

Five9, Inc.
Form 10-Q
August 06, 2018
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2018

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 001-36383

Five9, Inc.

(Exact Name of Registrant as Specified in Its Charter)

Delaware 94- 3394123
(State or Other Jurisdiction of (I.R.S. Employer
Incorporation or Organization) Identification No.)
Bishop Ranch 8
4000 Executive Parkway, Suite 400
San Ramon, CA 94583
(Address of Principal Executive Offices) (Zip Code)
(925) 201-2000
(Registrant’s Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes: No:

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes: No:

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of “large accelerated filer,” “accelerated filer”, “smaller reporting company”, and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer
Non-accelerated filer (Do not check if a smaller reporting Company) Smaller Reporting Company
Emerging Growth Company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. Yes: No:

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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes: No:

As of July 26, 2018, there were 58,304,771 shares of the Registrant's common stock, par value \$0.001 per share, outstanding.

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FIVE9, INC.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which involve substantial risks and uncertainties. These statements reflect the current views of our senior management with respect to future events and our financial performance. These forward-looking statements include statements with respect to our business, expenses, strategies, losses, growth plans, product and client initiatives, market growth projections, and our industry. Statements that include the words “expect,” “intend,” “plan,” “believe,” “project,” “forecast,” “estimate,” “may,” “should,” “an” and similar statements of a future or forward-looking nature identify forward-looking statements for purposes of the federal securities laws or otherwise.

Forward-looking statements address matters that involve risks and uncertainties. Accordingly, there are or will be important factors that could cause our actual results to differ materially from those indicated in these statements. These factors include the information set forth under the caption “Risk Factors” and elsewhere in this report, and include the following:

- our quarterly and annual results may fluctuate significantly, including as a result of the timing and success of new product and feature introductions by us, may not fully reflect the underlying performance of our business and may result in decreases in the price of our common stock;

- if we are unable to attract new clients or sell additional services and functionality to our existing clients, our revenue and revenue growth will be harmed;

- our recent rapid growth may not be indicative of our future growth, and even if we continue to grow rapidly, we may fail to manage our growth effectively;

- failure to adequately expand our sales force could impede our growth;

- if we fail to manage our technical operations infrastructure, our existing clients may experience service outages, our new clients may experience delays in the deployment of our solution and we could be subject to, among other things, claims for credits or damages;

- security breaches and improper access to or disclosure of our data or our clients’ data, or other cyber attacks on our systems, could result in litigation and regulatory risk, harm our reputation and adversely affect our business;

- the markets in which we participate are highly competitive, and if we do not compete effectively, our operating results could be harmed;

- if our existing clients terminate their subscriptions or reduce their subscriptions and related usage, our revenues and gross margins will be harmed and we will be required to spend more money to grow our client base;

- our growth depends in part on the success of our strategic relationships with third parties and our failure to successfully grow and manage these relationships could harm our business;

- we are establishing a network of master agents and resellers to sell our solution; our failure to effectively develop, manage, and maintain this network could materially harm our revenues;

- we sell our solution to larger organizations that require longer sales and implementation cycles and often demand more configuration and integration services or customized features and functions that we may not offer, any of which could delay or prevent these sales and harm our growth rates, business and operating results;

- because a significant percentage of our revenue is derived from existing clients, downturns or upturns in new sales will not be immediately reflected in our operating results and may be difficult to discern;

- we rely on third-party telecommunications and internet service providers to provide our clients and their customers with telecommunication services and connectivity to our cloud contact center software, any increase in the cost thereof, reduction in efficacy or any failure by these service providers to provide reliable services could cause us to lose customers, increase our customers’ cost of using our solution and subject us to, among other things, claims for credits or damages;

- we have a history of losses and we may be unable to achieve or sustain profitability;

- the contact center software solutions market is subject to rapid technological change, and we must develop and sell incremental and new products in order to maintain and grow our business;

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• we may not be able to secure additional financing on favorable terms, or at all, to meet our future capital needs;
• we may not have sufficient cash to service our convertible senior notes and repay such notes, if required; and
• failure to comply with laws and regulations could harm our business and our reputation.

The foregoing factors should not be construed as exhaustive and should be read together with the other cautionary statements included in this report. If one or more of these or other risks or uncertainties materialize, or if our underlying assumptions prove to be incorrect, our actual results may differ materially from what we anticipate. You should not place undue reliance on our forward-looking statements. Any forward-looking statements you read in this report reflect our views only as of the date of this report with respect to future events and are subject to these and other risks, uncertainties and assumptions relating to our operations, results of operations, growth strategy and liquidity. We undertake no obligation to update any forward-looking statements made in this report to reflect events or circumstances after the date of this report or to reflect new information or the occurrence of unanticipated events, except as required by law.

