Box Inc.

First Quarter Fiscal 2022

Conference Call Remarks

May 25, 2022

Introduction

Good afternoon and welcome to Box's First Quarter Fiscal 2023 Earnings Conference Call. I am Cynthia Hiponia, Vice President Investor Relations. On the call today, we have Aaron Levie, Box co-founder and CEO and Dylan Smith, Box co-founder and CFO. Following our prepared remarks, we will take your questions.

Today's call is being webcast and will also be available for replay on our Investor Relations website at www.box.com/investors. Our webcast will be audio only. However supplemental slides are now available for download from our website. We'll also post the highlights of today's call on Twitter at the handle @BoxIncIR.

On this call, we will be making forward-looking statements including:

- Our Q2 and full year fiscal 2023 financial guidance, and our expectations regarding our financial performance for fiscal 2023 and future periods, including our free cash flow, gross margins, operating margins, operating leverage, future profitability, net retention rates, unrecognized revenue, remaining performance obligations, revenue and billings; and

- Our expectations regarding
  - the size of our market opportunity;
  - our planned investments and growth strategies;
  - our ability to achieve our long-term revenue and other operating model targets;
  - the timing and market adoption of, and benefits from, our new products, pricing models, and partnerships;
  - the impact of our acquisitions on future Box product offerings;

- the impact of the COVID-19 pandemic on our business and operating results; and
- our capital allocation strategies, including and M&A and potential repurchase of our common stock,

These statements reflect our best judgment based on factors currently known to us, and actual events or results may differ materially. Please refer to our earnings press release filed today and the risk factors in documents we file with the Securities and Exchange Commission, including our most recent Annual Report on Form 10-K for information on risks and uncertainties that may cause actual results to differ materially from statements made on this earnings call. These forward-looking statements are being made as of today, May 25, 2022, and we disclaim any obligation to update or revise them should they change or cease to be up-to-date.

In addition, during today's call, we will discuss non-GAAP financial measures. These non-GAAP financial measures should be considered in addition to, not as a substitute for or in isolation from, our GAAP results. You can find additional disclosures regarding these non-GAAP measures, including reconciliations with comparable GAAP results, in our earnings press release and in the related power point presentation which can be found on the Investor Relations page of our website. Unless otherwise indicated, all references to financial measures are on a non-GAAP basis.

With that, let me hand it over to Aaron.

First Quarter Fiscal 2023 Overview

Thanks Cynthia. And thank you all for joining the call today.

We are off to a strong start in Fiscal 23, delivering first quarter revenue growth of 18%, above our guidance and representing a fifth consecutive quarter of accelerating revenue growth. Our continuous focus on profitability resulted in non-GAAP operating margin of 21%, up 360 basis points from 17% a year ago. Because of this strong momentum, and even with the impact of FX which Dylan will describe in more detail shortly, we are raising the midpoint of our revenue range and raising our operating margin guidance and EPS guidance for the full fiscal year.

In Q1, we continued to execute on our product roadmap as we address a $74 billion market opportunity. We announced Box Canvas, our native virtual whiteboarding and visual collaboration solution, while also launching significant product enhancements with Box Sign, workflow with Box Relay, and security and compliance with Box Shield. We deepened integrations across several of our technology partners, and we expanded our customer relationships while continuing to add new customer logos.

The success of our platform strategy is shown in our strong customer metrics, as customers are leveraging our Content Cloud platform to transform their businesses and power new ways of working. In the first quarter:

- Our Net Retention Rate was 111%, up from 103% in the prior year, driven by strong customer expansion rates.
- For our large deals, over $100K:
  - We had 60 new deals; and we had a 73% attach rate of Suites, up from a 49% attach rate in Q1 of fiscal 22. We continue to see healthy attach rates in the US and EMEA, with improvements of our attach rates in Japan.

Our strong Q1 fiscal results and customer metrics underscore that our growth strategy is working, and that we are aligned with the key trends that are driving the future of work. Companies today are dealing with a more and more distributed and hybrid workplace as they implement the digital transformation of their business processes, and face increasing security challenges across their organization.

Our Content Cloud addresses these trends by building out capabilities to power the full lifecycle of content in a single platform. As we continue to double down on these product capabilities and investments, we will add more value to our customers and expand Box's TAM.

