release the results of any of any revision to these forward-looking statements, in light of new information or future events.

Please refer to our SEC filings, as well as our financial results press release, for a more detailed description of the risk factors that may affect our results. These documents are available at our website, SPSCommerce.com, and the SEC's website, SEC.gov.

During our call today, we will discussed adjusted EBITDA financial measures. In our press release and our filings with the SEC, each of which is posted on our website, you will find additional disclosures regarding these adjusted EBITDA measures. And with that, I will now turn the call over to Kim.

KIM NELSON, CFO, SPS COMMERCE, INC.: Thanks, Stacie, and welcome, everyone. Thank you joining us on such short notice. We are excited to announce the **acquisition** of Leadtec, which expands our global presence. On today's call, I will walk you through the quick financial details of the transaction, and then Archie will discuss the strategic elements of the deal.

SPS has purchased the assets of Leadtec for approximately \$12.7 **million** in cash, and \$2.2 **million** in stock. The transaction closed yesterday and will be reflected in our fourth-quarter financial statements. Leadtec has offices in Melbourne, which we will maintain.

We are excited to gain the expertise of approximately 45 employees, a mix across development, customer support, and sales, which will further enhance our competitive position in the Australian market. From a revenue perspective, we expect Leadtec to generate approximately \$750,000 in revenue in the fourth quarter of this year, and generate approximately \$4.5 **million** of revenue in 2015.

On an adjusted EBITDA basis, we expect fourth-quarter 2014 to be negatively impacted by \$300,000, reflecting costs associated with the **acquisition**. Looking to 2015, we expect adjusted EBITDA to be negatively impacted by \$500,000 in the first half of 2015, and anticipate the **acquisition** to be accretive in the fourth quarter of 2015.

As you update your models, for the fourth quarter of 2014, we anticipate a \$400,000 one-time expense incurred as part of the transaction, to be reflected under other expenses on the P&L, which will not be included in adjusted EBITDA. Also for the fourth quarter, we expect a small increase in share count, of approximately 40,000 shares, based on **equity** issued.

We will provide consolidated Q4 guidance and an update to our full-year outlook when we issue our third-quarter financial results on October 23. We are excited about the opportunity to accelerate our international presence. This **acquisition** further extends our market leadership, as we continue to build the world's largest retail business network. And with that, I will turn it over to Archie.

ARCHIE BLACK, PRESIDENT & CEO, SPS COMMERCE, INC.: Thanks, Kim. We're excited to talk to you this afternoon about our **acquisition** of Leadtec, a leading provider of cloud-based integration solutions, based in Australia. As a market leader, we've built a solid foundation and powerful network in the retail ecosystem.

Our success in North America has enabled us to expand across 50 countries, with offices in **Hong Kong**, Beijing, London, and Sydney, to help serve our current global customer base. Although early days, we have started to see the effects of our network take hold, a true testament to the organic strength and scale of the SPS network. As we continue to add larger customers onto our platform, we believe the opportunity for international growth becomes greater.

We are also seeing this dynamic, as our larger customers tend to be global in nature, and by de facto, we've built relationships with some great retailers and suppliers around the world. We believe Leadtec enables us to accelerate our presence in the Australia and New Zealand markets, while bringing key retailer relationships and approximately 500 customers to the SPS platform. By consolidating our efforts with Leadtec, we are able to broaden our network and the global adoption of retailer-supplier collaboration, while continuing to solidify our market leadership around the world.

Leadtec was founded over 15 years ago, and has built key relationships with 16 of the top 20 Australian retailers. These relationships build a foundation in Australian market, as we expand our network through enablement campaigns, and continue to build our customer base. As these retailers look to adopt new omni-channel initiatives, we look forward to sharing our expertise, so they can better collaborate with their suppliers.

We also welcome Leadtec's customers to our trading partner platform, where they will now have access to the world's largest retail business network, and our broad suite of analytics to help drive strategic collaboration with retailers, and improve efficiencies within their supply chains. We believe we have a large international opportunity, and this **acquisition** fits squarely within our **M&A** strategy.

We're excited to welcome Leadtec's employees to SPS Commerce, and we look forward to strengthening our network in the Australian market. With that, I'd like to open the call to questions.

Questions and Answers

OPERATOR: (Operator Instructions)

Scott Berg with Northland Capital Partners.

