Bazaarvoice, Inc. (NasdaqGS:BV)

Company Conference Presentation Transcript

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Call Participants

Executives

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director

Analysts

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Unknown Analyst

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Presentation

Stephen Ju
Crédit Suisse AG, Research Division
All right. I think we're going to get started. I'm Stephen Ju from the Credit Suisse Internet Research Team. I'm very pleased to have with us Stephen Collins...

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Thanks.

Stephen Ju
Crédit Suisse AG, Research Division
CEO, Bazaarvoice. I think we're also joined by Brian Smith from Investor Relations as well. Brian? Okay. All right. I guess you're not.

Question and Answer

Stephen Ju
Crédit Suisse AG, Research Division
So I usually don't do this, but I thought I would give you a fairly open-ended question because I think there's a significant amount of misunderstanding around the strategic direction of the company right now. So will you hence walk us through where you were, as a value proposition, to both of the retailers on your platform as well as the brand advertisers and the OEMs on the other side of the equation. And how did that change with the PowerReviews acquisition? And how did your business and your product portfolio change on a go-forward basis with the Longboard acquisition?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Okay. So thank you. Let me start by saying that the things that we've been doing over the last year are a manifestation of a strategy that we've had in place for some time at this point. So let me take you through the history of the company a little bit. The company was founded in 2005. The cofounders developed a SaaS platform for retailers to capture, structure the data and display review content. They became the leader in that category, amassing a client base of several hundred clients, including about 160 of the Internet Retailer 500 largest websites. Along the way, really around 2008 and 2009, when they started amassing a large number of retailers, as you might imagine, we were amassing a very significant consumer audience, numbering in the hundreds of millions of shoppers. The founders of the company began marketing the same exact software platform to brands who sell their products to those consumers, brands like P&G, Procter & Gamble, one of the first or companies like Procter & Gamble, 3M, J&J, GlaxoSmithKline, I could go on. So we have built a portfolio of 115 of the Fortune 500 at this point. Many, if not most of those customers, are customers like Procter & Gamble. The reason that P&G was attracted to acquire our software platform, even though they are not an online retailer, is because that content that they can now own has significant intrinsic value. And so once we captured that content for P&G on tide.com and brand affinity sites and through other tools, we take that content and we then display it to the shoppers who are shopping on Walmart, for example. What happens is P&G spends a lot of money acquiring a lot more reviews about their product than Walmart does. And when we move that content from P&G's site over to Walmart's site, the amount of review content at Walmart goes up exponentially. And we know from years of analysis that if you have more content and you cover more brands, more SKUs, the sales of your products will exceed the sales of your competitors' products. For the retailer, if they have more reviews, they sell more stuff generally and people return less, so that makes their revenues go up and it makes them more profitable. So that dynamic has been driving the business since inception. And what's happened over the last 3 years is when the business with a 100% retail basically going into '08, now it's about 50% brand revenue and 50% retail revenue. So obviously, brand revenue is growing faster and the addressable market in dollar terms is vastly greater. And I can illustrate this by pointing out that of our roughly 1,000 enterprise clients about 1/4 are brand clients and 3/4 are retail clients. So you have a network there. And that's essentially where we find ourselves today. We reach hundreds of millions of unique shoppers. We have 115 Fortune 500 clients. We acquired PowerReviews, which was one of our most significant competitors in June. They also had 85 IR 500 sites. So now we have approximately 260 of the largest retailers in the U.S. and a consumer audience that spends $120 billion, $125 billion a year in the U.S. out of the roughly $200 billion in U.S. online retail sales. Our network of retailers gets about 2 billion monthly visits compared to Amazon who gets about 350 million. So we have probably the largest shopper network in the world with more online retail sites, more shoppers on one technology platform with that content data in a single database than any other company.

So the question is strategically, all right, we got this incredible asset, huge amount of reach, huge amount of data, huge amount of content. It's very valuable. It makes our clients money. How else can we exploit the network opportunity? So one of the ways is looking at the inventory of the audience we reach, and we concluded very quickly by observing what Amazon was doing and what retail clients were doing, that they were really thinking about yield per visit and they were beginning deploy ad technologies and sell advertising like co-op advertising on their shopping site, so we formed a team this year and budgeted to build a plan around adding that capability to our arsenal and through the acquisition of Longboard Media, we decided to go the buy route. And that what Longboard does is they sell co-op advertising essentially on retailer sites. So it's intended to be complementary, specific to retail, and it's intended to do the same thing we do with reviews, help drive conversion.