In Q1, we announced a major new element of our Content Cloud with Box Canvas, allowing us to enter an additional fast-growing market with our platform. With the prevalence of remote and hybrid work now a permanent part of nearly every business, the ability to seamlessly collaborate on "any" type of content is critical. Over the past couple of years, we've seen a huge increase in companies looking to collaborate on visual content, from product designs, storyboards, and project plans, to flowcharts, diagrams and much more. Box Canvas is an intuitive, visual collaboration and whiteboarding experience that powers free-form collaboration, while leveraging all the strength of the security, governance, and compliance built directly into Box. With Box Canvas officially launching later this year, it will be included across all of our product plans, adding even more value and enabling our customers to benefit from Box in new use cases across their organizations.

With products like Box Canvas, Box Sign, and Box Notes delivered as included capabilities Box's core subscriptions and bundles, customers benefit from getting new value from Box instantly. Especially as companies look to consolidate IT spend from various point solutions, Box remains in a strong position to help retire disparate e-signature technologies, collaboration tools, enterprise content management systems and more. It's a win-win that drives ROI for our customers, as well as providing additional upside as customers move up to higher tier plans for more features.

Since our launch of Box Sign this fall, we have announced major new and enhanced capabilities, integrations, and developer tools to power even more advanced signature-based processes, helping customers move more of their transactions to the Content Cloud. We are pleased with the momentum we are seeing in customer adoption and use of Box Sign. First quarter customers include:

- A global legal services provider moved to Box with a six-figure deal in order to provide its network of lawyers who work on their most sensitive matters with secure internal and external content collaboration along with Box Sign for a secure and affordable e-signature option for boilerplate agreements.
- A U.S. based real estate investment trust purchased Box in Q1 and deployed Box Sign across its organization to support the signing and collaboration around commercial leases.
- Finally, a global biopharma company, who has been a Box customer since 2018, moved to Enterprise Plus in Q1 with plans to use Box Sign, which will be critical as the company continues to scale and they release new drugs to market.

Box's security capabilities also remain a critical driver of why customers choose our Content Cloud. Data security, compliance and privacy remain more important than ever. In Q1, we launched new capabilities for Box Shield, our advanced security solution for protecting content in the cloud, including the ability to apply malware deep scan to Microsoft Office files and adding automatic watermarking to classified documents. Throughout this year we will continue to extend our leading security, compliance, and data governance capabilities.

Finally, the ability to integrate deeply across the SaaS landscape is an integral part of our product strategy. We recently announced a deepened integration with Zoom with the launch of the Box app for Zoom Chat Channels to make it even easier for users to work seamlessly together across the two platforms. In Q1, we also announced the all new Box App Center, a destination for users, admins, and developers to easily discover and access the more than 1500 applications that integrate with Box, highlighting the power of Box's deep partnerships with Microsoft, Google, Slack, Zoom, Webex, ServiceNow, IBM, and many other major technologies.

As we look forward in FY23, we believe it will be Box's biggest innovation year ever. We will continue to focus on our 3 core differentiators of frictionless security and compliance, seamless collaboration and workflow, and an open platform that's integrated into every application. And we'll continue to build products that reinforce each other, powering the full lifecycle of content, and empowering our customers to save money by retiring other tools. Above all, we will ensure that our customers derive more and more value from Box as they move more of their data onto our platform. This is the virtuous flywheel that drives our business model, and we're only in the early innings of what's possible.

Turning to go-to-market, as we discussed during our Analyst Day in late March, our strength and business momentum is the result of a number of initiatives that we have undertaken to scale our land and expand go-to-market motion. These have included optimized pricing and packaging with our latest multi-product offering, Enterprise Plus. In Q1, Enterprise Plus accounted for more than 80% of our multi-product Suites deals, a remarkable achievement since the launch of E+ in July of last year, and a much quicker ramp than we saw when we launched our first Suites.

Our Q1 customer expansions and new wins with Enterprise Plus include:

- An agency of the United Nations purchased Enterprise Plus and KeySafe as they look to use Box with other cloud apps, including Salesforce, to build a modern, digital platform for the approval of new vaccines and medicines from across the globe. Their process now is currently carried out via email, paper, USB sticks and DVDs.

