Workiva Inc. NYSE:WK

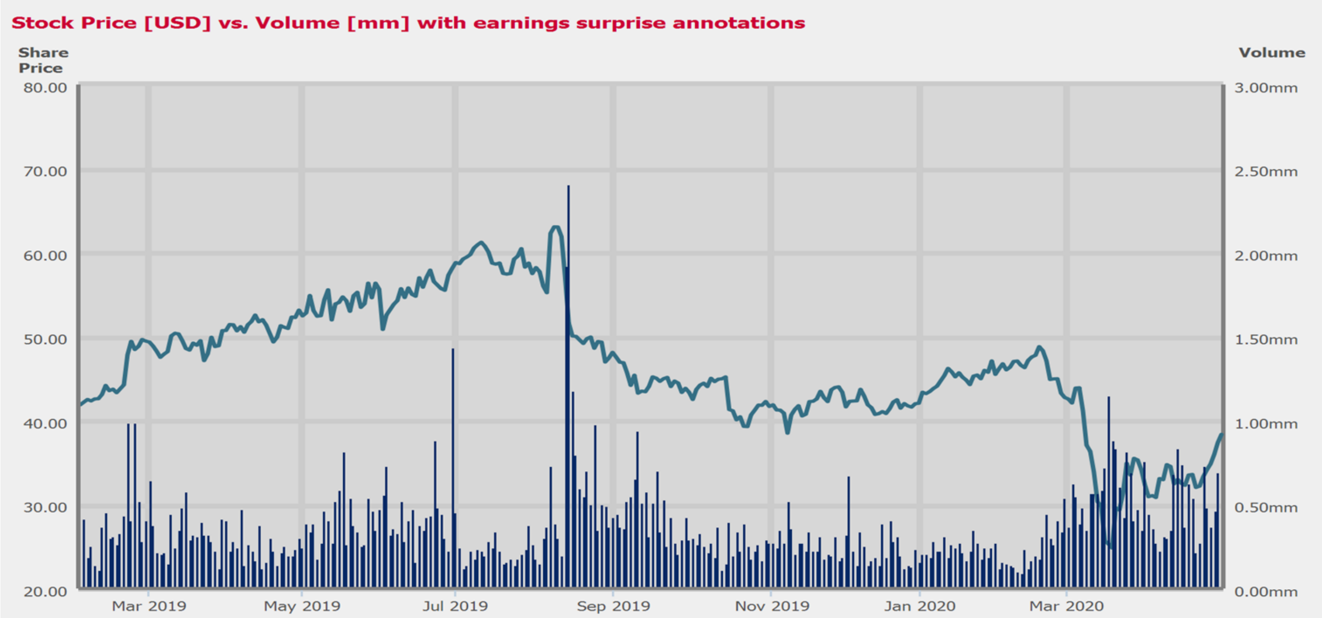
FQ1 2020 Earnings Call Transcripts

Thursday, April 30, 2020 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-	-FQ1 2020-		-FY 2019-	-FY 2020-
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS
EPS Normalized	(0.16)	(0.15)	NM	(0.27)	(0.70)
Revenue (mm)	75.63	82.32	▲4.23	293.35	339.91

Currency: USD
Consensus as of Apr-12-2020 4:16 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	(0.04)	0.01	NM
FQ2 2019	(0.10)	0.00	NM
FQ3 2019	(0.17)	(0.12)	NM
FQ4 2019	(0.16)	(0.09)	NM

Table of Contents

Call Participants

EXECUTIVES

Adam Terese
Director of Corporate Development and Investor Relations

J. Stuart Miller
Executive VP & CFO

Martin J. Vanderploeg
President, CEO & Director

ANALYSTS

Alexander James Sklar
Raymond James & Associates, Inc., Research Division

Matthew Steven Lemenager
Robert W. Baird & Co. Incorporated, Research Division

Michael Pochucha
Northland Capital Markets, Research Division

Sarah Marie Quander
Morgan Stanley, Research Division

Terrell Frederick Tillman
SunTrust Robinson Humphrey, Inc., Research Division

Thomas Michael Roderick
Stifel, Nicolaus & Company, Incorporated, Research Division

Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Workiva Inc. First Quarter 2020 Earnings Conference Call. [Operator Instructions]

I would now like to hand the conference over to your speaker today, Adam Terese.