There's another important synergy here, which is from an analytics opportunity perspective, we have great data around product ID, retailer and brand, but our data tying that to consumers and helping to understand how they behave across multiple sites was not as robust. By offering a media solution, we can complete our data sets, so we have consumer ID, product ID, brand and retailer throughout the network. That gives us a much more compelling value proposition in terms of introducing SaaS analytics capabilities, for example. And it allows our clients to have a data set that's more extensible so they could use the content we have to find out if someone is shopping for a TV. And there are other advertising efforts, the retargeting, for example. Although we don't plan to be in the retargeting business, we want to help them get the data sets they can use to be more successful driving more traffic to their site. So I think I'll take a pause there, and that kind of illustrate about where we are and where we're going.

Stephen Ju
Crédit Suisse AG, Research Division
Right. So I guess what you have on the right now is the data I mean past purchasing behavior is the biggest indicator of future purchases. Right? And we know a large online retailer in the name of Amazon that has exploited the data analytics capabilities to drive merchandising decisions, right? So for you and what you’re -- the data that you're sitting on could be essentially a larger version of that -- what is essentially a recommendation of merchandising action across retail.

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
So because our footprint is significantly greater than Amazon, and that's not to diminish Amazon's capabilities, they're phenomenal. Our clients, in fact, are desperately working to compete with Amazon both with their bricks and mortar business and online, we provide equivalent if not superior capabilities for those companies to do what Amazon does well, get content, use that content in a variety of different use cases. And the network advantage reaches scale is what allows us to give that leverage to a medium-size smaller retailer or someone who's just coming online. So from that perspective, we think that we're unique in the marketplace in our ability to add value and a review has a value. The more of them you have, the more value your company. The more people who see that piece of content, the more valuable the review. And the more use cases you have for it, whether it's in product design, retargeting, merchandising, if you like this, you like that, or even offers or ads, the more valuable our content is or our client's content, I should say.

Stephen Ju
Crédit Suisse AG, Research Division
Exactly. So the concept of shopper media is fairly new and you called this the undiscovered country in your last conference call. So what do you think this new addressable market really is? Or what segment on the online advertising market do you think you're now tapping?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
The way that we look at it, and this is important by talking to our retail clients as much as any other constituency is the e-commerce model is still evolving, still very new. You probably know better than I. 10% of all retailers is online. So this is a multi-decade secular trend that is continuing to advance. As our clients look at their e-commerce business, they're thinking differently in terms of their audience. They realize they get a huge amount of traffic, but that traffic does not convert every time they visit. And the better job that they do getting customers not only to convert but also to increase cart size, to reduce their cart abandonment rates, et cetera, the better their margins, the better their business. Review content helps them accomplish those objectives. But at the same time, co-op advertising offline has also been complementary to the retailing model. It provides real cash flow to retailers. It drives traffic into their stores. It helps people buy more things while they're walking through the aisles, if you see an end-of-aisle display or things we're all familiar. Co-op advertising is a -- no, it's not tens of billions, hundreds of billions of dollars of spend every year, and it really hasn't emerged online because retailers haven't made that inventory and that audience available to brands and brand advertisers online. Well, Amazon is doing that to the tune of $1 billion to $2 billion a year of revenue now. Walmart is certainly selling a good amount of advertising, and we see co-op dollars and starting

~~to move on online. And we're in the business of making retailers' money, and we're certainly in the business of helping~~ brands reach those shoppers. So we feel like it is perfectly adjacent for us through a single network, and essentially a single technology platform, to facilitate that flow, that connection between the brands and the retailers. And we feel like it's a very natural evolution of what we do because at the end of the day, we're trying to help consumers make great purchase decisions, and that's what the brand is trying to do as well. Obviously, they're biased, but...

Stephen Ju
Crédit Suisse AG, Research Division
I got you. So co-op advertising there's also the potential for, I guess, discounts and offers at some point.

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Yes.

Stephen Ju
Crédit Suisse AG, Research Division
But just to get -- I guess, everybody has somewhat visceral examples, I guess, the example of maybe a Chase or somebody like that in terms of an adjacent or completely unrelated brand advertiser, advertising on some of the e-commerce site, we've all seen them on Amazon. That's an obvious example.

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Right.

Stephen Ju
Crédit Suisse AG, Research Division
But there could be other segments that you could target as well and direct response as well.

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
I think so, yes. Even lead generation could be very powerful with our Connections product, which just allows a brand to respond to reviews and answer questions. If someone writes a bad review, the retailer could grant that brand, essentially individual private access to that email address or that consumer to influence them, in some way, to bring them back to loyalty, if you will. So I think there are so many ways that we get brands and retailers working together online where they've never done that, because we again are a network with everyone on a single technology platform I just really think, we really think, that we have a very unique opportunity to accomplish this and an efficient way for the marketplace. And we're not aware of any other company out there that has this particular strategic advantage.

Stephen Ju
Crédit Suisse AG, Research Division
Perfect. Yes. Right.

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Thanks. Good to know.

Stephen Ju
Crédit Suisse AG, Research Division
So in terms of the penetration of the Longboard solution, the product line among your retail clients, it's fairly de minimis right now.