- A leading biotech company that invents life-transforming medicine for people with serious diseases moved to Box in a six-figure Enterprise Plus deal. This new customer will be using Box for regulated content and high value use cases. The fact that Box supports GxP compliance and that our offering provides a better experience to both internal and external parties as they work together on clinical trials was critical for the selection of Box with the decision makers at this company.
- A major automotive company purchased Box with a seven-figure Enterprise Plus deal, enabling them to eliminate on-premises file servers and solve key security

issues. By replacing file servers with Box, they will centralize content management and simplify secure collaboration internally and externally with partners.

Our strategy aims to bring the full power of the Content Cloud to our customers. We know that when a customer adopts our multi-product offerings, we see greater total account value, higher net retention, higher gross margin, and a more efficient sales process.

We are also continuing to double down on all of our efforts around deployment, adoption, and truly helping our customers transform with Box. In Q1, we launched our new Box Consulting portfolio, a completely redesigned program that makes it easier to position, sell, and deliver these critical customer success services to empower any organization to achieve their Content Cloud goals.

In summary, our strong first quarter results and the continued momentum we are seeing in our business is the direct result of the execution and focus of the team at Box. Despite macro trends and currency impacts, we have continued to execute on our Content Cloud platform to ensure that we will continue to drive further annual revenue acceleration. At the same time, we remain steadfastly committed to expanding our operating margin, by focusing on the highest ROI initiatives across the business, scaling in lower cost locations, improving gross margins, and more.

The future of work is here and the Content Cloud platform has never been better positioned to capitalize on the trends of a hybrid, distributed, and digital-first work.

With that, I’ll hand it over to Dylan.

Q1 Fiscal 2023 Financial Results; Q2 and Fiscal 2023 Guidance

Thanks Aaron. Good afternoon everyone and thank you for joining us.

In fiscal 2023 we have three key financial objectives - accelerating year-over-year revenue growth, expanding operating margins through our focus on operational excellence, and prudently allocating capital to optimize shareholder returns. We had a strong start to FY23, delivering against all three of these objectives. As a result, we are raising the midpoint of our revenue guidance and raising our operating margin guidance and EPS guidance for the full fiscal year.

In Q1 we delivered revenue of $238 million; up 18% year-over-year, a fifth consecutive quarter of accelerating growth, and above the high end of our guidance of $235 million. This outperformance was driven by strong deal pacing and higher than expected non-recurring revenue. Our Q1 revenue growth rate includes an incremental impact of negative 1 percentage point from FX versus our initial expectations.

We continue to see strong demand for our Content Cloud platform. In Q1 we closed 60 $100K+ deals, of which 73% were Suites deals. As our customers are increasingly adopting products with more advanced capabilities, roughly 37% of our revenue is now attributable to customers who have purchased Suites, an exceptional 12 percentage point increase from 25% a year ago.

We ended Q1 with remaining performance obligations, or RPO, of $1.0 billion, a 16% year-over-year increase. Our RPO growth was negatively impacted by 6 percentage points from FX. We expect to recognize more than 60% of our RPO over the next 12 months.

Q1 billings of $172 million grew 8% year-over-year. Our billings growth rate was negatively impacted by an incremental 4 percentage points versus our initial expectations due to currency headwinds.

Our net retention rate at the end of Q1 was 111%, up 800 basis points from 103% in the prior year. We continue to see strong customer expansion and a stable annualized full churn rate of 4%. We still expect our net retention rate to remain roughly consistent throughout FY23.

Gross margin came in at 76.3%, up 330 basis points from 73.0% a year ago. Q1 gross profit of $182 million was up 23% year-over-year, exceeding our revenue growth rate by a full 500 basis points. We are delivering material profitability leverage via our public cloud migration strategy, and we remain focused on unlocking additional leverage to improve our long term gross margin profile.

Q1 operating income increased 43% year-over-year to $49M, and our 20.6% operating margin was up 360 basis points from the 17.0% we recorded a year ago.

We delivered 23c of diluted non-GAAP EPS in Q1, up from 18c a year ago. Q1 Non-GAAP EPS includes a negative impact of 3 cents from currency headwinds.

I'll now turn to our cash flow and balance sheet.