Adam Terese
Director of Corporate Development and Investor Relations

Good afternoon and thank you for joining us for Workiva's First Quarter 2020 Earnings Conference Call. Today's conference call is prerecorded. This afternoon, we'll begin with comments from our Chief Executive Officer, Marty Vanderploeg, followed by our Chief Financier, Stuart Miller. A replay of this call will be available until May 7. Information to access the replay is listed in today's press release, which is available on our website under the Investor Relations section.

Before we begin, I would like to remind everyone that during today's call, we'll be making forward-looking statements regarding future events and financial performance, including guidance for our second quarter and commentary on our full year 2020. These forward-looking statements are subject to known and unknown risks and uncertainties. Workiva cautions that these statements are not guarantees of future performance.

All forward-looking statements made today reflect our current expectations only, and we undertake no obligation to update any statement to reflect the events that occur after this call. Please refer to the company's annual report on Form 10-K and subsequent filings for factors that could cause our actual results to differ materially from any forward-looking statements.

Also, during the course of today's call, we will refer to certain non-GAAP financial measures. Reconciliations of non-GAAP to GAAP measures and certain additional information are also included in today's earnings press release.

With that, we'll begin by turning the call over to our CEO, Marty Vanderploeg.

Martin J. Vanderploeg
President, CEO & Director

Thank you, Adam, and thanks to everyone for joining the Workiva first quarter 2020 conference call. Our hearts go out to the people directly affected by COVID-19, and we are grateful for the essential workers and community leaders around the world who are on the front lines. At Workiva, we are doing everything we can to protect our employees and their families during this difficult time. We are grateful that all of our employees are able to work from home and that we are able to fully compensate the small number of employees who do not have roles outside of our physical offices.

To keep our team connected and focused, I host a weekly live stream Q&A to offer updates, insights, advice and support to all employees.

As a cloud-based technology company with a highly distributed workforce, the shift to work from home has been smooth for us. With cloud platforms and digital channels, it's been mostly business as usual. We continue to deliver the highest levels of performance, availability and security. Our technology, global infrastructure and operating model, along with our 24/7 customer support, enable our customers to work from home in a controlled, secure environment with their most sensitive data.

This ability to work from anywhere is becoming the new baseline. We believe that Workiva will be a key player in this broad-based shift to remote work, which will drive increased demand for our reporting and compliance platform for years to come.

Workiva entered this global crisis from a position of financial strength. We believe we are in a stronger, more flexible financial position now than ever before, including nearly $500 million in unrestricted cash and short-term investments.

We are pleased with our first quarter 2020 financial results, which exceeded guidance for revenue and operating results. However, like many other companies, the month of March delivered some unprecedented challenges as we saw a number of customers and prospects delay software purchases.

In March, we restricted nonessential business travel and we transitioned to all virtual sales meetings, even though our traditional sales process has been disrupted. In many cases, we are finding it easier to access people, and we are having engaging conversations with customers and prospects. In fact, most of the companies that delayed first quarter purchases are back in our pipeline. Stuart Miller, our CFO, will provide more details about our financial results later in the call.

In times of rapid change, our commitment to each other and our customers remains the same. Workiva is driven by our values, which sustain us in these uncertain times. We are a strong, resourceful company, and we are moving forward, staying focused on our goals and objectives.

We continue to execute on our growth vectors, which include EMEA, Wdata and our platform solutions for integrated risk, global statutory reporting and the U.S. government. And we are continuing to hire people in the areas where we see the most potential for growth.

Despite COVID-19, we remain confident that Europe will comprise 25% to 30% of our total revenue over time. We recently launched a new solution to help mid-sized companies comply with the European Single Electronic Format, commonly known as ESEF. Our new solution offers limited functionality, specifically for this market. Because this solution resides on the Workiva platform, customers are able to upgrade to our more comprehensive ESEF solution and leverage additional platform capabilities at any time.