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Well, this is an emerging company. This I would describe the fiscal '13 -- or excuse me calendar '13 is their breakout year, and this particular quarter, as you know, going to be really the quarter they start to get some throughput. We did months and months of research to identify what we thought was the best fit. And obviously, we selected accordingly. But their sell-throughs, meaning the amount of ads that they put on, they're not even close to coming all the way through. And I don't think shopper media will be like a publisher site, where you want to sell every page view all the time. In certain situations, you may want to leave that shopper alone and let them do what they were going to do in the first place. So we believe the creative strategies and the targeting strategy of shopper media will be unique and must be complementary. There were other companies out there, startups that are essentially trying to decide whether or not you'll buy on a site, and if they think you won't, they just take you off of it. That's how the model that

we wanted to pursue. So this is very early, and one of the conclusions that we drew, and I think Amazon drew the same conclusion when we researched what they did, is advertising opportunities tend to start at the lowest common denominator. They don't lead to ad exchanges and realtime bidding initially. Basically, a retailer says, "I have 20 million people who visit me every month, not all of them buy, and I think I can work with my brands to do a better job helping them to convert." So I can just do that in a very simple way with the inventory I have that's how I'm going to start. And that's what Longboard is doing, and that's what exactly what see happening in the shopper media world.

Stephen Ju
Crédit Suisse AG, Research Division
When we first met about a year ago, I think we talked about sort of I guess the strategic sort of end point in terms of where your revenues can go as SaaS monetization revenue. How does Longboard change things?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
So first important point is because what we're doing we think is complementary and has synergies particularly on the data end, the existence of transactional revenues and SaaS revenues are complementary. They don't cannibalize each other. They're accretive. If you look at a business I think is fabulous like LinkedIn, it certainly works for them. And so our retailers expect us to do more for them to help them make money. Brands like to work with vendors who can do a lot of things for them, not just niche things. So in our view, the ability to offer a broader solution set that's relevant to what our purpose is in terms of influencing consumer decision-making, will actually attract more people to our SaaS platform in addition to creating more opportunity for anything transactional we get into now or in the future. And together, we build a larger, more valuable business than we can build in either whether it was all SaaS or all transactional. We sell a digital marketing solution, we affect revenue, we affect consumer behavior. And so the value of what we do is determined by audience, reach and other things. So that is really intrinsic to our whole mission as a company, as opposed to a replacement market Software-as-a-Service company that's replacing existing systems around accounting or whatnot. Those all have their merit but we're fundamentally different in terms of our value prop. But more specifically, I think the potential size and profitability of the company is exponentially greater with all these parts put together than just one or the other.

Stephen Ju
Crédit Suisse AG, Research Division
Got you. I mean and just kind of switching gears a little bit and back to the quarter. I think the customer additions were probably a little bit softer than people anticipated. But I think you did talk about some amount of acquisition in the [indiscernible] case. So have most of those issues been addressed? What does it look like...

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Yes. I think so. I would like to point out that we launched our Connections product this quarter. And so if it had been pre-PowerReviews and we just looked at the number of clients added, it would have been the largest number of clients added in the company's history in a single quarter. The 225 brands that signed on the Connections we would have never been able to do business with before. They're net new client, in addition to net new 33 enterprise clients. That was a really exciting result. We can now upsell to those Connections clients. On the other hand, we definitely would have liked to have more new client adds on the enterprise side. Part of that was deliberate because we acquired book of business from PowerReviews, and we focus really on retaining those clients when they came over. The other was we have a high-class problem where we've gotten more brands and there's great upsell opportunity. And the sales team did a good job on upsells and didn't spend as much time going out and creating demand for brand. And on that point, only 5% of our deals come through an RFP. If we're not out there pounding the pavement, going through agencies, talking to the next P&G and showing them what we can do, they don't know to buy it. That's great in some ways because you've got this nascent new market, but it also makes it imperative that we have strong management around sales people's activities in terms of hunting and upselling. And we have to be balanced and that's how we grow the fastest.

Stephen Ju
Crédit Suisse AG, Research Division
Got you. At this point, I think, we'd like to open it up to the floor for questions if any. Okay I'll just keep going. Okay. All right. Given the economic backdrop in Europe, are you sensing any sort of hesitancy among some of the clients over there, large or small, in the retail and the brand side in terms of the willingness to sign up to your platform? Is the sales cycle over there getting along because I think that was a strategic...