In Q1 we delivered cash flow from operations of $108 million, up 14 percent from the year ago period. We also generated free cash flow of $91 million, a year-over-year improvement of 20 percent. We generated record cash flow from operations and free cash flow in Q1, driven by very strong collections, including several large payments that we had expected to collect in Q2. Capital lease payments, which we include in our free cash flow calculation, were $12 million, down from $13 million in Q1 of last year.

For the full year of FY23, we continue to expect CapEx and capital lease payments combined to be roughly 5 percent of revenue in Q2, and roughly 5 percent of revenue for the full year of FY23, as compared to 6 percent of revenue last year.

Let's now turn to our Capital Allocation Strategy. We ended the quarter with $520 million in cash, cash equivalents, restricted cash, and short-term investments. As we've been doing, we expect to use our strong balance sheet and our increasing free cash flow generation to execute a disciplined M&A strategy to enhance and accelerate our product roadmap, while also generating shareholder returns via additional stock repurchases. In Q1 we repurchased 4.2 million shares for approximately $110 million. As of the end of Q1, we had approximately $148 million of remaining buyback capacity and we remain committed to opportunistically returning capital to our shareholders.

With that, I would like to turn to our guidance for Q2 and fiscal 2023.

As you know, since our prior earnings announcement on March 2, 2022, the U.S. dollar has strengthened versus the currencies in which Box transacts our international business, resulting in a larger than expected FX headwind to both Q2 and the full year of FY23. As a reminder, approximately one third of our revenue is generated outside of the US. The following guidance reflects the strength and momentum of our underlying business, and also ***includes*** the impact of any expected FX headwinds.

For the second quarter of fiscal 2023:

We anticipate revenue of $244 to $246 million, representing 15 percent year-over-year growth at the high end of this range.

We expect our non-GAAP operating margin to be approximately 22 percent, representing a 130 basis point improvement year over year.

We expect our non-GAAP EPS to be in the range of 27 to 28 cents, and GAAP EPS to be in the range of negative 2 cents to negative 1 cent, on approximately 152 million diluted shares and 146 million basic shares, respectively.

For the full fiscal year ending January 31st, 2023:

As a result of our strong Q1 results and ***despite*** the impact of FX headwinds, we are raising the midpoint of our revenue range and raising our operating margin guidance and EPS guidance for the full fiscal year.

We now expect FY23 revenue to be in the range of $992 million to $996 million, up 14% year over year at the high end of this range. Including the impact from FX headwinds we anticipated when we gave our initial FY23 guidance, we now estimate the full currency headwind to FY23 revenue growth to be approximately 3 percentage points.

We are prudently focusing our investments on compelling long-term growth opportunities, and our disciplined cost savings initiatives are generating efficiencies across the business.

As a result, we are raising our non-GAAP operating margin guidance to be approximately 22.5 percent, representing a 270 basis point improvement from last year's result of 19.8%, and an improvement over our previous guidance of roughly 22 percent.

We are raising our FY23 non-GAAP EPS to be in the range of $1.11 to $1.15 cents, on approximately 154 million diluted shares, and up from 85 cents in the prior year. Our GAAP EPS is expected to be in the range of negative 5 cents to negative 1 cent, on approximately 147 million shares. Our FY23 GAAP and non-GAAP EPS guidance includes an expected incremental impact from FX of approximately 8 cents versus our initial FY23 guidance.

For the full year of FY23, we continue to expect billings growth to be roughly in line with revenue growth, with expected variability on quarterly growth rates due to the dynamics of prior year comparisons and the timing of large customer renewals. Directionally, while billings growth rates are expected to be in the mid single digit range in Q2, we expect our billings growth rate to exceed our revenue growth rate in the second half of the year. We estimate the currency headwind to our FY23 billing growth rate to be approximately 4 percentage points. We continue to expect our FY23 RPO growth to exceed our anticipated full year revenue and billings growth rates.

Finally, we continue to expect our FY23 revenue growth rate, combined with our FY23 free cash flow margin, to be at least 37%, a 400 basis point improvement from last year's outcome of 33%.

In summary, the strong execution and business momentum we saw last year continued in Q1, as we delivered accelerating revenue growth while improving profitability year-over-year. In addition, we remain dedicated to a shareholder friendly capital allocation strategy that positions us for strong execution in the years ahead as we build on our content cloud leadership position.

With that, Aaron and I would be happy to take your questions. Operator?