We also plan to continue extending the capabilities of our platform into additional industry verticals. Earlier this week, we announced that we will be working with utility, pipeline and other energy companies, many of which are existing customers, automate data integration and streamline reporting to the Federal Energy Regulatory Commission, known as FERC. Last June, FERC adopted XBRL as its reporting standard. With our connected reporting platform and our leadership in XBRL, Workiva is ideally positioned to capture this market.

In response to COVID-19, we shifted all marketing activities to virtual channels. As a result, our annual Amplify User Conference will be hosted virtually later this year. In March, our 2-day virtual event, Amplify GO, was attended by nearly 2,400 customers, prospects and partners and was our largest event to date.

I want to thank our amazing employees for their ongoing dedication and commitment to delivering our platform and supporting our customers and partners around the world.

With that, let me turn it over to Stuart Miller, our CFO.

J. Stuart Miller
Executive VP & CFO

Thank you, Marty. I'll comment on our financial position, review our business model and then explain at a high level why we beat our Q1 guidance. Next, I'll discuss Q1 2020 results versus Q1 last year and finish with forward guidance.

We believe Workiva is well positioned financially to weather the storm from COVID-19. Indeed, we believe Workiva has never had a stronger or more flexible financial position than we do now. At March 31, Workiva had $496 million of unrestricted cash and short-term investments. The first maturity on our funded debt occurs in more than 6 years. Our debt obligations have no restrictive financial covenants.

We believe our business model mitigates many of the challenges posed by COVID-19 for 6 reasons: first, demand for our solutions is relatively insulated from the business cycle. Software to assist larger enterprises with regulatory compliance and performance management is needed in both good times and bad.

Second, our cloud-based platform is designed for team members to collaborate remotely, including those who work from home. On-premise systems cannot compete as well in this environment.

Third, we enjoy high revenue retention rates because our customers love the design and functionality of our software and the high-quality of our customer service. Our platform saves time, reduces risk and eliminates many of the tedious aspects of financial and managerial reporting. We think our value proposition is compelling relative to alternatives and the markets we serve.

Fourth, most of our customers pay us annually in advance for a subscription to our software platform. These contracts renew fairly evenly among the 4 quarters of the year. As a result, around 90% of the subscription revenue we recognize every quarter comes from deferred revenue.

Fifth, no customer accounts for more than 1% of our revenue. Our 10 largest customers account for less than 5% of our revenue in the aggregate.

Sixth, the sources of our revenue are diverse. But Note 8 to the financials in our 10-Q breaks out revenue contribution by industry of our customers.

Shifting now to our financials. As always, I will talk about our results and guidance on a non-GAAP basis. Refer to our press release for a reconciliation of our non-GAAP and GAAP results and guidance.

I'll talk about how well we did against guidance first. We beat Q1 2020 revenue guidance at the midpoint by $2.75 million. Higher subscription revenue accounted for about 1/3 of the beat, while higher services revenue contributed the balance.

We beat guidance on Q1 operating income by a relatively wide margin. I'd like to explain the $8 million positive operating income swing at a high level. The revenue beat I just mentioned accounted for 1/3 of the swing. Expenses accounted for the remaining 2/3 of the beat, as follows: travel and entertainment expenses were just over $1 million better than forecast due to COVID-19 travel restrictions; medical care expenses were almost $1 million better than forecast due to postponement of discretionary medical visits from COVID-19 restrictions and a higher percentage of our employees electing the high deductible medical insurance plan; sales commission expense was about $0.5 million better than forecast due primarily to a change in our sales commission structure; fees paid to recruiters, consultants and legal advisers were $0.5 million better than forecast. The remainder of the beat on Q1 operating income, just above $2 million, came from a hiring at a slower pace than forecast, some of which was related to COVID-19.

Now turning to a comparison of Q1 2020 to Q1 last year. We generated total revenue in the first quarter of $85.8 million, an increase of 22.6% from Q1 2019. Breaking out revenue by reporting line item, subscription and support revenue was $68.4 million, up 21.8% from Q1 2019. New solutions, new logos and conversions to solution-based licensing helps drive strong revenue growth in Q1 2020. 56% of the increase in S&S revenue in Q1 came from existing customers. The balance of the increase came from new customers added in the last 12 months.