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director

And this was in my career as a double clerk. Europe was behind the U.S. and it's exactly the same here. So let me be more specific on what's different. In Europe, our business looks more like Bazaarvoice looked in 2008 and 2009, meaning you've got a disproportionate number of retailers coming on and brands just trying to decide whether they want to get on board. That is not true for global brands like P&G, which tend to buy through the U.S. for their global brands. But specifically European brands. One reason is that retailers in Europe haven't warmed up to accepting content syndication yet, which is one of the primary drivers to get the brands coming on. So there's a lag time as far as macroeconomic conditions. I can't point out specific issues where we think our business is suffering because of euro contagion whatever you want to call it. But I think it would be fair to say that the odds are -- we would be growing faster globally if the economy, globally, was better. And I think that would be true of any company. So to the extent that other companies are not growing as fast as they want to in Europe, I'm sure that, that had some effect on us but I can't -- I don't have any specific data to say that's absolutely true.

Stephen Ju
Crédit Suisse AG, Research Division
Right. And in terms of other areas, global areas for growth -- oh, there's a question.

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Yes?

Unknown Analyst
[indiscernible] saturation for both retailers and for brands?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
So typically, it's one year. Over the last 2 years, we have increasingly entered into 2- and 3-year agreements. But the disproportionate number of clients we bring in sign one-year contracts. And that's from both ends.

Unknown Analyst
What percentage do you think you could migrate over to 2 to 3 years, as you have more and more -- repeat customers become a larger part of your bookings? And given that e-commerce is growing at mid-teens rates, is there any ability to build in escalators tied to growth in their underlying online businesses?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
One driver of growth is, again, half of our bookings in any period are coming from upsells. So we rarely, in the history of our company so far, even get to a renewal point before we don't increase the relationship. Usually that increase is associated with some incremental value being provided. Another brand, another capability around the platform, et cetera. So in that environment, we haven't really looked at just fixed price increases or escalators in the contract. Although, I am aware more recently of us putting those in. I think from our perspective, especially if you have a very large client, having a multi-year commitment is valuable because we make a big investment to bring in a big deal. And knowing that, that you're going to get the payback on that for 2 or 3 years, and you're going to get a return on the extra work that you do with them would be valuable. If we had to make a trade between a 2 and 3-year deal and an annual subscription price upfront, we would probably take the fixed 3-year deal over the higher annual price just to give you an idea of how we think about it. But right now, we're focused more on upselling than simply escalating the price.

Unknown Analyst
And the upsells will be based on cross-sells and more brands rather than higher volumes [indiscernible]

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
That's right. That's certainly the velocity -- if you looked at upsells versus cross-sells, the velocity of cross-sell drives revenue growth much more than upsell because we still have our core ratings reviews platform. What clients buy that drives an upsell, they extend our solution into Facebook so we essentially have an analog solution set that allows them to push into Facebook and do the same kinds of things they do on their own site. We have an analytics platform that more readily appeals to very large retailers because you have to have a big data set. And then we have network syndication. So whenever a P&G decide they also want to move their reviews on to a retail site, that increases the amount that they pay us.

Stephen Ju
Crédit Suisse AG, Research Division

I think -- is Longboard an appropriate product for your Express clients?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Express is -- so Express are these credit card swipe turnkey total direct marketing client base of PowerReviews, they number in the 800-ish range. They do not contribute significant revenue as you might imagine. But in the aggregate, they have pretty decent audience. If all we do is market that and just to do SaaS subscription, it's not that attractive, it's not economically attractive. However, it's economically attractive to have that long tail if you could combine some media solution with it. So that's how we're thinking about approaching that portfolio of business instead of just subscription.

Stephen Ju
Crédit Suisse AG, Research Division
Got you. And you mentioned Europe, you mentioned domestic, are there any other areas of interest in terms of where you can take the business model?

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
One other area where I think we haven't been as aggressive as we would have liked is expanding not only to other more mature e-commerce markets like Japan, but also understanding that Brazil and China are emerging e-commerce super opportunities. I think a continuing advancement and innovation around e-payments and mobile together are going to unlock those markets and turn them into e-commerce markets, as well as turning bricks and mortar stores into essentially an e-commerce experience as well. There was a lot of articles in the journal this weekend about Black Friday and Cyber Monday and how in-store pricing was changing. As a side note, our Cyber Monday impression volume of reviews was a bit over 1 billion, up 37%. So [indiscernible] in any event. So what we're doing, as far as expanding internationally, we need to go on and get in Japan and other more mature international markets, whether it's with a partner or rep office or whatever. And then through most likely, some form of partnering, find a way to get some presence in potentially huge opportunities that will open up to us 3 to 5 years from now and have a head start. That wouldn't necessarily cost a lot of money to invest in, but just a little bit of investment could pay a huge dividend and advance our mobile strategy as well.

Stephen Ju
Crédit Suisse AG, Research Division
I think with that, we are out of time. I think you guys are going to be in the breakout room, Room #2.

Stephen R. Collins
Chief Executive Officer, President, Chief Financial Officer and Director
Okay, thanks.

Stephen Ju
Crédit Suisse AG, Research Division
Thanks very much.