SCOTT BERG, ANALYST, NORTHLAND SECURITIES, INC.: Congratulations on the **acquisition**. A couple of quick ones, here. Can you give us any more details on Leadtec, in terms of how fast they were growing, were they burning cash, maybe what their revenue was on a trailing 12-month basis?

KIM NELSON: Sure. So they were growing at a lower rate than we were. So, more in the single digits, and they are profitable, and cash flow positive. As it relates to how we are looking at the combined entities, we are expecting the combined entities to continue to allow us to grow at that 20%-plus organic recurring revenue growth, well into the future.

SCOTT BERG: Okay. Should we view this as a customer **acquisition**, like you've done in the past? Are these customers going to be brought over to your existing platform? Or, is there some technology that's being brought forward that will augment your existing platform?

ARCHIE BLACK: Scott, I think there's two things. One, it is a customer **acquisition**, but I think it is also an **acquisition** which gives us a nice foothold. In Australian market, it gives us an office with a great deal of expertise, 45 employees that have been working in that marketplace, and so it will give us end-to-end solution in Australia, where we'll have all of the implementation, all of the support, all of the sales for the Australian market, and New Zealand market, in country.

SCOTT BERG: Last one for me, before I turn it over to someone else, is on that front, Archie, about giving you another foothold in Australia, how does this change your overall view to international growth, and the development of the **Company**? I know you've taken a slow go in EMEA, a slow go in the Asia-Pac realm. How does this, potentially, accelerate or change those footholds in the near-term?

ARCHIE BLACK: If you look back over the last three or four years, what's happened, Scott, is we are landing larger and larger customers, and as I had mentioned, those customers are global. So the international has been somewhat of a snowball. It continues -- we continue to invest, and we continue to accelerate, and I think it's both an opportunity and a threat for SPS Commerce.

To serve our large customers, we need to continue to be global. And with those large customers, we are able to allow them to help us go global. One of the nice things about this **acquisition**, is we did have a sales force in Australia, and the best way to do acquisitions is actually if you are in-market, you are competing, you are seeing deals, and you really get to know your competition a little better, and it makes these acquisitions significantly easier if you are in country, and you have significantly more knowledge.

SCOTT BERG: Great. I will jump in the queue. Thanks for taking my questions.

OPERATOR: Jeff Van Rhee, with Craig-Hallum.

JEFF VAN RHEE, ANALYST, CRAIG-HALLUM CAPITAL GROUP: Congratulations. A couple questions. First, Archie, could you talk about the end markets and verticals where Leadtec plays? A little more color on their customers. Big, small, a little sense of size, and then maybe a bit of an expansion on sort of strategic partners, go-to-market channels?

ARCHIE BLACK: When I look at the Leadtec business, they are primarily retail ecosystem driven. They will put on their website that they have automotive, they have other sectors. Primarily, those are related to the retail ecosystem. That was a really nice fit.

As far as product offerings and customer base, their customer base looks very similar to SPS Commerce, as far as the retailers and suppliers. They just started getting into analytics about a year, 18 months ago, and have had a little bit of momentum as that marketplace is developing. So we look at being able to leverage that. So, from that standpoint, I think it fits very nicely into our current technology stack.

JEFF VAN RHEE: As it relates to the financials, if I look out at the forward year, it looks like roughly similar expense run rate to what you are modeling for Q4, played out into the forward year. Can you just expand a bit about how you look at the potential for cost savings and the right timeline for getting their customer base on your platform? And then, the potential offsets that you might invest in namely sales or other resources, where they might be under-resourced?

ARCHIE BLACK: I think, from the standpoint, there is obviously having scale in country. That's where a lot of the leverage becomes, and being able to build best-of-breed solution standpoints, I think is a natural, and we expect that to happen, the consolidation of the two companies, to really happen over the first 12 to 24 months. Some aspects are faster, some aspects are on the longer end.

And then, as Kim mentioned, we expect to be able to invest in sales and marketing, and be able to take our experience with enablement campaigns, our experience in channel sales, and really bring that to market in Australia, to be able to maintain that long-term growth.

JEFF VAN RHEE: Okay. Great. Thank you.

OPERATOR: Parker Lane, with Stifel.

PARKER LANE, ANALYST, STIFEL NICOLAUS: It's Parker in for Tom Roderick. You have historically focused on US **operations**. I was wondering what made the Australia and New Zealand markets more compelling as an expansion area?

ARCHIE BLACK: Over the last three or four years, we have been investing slowly and letting the network grow internationally. We've always invested in the Asian market. We opened up an office in London about a month ago, and we're seeing more and more retailers.