Professional services revenue was $17.4 million in Q1 2020, an increase of 26% from the same quarter last year. Growth was driven by helping customers migrate to inline XBRL, additional revenue and setup in consulting and organic XBRL growth.

As a reminder, the first quarter is seasonally the high point for our revenue from XBRL tagging since most of our publicly traded customers prepare their 10-Ks in the first quarter.

Turning to our supplemental metrics. We finished Q1 with 3,507 customers, a net increase of 141 customers from Q1 2019 and a net decrease of 3 customers from Q4 2019. On a gross basis, 73 customers churned in Q1, which is a normal level of churn for us, and we added 70 new logos in Q1, which is below normal for us and was due to the impact of COVID-19.

In early March, 50 new deals in our pipeline carried our highest rating for a probability to close by month end. Of the 50 deals, 10 did close in March and 32 returned to the pipeline, of which 30 would have been new logos. Normally, a very high percentage of these types of deals would have closed by month end.

Our revenue retention rates remained strong. Our subscription and support revenue retention rate was 94.5% for the first quarter of 2020 compared to 95.7% for the same period last year. Almost half of the attrition in the quarter came from M&A, delistings and bankruptcies. Looking ahead, we expect a higher incidence of bankruptcies and delistings.

On the positive side, we expect less pressure from M&A in the near term. With add-ons, our subscription and support revenue retention rate improved to 110.9% for the first quarter of 2020 compared to 110.7% in Q1 2019.

Our progress with larger subscription contracts continues to be promising. The number of contracts valued at over $100,000 per year totaled 670 in the first quarter of 2020, up 36% from Q1 of the prior year. The number of contracts valued at over $150,000 totaled 308 customers in the first quarter, up 49% from Q1 2019 results.

Moving down to P&L. Gross profit totaled $64.3 million in Q1, up 25.5% from the same quarter a year ago. Consolidated gross margin was 74.9% in the latest quarter versus 73.2% in Q1 2019, a net expansion of 170 basis points.

Breaking out gross profit. Subscription and support gross profit totaled $56.6 million, equating to a gross margin of 82.9% on S&S revenue, a contraction of 30 basis points compared to Q1 2019. Additional headcount to help upgrade customers to our next-generation platform was the primary driver of the contraction.

Professional services gross profit in the first quarter was $7.6 million, equating to a 43.7% gross margin compared to 32.7% in Q1 2019 due to improved utilization.

Research and development expense in Q1 totaled $21.4 million, up 6.5% from Q1 2019, primarily due to higher compensation costs. R&D expense as a percentage of revenue improved to 25% in Q1 2020 from 28.7% in Q1 2019.

Sales and marketing expense for the quarter increased 42.6% from Q1 2019 to $33.4 million, reflecting our investment in sales talent primarily to drive bookings in EMEA, integrated risk, global statutory reporting and U.S. government.

General and administrative expenses totaled $8.7 million in Q1, up $1.9 million compared to Q1 2019. G&A expenses as a percentage of revenue increased 40 basis points to 10.1% due to additional headcount, higher software expenses and increased rent expense.

We posted an operating profit of $800,000 in Q1 2020 compared to an operating profit of $900,000 in Q1 last year. Workiva's operating margin in Q1 was substantially better than our guidance, as I discussed earlier.

Turning to our balance sheet and cash flow statement. At March 31, 2020, cash, cash equivalents and marketable securities totaled $496 million, an increase of $8.1 million compared to the balance at December 31, 2019. In Q1 2020, net cash provided from operating activities totaled $4.7 million compared with cash provided of $5.1 million in the same quarter a year ago.

At the end of each quarter, we review outstanding invoices to determine which ones present a collection risk due to a variety of factors, including credit risk, consistent with ASC 606. We remove the invoices at risk, taking the amounts out of both accounts receivable and deferred revenue until payment is collected, which is when we begin to recognize revenue.

At March 31, 2020, we classified $6 million of receivables to this reserve account, up $1.7 million from the reserve at year-end in anticipation of the impact of COVID-19. The increase in this reserve account reduced deferred revenue by an equal amount, and therefore, it reduced billings at the end of the quarter. Remaining performance obligations on subscription contracts continue to vary from deferred revenue as we implement multiyear contracts with annual billing terms for some customers.