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PART I. FINANCIAL INFORMATION

ITEM 1. Financial Statements

FIVE9, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

	June 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 166,162	\$ 68,947
Marketable investments	108,140	—
Accounts receivable, net	20,167	19,048
Prepaid expenses and other current assets	8,437	4,840
Deferred contract acquisition costs	8,083	—
Total current assets	310,989	92,835
Property and equipment, net	22,019	19,888
Intangible assets, net	841	1,073
Goodwill	11,798	11,798
Other assets	1,026	2,602
Deferred contract acquisition costs — less current portion	18,393	—
Total assets	\$ 365,066	\$ 128,196
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 6,035	\$ 4,292
Accrued and other current liabilities	13,615	11,787
Accrued federal fees	1,638	1,151
Sales tax liability	1,201	1,326
Notes payable	31	336
Capital leases	7,442	6,651
Deferred revenue	14,750	13,975
Total current liabilities	44,712	39,518
Convertible senior notes	190,615	—
Revolving line of credit	—	32,594
Sales tax liability — less current portion	928	1,044
Capital leases — less current portion	7,869	7,161
Other long-term liabilities	1,436	1,041
Total liabilities	245,560	81,358
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Preferred stock, \$0.001 par value; 5,000 shares authorized, no shares issued and outstanding at June 30, 2018 and December 31, 2017	—	—
Common stock, \$0.001 par value; 450,000 shares authorized, 58,276 shares and 56,632 shares issued and outstanding at June 30, 2018 and December 31, 2017, respectively	58	57
Additional paid-in capital	273,373	222,202
Accumulated deficit	(153,925)	(175,421)
Total stockholders' equity	119,506	46,838
Total liabilities and stockholders' equity	\$ 365,066	\$ 128,196

See accompanying notes to the unaudited condensed consolidated financial statements.

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FIVE9, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
AND COMPREHENSIVE LOSS

(Unaudited, in thousands, except per share data)

	Three Months		Six Months Ended	
	Ended			
	June 30,	June 30,	June 30,	June 30,
	2018	2017	2018	2017
Revenue	\$61,120	\$47,727	\$120,025	\$94,741
Cost of revenue	24,814	20,273	49,516	40,244
Gross profit	36,306	27,454	70,509	54,497
Operating expenses:				
Research and development	8,367	6,836	16,139	13,683
Sales and marketing	17,912	16,932	35,390	32,710
General and administrative	9,833	6,845	18,936	15,705
Total operating expenses	36,112	30,613	70,465	62,098
Income (loss) from operations	194	(3,159)	44	(7,601)
Other income (expense), net:				
Interest expense	(2,378)	(888)	(3,188)	(1,770)
Interest income and other	206	90	604	208
Total other income (expense), net	(2,172)	(798)	(2,584)	(1,562)
Loss before income taxes	(1,978)	(3,957)	(2,540)	(9,163)
Provision for income taxes	64	50	109	99
Net loss	\$(2,042)	\$(4,007)	\$(2,649)	\$(9,262)
Net loss per share:				
Basic and diluted	\$(0.04)	\$(0.07)	\$(0.05)	\$(0.17)
Shares used in computing net loss per share:				
Basic and diluted	57,903	54,723	57,453	54,208
Comprehensive Income (Loss):				
Net loss and comprehensive loss	\$(2,042)	\$(4,007)	\$(2,649)	\$(9,262)

See accompanying notes to the unaudited condensed consolidated financial statements.

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FIVE9, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
 (Unaudited, in thousands)

	Six Months Ended June 30, 2018	June 30, 2017
Cash flows from operating activities:		
Net loss	\$ (2,649)	\$ (9,262)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	4,769	4,365
Amortization of premium on marketable investments	(43)	—
Provision for doubtful accounts	66	45
Stock-based compensation	12,122	6,983
Gain on sale of convertible note held for investment	(312)	—
Non-cash adjustment on investment	(40)	(161)
Amortization of debt discount and issuance costs	40	40
Amortization of discount and issuance costs on convertible senior notes	1,733	—
Accretion of interest	44	10
Others	(19)	(14)
Changes in operating assets and liabilities:		
Accounts receivable	(1,114)	(2,426)
Prepaid expenses and other current assets	(3,140)	(4,106)
Deferred contract acquisition costs	(3,338)	—
Other assets	4	166
Accounts payable	1,493	1,187
Accrued and other current liabilities	2,415	909
Accrued federal fees and sales tax liability	246	171

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Deferred revenue	1,170		2,025
Other liabilities	261		311
Net cash provided by operating activities	13,708		243
Cash flows from investing activities:			
Purchases of marketable investments	(109,506)	—
Proceeds from maturities of marketable investments	1,400		—
Purchases of property and equipment	(1,092)	(1,178
Proceeds from sale of convertible note held for investment	1,923		—
Net cash used in investing activities	(107,275)	(1,178
Cash flows from financing activities:			
Proceeds from issuance of convertible senior notes, net of issuance costs paid of \$7,946	250,804		—
Payments for capped call transactions	(31,412)	—
Proceeds from exercise of common stock options	5,821		2,303