We've been building out our networks, globally, and I think what makes this really more natural, is that as we are getting larger and larger customers, those customers are global by nature. Small customers tend not to be global. So, this allows us to continue the international expansion, whether it's Europe, Australia or Asia, we'll continue to expand globally.

PARKER LANE: All right. Can you give me an outlook on what the market perception of point-of-**sale** analytics in Australia and New Zealand is at this time?

ARCHIE BLACK: Well, we are new into that market. They've had some success. I think it's very much like the US, maybe even less penetrated, in that it's very under-penetrated.

In North America, we have less than 20% of the retailers in our network, sharing point-of-sale data. My understanding, it's even lower in Australia. So, much like North America, I believe it's very, very early days, with a tremendous amount of opportunity in front of us.

PARKER LANE: All right, thank you.

OPERATOR: (Operator Instructions)

Bhavan Suri, with William Blair.

BHAVAN SURI, ANALYST, WILLIAM BLAIR & COMPANY: Just a question. First, how long have you known the company?

ARCHIE BLACK: Well, we've known the company in some form for probably three to five years. As I say, we started to compete, and we built a more aggressive sales force in the Australian market over the last two, three years. So we've gotten to know about them more and more, through competitive sales cycles and just market intelligence. The best way for us to get market intelligence is actually to have sales force in market and have real live deals.

BHAVAN SURI: Sure, and then when you look at the opportunity, just in Australia and New Zealand, you've done a nice job clarifying that in the US and Europe. How do you think of the size of the opportunity that's available to you to tap into in those markets?

ARCHIE BLACK: Internally, we are saying the Australian, New Zealand market is about 10% of the opportunity in North America, as far as from a revenue standpoint. And it looks very similar from all aspects. And again, I think one that will continue to happen to SPS Commerce, is we'll have more global customers that we need to be able to work with those key Australian retailers for the North America suppliers, and I expect many of the larger Australian suppliers will need to work with us to work with North America suppliers. So I think the supplier base is becoming more global as we move upstream.

BHAVAN SURI: Sure, sure. And when you look at the process in Australia, so obviously, you've done a nice job of leveraging inside sales process, but is it a similar process there? I know you're going to apply your web-enablement approach, but when you look at Leadtec, do they leverage an inside sales team in the same fashion that you have done in the past, or are you changing the sales organization around a little bit?

ARCHIE BLACK: We will be changing the sales organization around. I think the one thing that's unique about SPS Commerce in North America and around the globe, is we really have a very strong enablement engine, and that's a fantastic lead source, and we want to take those practices into Australia, and we believe we will have success with those practices. And with the conversations we've had with the Leadtec team, I think that's one of the things that excites the Leadtec team, is that if we can bring those practices to the Australian market, we can help them increase the revenue growth.

BHAVAN SURI: Archie, I guess the question is more along the lines of, is that culture going to be amenable out there? You clearly think it is. But are those guys used to a different sales approach than inside sales, or have you tested that throughout, or at least in the market?

ARCHIE BLACK: We tested it to some extent in the market. We have been, on a small-scale, in the Australian market. As I mentioned, that's one of the things that makes this comfortable at this time, is that we have had at-bats. We've been in market, we've been working with the retailers there. We do have, to some extent, not obviously to the extent we have in North America, but we do know what will work and what will not work there, and we do believe, based on that two to four years of experience the Australian market, and working with the Leadtec team, that we will have success.

BHAVAN SURI: That's helpful, and one quick last one for me, if I may. What are the other competitors in those markets like? Clearly, you identified Leadtec as a competitor. You thought it's worth acquiring them.

But are there any large competitors, or is it smaller guys? Is it still such a nascent space that there's just a couple of players? How should we think about the competitive environment there?

ARCHIE BLACK: I think it's very similar to North America. There's a few, it's on a smaller scale, obviously. There's a few very small players, and GSX, similar to North America, is there. Haven't seen Sterling as much, there. I don't know if that's just because we haven't had at-bats against them, or they're just not as present in the Australian market.

On the analytics side, I think it's completely new territory. I think it's new to the market, just like it's new to North America, and I think it's a wide open field to run in.

BHAVAN SURI: Great. That's helpful, thank you.

ARCHIE BLACK: Thank you.

OPERATOR: Ladies and gentlemen, that concludes the Q&A session and the call. Thank you for joining. You may all disconnect.

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