Turning to our guidance. For the second quarter of 2020, we expect total revenue to range from $80.3 million to $80.8 million. We expect subscription revenue to grow at a rate in the low teens compared to

Q2 last year. We expect services revenue to show the normal seasonal decline from Q1. And in addition, we expect to post Q2 services revenue below last year's Q2 results. You may recall, we had a onetime contribution to services revenue from a regulatory change in Q2 last year. We expect non-GAAP operating loss to range from $6.8 million to $7.3 million in Q2 2020.

The depth and duration of the economic disruption from COVID-19 is unknown. While we have a large pipeline of new deals, we have limited visibility on when the deals will close. So we are suspending specific guidance for full year 2020. However, we are providing some directional guidance for the rest of the year. Relative to the guidance that we gave in February, we now expect full year 2020 revenue to grow at a slower pace and operating margin to improve.
We will now take your questions. Operator, we're ready to begin the Q&A session.

Question and Answer

Operator

[Operator Instructions] And your first question will come from the line of Brian Peterson with Raymond James.

Alexander James Sklar
Raymond James & Associates, Inc., Research Division

This is Alex Sklar on for Brian. Marty, first one for you. This is in your prepared remarks, but can you just talk more about the resiliency of Workiva's platform and a work-from-anywhere environment? And with that, I think you talked about demand potentially picking up. Are you already seeing that in the current environment, catalyzing greater number of conversations or leads? And then I had a follow-up for Stuart.

Operator

Adam, are you still online?

Adam Terese
Director of Corporate Development and Investor Relations

Yes.

J. Stuart Miller
Executive VP & CFO

Your phone is muted, Marty.

Alexander James Sklar
Raymond James & Associates, Inc., Research Division

Maybe I'll pass one for Stuart here while...

J. Stuart Miller
Executive VP & CFO

Yes, sorry, Marty's phone was muted.

Alexander James Sklar
Raymond James & Associates, Inc., Research Division

Yes, okay.

J. Stuart Miller
Executive VP & CFO

Go ahead.

Alexander James Sklar
Raymond James & Associates, Inc., Research Division

All right. Well, I guess, just talk about the visibility on the backlog. The RPO growth this quarter, especially in light of the commentary you gave on the March late stage pipeline. Is there any reason from a Workiva standpoint that you wouldn't be able to implement or go live on any portion of that next 12-month balance? Understanding customers may ultimately push timing, but just curious on your own ability to meet all that backlog.

J. Stuart Miller
Executive VP & CFO

No, I don't think there's any restriction from our perspective on that. Most of the onboarding we do or virtually all the onboarding we do is remote anyway. Did you hear me, sorry?

Alexander James Sklar
Raymond James & Associates, Inc., Research Division

Yes, yes. And then did we lose Marty on the first question?

J. Stuart Miller
Executive VP & CFO

Yes. I think he's trying to dial back in.

Alexander James Sklar
Raymond James & Associates, Inc., Research Division

Okay. Well, maybe another one for you then, Stuart. On the backlog growth, it accelerated some even with the...

J. Stuart Miller
Executive VP & CFO

I'm sorry. Say that again?

Alexander James Sklar
Raymond James & Associates, Inc., Research Division

Even with the commentary -- yes, the backlog growth accelerated on the full RPO, not just the next 12 months one, which is impressive, I think, given you're comping SBL last year. I just was curious if you'd call out any of your kind of 4 to 5 growth opportunities as having an outsized contribution?

J. Stuart Miller
Executive VP & CFO

Yes. I would say -- just to remind you on the RPO side, some of the growth there is due to our signing 3-year deals with 1 year to pay, and so that's picking up the -- that's accelerating on the RPO side. But we did show good deal size growth in Q1.

Operator

Next question is from the line of Rob Oliver with Baird.

Matthew Steven Lemenager
Robert W. Baird & Co. Incorporated, Research Division

It's Matt Lemenager on for Rob. So the question was in the 30 -- I guess it would be the 32 deals that got pushed or, I guess, returned to the pipeline, was there any recurring message or theme there? I realize it was COVID-driven, but it wasn't people -- the discretionary spend for maybe around CFO suite or accounting suite being kind of pushed to the back burner as kind of near-term, other IT trends took priority. Or just kind of looking -- is there any theme or message that happened in those 32 deals that got pushed?

J. Stuart Miller
Executive VP & CFO

Let me see if Marty is not -- still on, so I guess I'll place...

Martin J. Vanderploeg
President, CEO & Director

Can you guys -- can anyone hear me now?

J. Stuart Miller

Executive VP & CFO

Yes, we can now, Marty. You want to take that one?

Martin J. Vanderploeg
President, CEO & Director

Yes. It was on the right line. They didn't have me connected, I'm sorry, because I could hear everything, and same number. Anyway, I apologize everybody.

Back to the resiliency question, the -- in 2008, when we started the company, we were very much focused on cloud in the very early days, and we said we were always going to make a 100% web tool, web- and a cloud-based tool. And we've heard tremendous number of positive things from our customers doing this as they all move to work from home. I think some of them had already been doing it, but everyone was able to achieve what they needed to in terms of activities that they were actually doing in our product.

In terms of seeing lead, it's too early to say. We really -- I can't say for sure, but we have seen some upticks in definitely inquiries when a lot of our competitors have software that's on-prem. So it's early days, but again, I really believe that this will help us in the long run.

J. Stuart Miller
Executive VP & CFO

Marty, you want to comment on the Matt's specific question about the 32 logo -- the 32 deals that went back into the pipeline? Did you do you see any theme there on why they went back, why they were postponed?

Martin J. Vanderploeg
President, CEO & Director

Well, I would say this. The end of March, everybody was in a state of shock, and everyone was trying to understand how it was going to affect their cash flow. There were 2 categories to those from my perspective. One was industries that saw an immediate drop in cash flow like airlines or even credit card companies, things like that, obviously, hospitality, those were put on hold indefinitely, and we have several of those occur.

The second category was, very prudent, CFOs saying, "Hey, let's just put the brakes on new deals, anything we're spending that's new for the next 2 or 3 months to see how this all shakes out." And most of the stuff that we saw slip was in that category where they're just being prudent in saying, "Let's see what's going to happen. Obviously, none of us have ever seen anything like this and how it affects the economy." That shock is sort of settling out now, and we're starting to see a lot of activity. So we're optimistic that things are going to slowly come back to normal in terms of our sales process.

Matthew Steven Lemenager
Robert W. Baird & Co. Incorporated, Research Division

That's helpful, Marty. And then my other question would just be on -- for your sales quota-carrying folks, are you making any changes to, I don't know, things like expanding the amount of quota they're required to carry, just maybe assuming some of the close rates won't be as high, and so kind of to get to the numbers we thought maybe at the initial plan that people need to carry more quota. Or any changes around that to kind of sales go-to-market?

Martin J. Vanderploeg
President, CEO & Director

No, not yet. This is 2 months old. We're 2 months we're into this. And so we are -- we're not going to do anything knee jerk. We're watching what's happening. We're happy with our pipeline right now. But again, no one's been through anything like this. So we just don't know how it's going to play out. But we don't have any plans to make any dramatic changes to our sales team or the size of their patches or our quotas.

Operator

Your next question is from the line of Terry Tillman with SunTrust Robinson.

Terrell Frederick Tillman
SunTrust Robinson Humphrey, Inc., Research Division

I do appreciate also the extra color that you all added this quarter as it relates to the sales activity and pipeline. So that was helpful. I appreciate it. First question just related to -- you all had an announcement a couple of weeks ago as it relates to sales leadership change, Scott Ryan leaving or resigning. It looks like Julie is taking over more responsibilities. So what I was curious is if we could just learn a little bit more about the decision-making and what catalyze that. And I think in that press release, it talked about broader sales leadership changes and a focus on sales efficiency. So would just love some more color on what exactly happened and kind of the driver of it?

Martin J. Vanderploeg
President, CEO & Director

Sure. If you recall, when I got the CEO title here a little over 1.5 years ago, I was the acting Chief Operating Officer at the time. And that happened rather abruptly, and we knew that eventually we wanted a new COO. That's what we wanted. And so this is sort of the manifestation of going back to that traditional model of having a COO and not a Chief Revenue Officer. And a company our size clearly doesn't need both.

The second thing is we brought Scott in to really upgrade -- we were a transactional company, smaller deal size. And we really brought him in to bring us up that deal size ladder in terms of the talent, sales process and the skills of the sellers. And he did a good job of getting us substantial improvement there. He also brought in a lot of other managers and helped bring some of our other managers up the learning curve, and also brought in a leader for services when he was CRO. And then when Julie came in and sort of got her legs, we realized that it was -- we had one extra layer and really didn't need both titles.

At the same time, Scott had said that he had been in the sales leadership job a long time, want to take a short break and maybe look for another company where he could do the same type of thing he did for us. So we -- it was a joint agreement to have him move on, and we worked out a joint deal. And we're not replacing him, as we mentioned. A couple of other sales leaders also were -- left the company, and we feel we have a very lean and very good sales management team now. We really didn't need the excess layers. But Scott really brought us along to a good place, and it was a good time in terms of being efficient at the top of the org.

Terrell Frederick Tillman
SunTrust Robinson Humphrey, Inc., Research Division

Okay. And I guess, Stuart, a follow-up question, just relates to the 111% revenue retention in the quarter. For 2Q, kind of any perspective directionally on how to think about that? And even for the full year, again, I know you're not giving guidance for the full year. But just how to think -- or what would be a base case for a revenue retention as you see it?

J. Stuart Miller
Executive VP & CFO

So as you indicate, we don't give guidance on that number. It's -- as you know, it's a buildup that includes add-on solutions and price increases, and it's net of solution churn. So we were pleased with the number that we posted in Q1, and we're pleased with the pipeline of new deals, both new logos and add-on sales. And as we indicated, we don't have visibility on when those deals are going to close.

As I indicated in my remarks, second quarter, we have such great visibility on revenue, as you know, because of the business model that we felt comfortable giving guidance on Q2. But until COVID duration and depth is greater visibility, we're not going to have visibility on closing new deals at the end of Q2 or Q3.

Operator

Your next question comes from the line of Stan Zlotsky with Morgan Stanley.

Sarah Marie Quander
Morgan Stanley, Research Division

This is Sarah on for Stan. Kind of following up on your prior comments. In the past, you viewed growth as being balanced between new logos and add-on sales. And I was wondering to what extent is this still kind of your growth equation? Or in reaction to COVID, are you seeing it leaning towards one or the other?

Martin J. Vanderploeg
President, CEO & Director

I really don't see a change there. I think we're still going to see about 50-50 of add-on sales and new logos. And I think that a lot of the new logo activity or more of it will be in Europe, but I still see a lot of new logo activity in North America as well. So we really think it's going to remain about a 50-50 clip.

Sarah Marie Quander
Morgan Stanley, Research Division

Got it. And then a quick follow-up. Are you seeing any customers asking to come back and essentially downsize their contracts or adjust payment terms in reaction to your business reacting to COVID?

J. Stuart Miller
Executive VP & CFO

Yes. We haven't seen too much of that, honestly. We're aware of the -- we certainly watch our renewal activity and track who's in what industry that might be affected. But so far, that hasn't been a big issue.

Operator

Our next question is from the line of Tom Roderick with Stifel.

Thomas Michael Roderick
Stifel, Nicolaus & Company, Incorporated, Research Division

Glad to hear you guys are both doing well, and the team is staying as healthy as it can be. So it's a great start with where we're at right now. I would love to chat a little bit more -- I apologize, I had a little trouble getting in the call. So you may have addressed it in the first few minutes, Marty. But relative to the European expansion plans, opportunity is still there. I'm guessing your efforts at hiring people and looking at potential M&A targets with your solid balance sheet, I'm guessing that's probably been pushed back a little bit. But perhaps you can go into a little bit more detail about how you're tactically able to proceed in an area where you didn't perhaps have as many boots on the ground as you wanted, you're looking to hire. How much does that sort of set you back from a timing standpoint? And what's the urgency of customers over there to move forward with digital transformations in light of January 15, 2021, mandate?

Martin J. Vanderploeg
President, CEO & Director

Well, yes, several aspects. First off, the -- yes, the M&A activity has definitely slowed. And as I've always said, we're going to be very careful doing acquisitions to make sure we get something that checks most of the boxes we're concerned about, but that has slowed. I would say that our ability to recruit people in EMEA has not changed that much. We're finding that we've been able to continue to recruit salespeople and the delivery people quite effectively there. We're a little bit behind, but it really wasn't a COVID thing. It's -- our EMEA team is very thorough when they hire, and they've got a very good track record of hiring good talent and having very low attrition. So I would say it's more about them being more careful and making sure we have the best people possible.

And then in terms of our growth strategy, we're continuing in EMEA. We haven't slowed that at all, and we're seeing good reception from the customers. It's quite amazing, and our pipeline is growing at the exact rate we anticipated. So we're pretty pleased with EMEA, and we're going to continue to expand there. It's really greenfield for us in many ways. It's really greenfield in terms of how late we went into EMEA.

Thomas Michael Roderick
Stifel, Nicolaus & Company, Incorporated, Research Division

Yes. Perfect. Got it. And then now that you've fully lapped the SBL impact in the model, and maybe more importantly, you've gotten -- your customers up on this sort of all-you-can-eat plan. How does that sort of roll through the way you think about churn? I mean customers now that they're sort of on this all-you-can-eat, that wouldn't seem like even if they have fewer employees, the number of seats they would utilize would go down. So I guess churn would be exposed to the usual suspects of bankruptcies and M&A and some of the things that Stuart talked about. But can you just sort of talk through churn as a concept going forward, and how that might differ from the past with your -- all your customers on SBL now?

Martin J. Vanderploeg
President, CEO & Director

Well, I -- going out of limb, I don't think SBL really affects churn. I think what's happened is we have given customers -- as we talked about before, the customers are always limited by the number of seats they had, and they would make careful decisions on when they'd expand. I think a lot of customers have expanded a number of seats. We've seen the number of users go substantially higher since we enacted SBL. So it makes it more sticky in general. I really haven't seen a decline of end users, and maybe that's something that will come as COVID goes through its life cycle here.

But remember, we do stuff that's regulatory in general and stuff that's downstream in the reporting process. And it's really mission-critical or it's required by the government. So our churn -- I'm glad we're talking about this a lot because that's probably the thing that is -- we're most proud of, is we have a very low churn rate, and that just induces incredible stability in our financial model. So I'm really not that concerned about churn from an SBL point of view, and I don't think companies that are going to stay in business are going to look at us any differently after COVID.

Operator

You have a question from the line of Mike Grondahl with Northland Capital.

Michael Pochucha
Northland Capital Markets, Research Division

This is Michael on for Mike. Maybe just one quick one on the FERC announcement yesterday. Can you give us a rough idea of just the number of logos in that space?

J. Stuart Miller
Executive VP & CFO

It's about 600, isn't it, Marty?

Martin J. Vanderploeg
President, CEO & Director

Yes. I think it's 660, roughly, somewhere in there, mostly good-sized companies. And so -- and like we said in the press release, a lot of them our customers already ready, and they've been bugging us about whether we were going to do this. What we're finding is customers see more and more XBRL coming. It's coming all over the world for all the regulatory agencies, slowly but surely. And these -- our customers want us standardize on one platform to do all their XBRLs. So a lot of our SEC customers was pestering us about this, and we really didn't want to commit to it until FERC put out their taxonomy, which happened a couple of months ago. And then we went through the due diligence of understanding how it would affect our product and our go-to-market. But we're really well positioned, as we said in the press release, to take a significant amount of that market.

Operator

And there are no other questions at this time.

Adam Terese
Director of Corporate Development and Investor Relations

Great. Well, thank you, everybody. We appreciate it.

Martin J. Vanderploeg
President, CEO & Director

Yes, I think we're done, Adam. Thank you.

Operator
Thank you again for joining today's conference call. You may now disconnect.