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Dayforce, Inc. (DAY)

Q2 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

David Niederman

Vice President-Investor Relations, Dayforce, Inc.

Thank you for joining and welcome to the Dayforce Second Quarter 2024 Earnings Call. I'm David Niederman, Vice President-Investor Relations. As a reminder, all participants are in a listen-only mode and a question-and-answer session will follow our opening remarks.

Joining me on the call today are CEO, David Ossip; and CFO Jeremy Johnson. We also have Chief Product and Technology Officer, Joe Korngiebel; and our President, Steve Holdridge, available for Q&A. Before I hand the call over to David, I want to remind everyone that our commentary may include forward-looking statements. These statements are subject to risks and uncertainties that could cause Dayforce's results to differ materially from historical experience or present expectations.

A description of some of these risks and uncertainties can be found in the reports we file with the Securities and Exchange Commission, such as the cautionary statements in our filings. Additionally, over the course of this call, we'll reference non-GAAP measures to describe our performance. Please review our earnings press release and filings with the SEC for our rationale behind the use of non-GAAP measures and for a full reconciliation of these GAAP to non-GAAP metrics. These documents, in addition to a replay of this call, will be available on the Dayforce Investor Relations website.

And with that, I'd like to turn the call over to David.

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

Thanks, David, and thank you all for joining us. I will provide some high-level comments on our second quarter and then turn the call to Jeremy to provide more details of our financials and an updated full-year outlook.

In the second quarter, we delivered strong results. Revenue growth was healthy as Dayforce continues to exhibit strong appeal with customers to power best-in-class HCM experiences for their employees. Dayforce recurring revenue of \$322 million was up 20%, including float and 21% excluding float on a constant currency basis. And total revenue of \$423 million increased 16%.

Cloud recurring gross margin was 77.7%, up 100 basis points. Adjusted EBITDA was \$116 million, up 18%, representing an adjusted EBITDA margin of 27.5%, up 60 basis points, and free cash flow was \$72.7 million in Q2, up 36%.

Our business momentum remained strong in the second quarter with significant progress achieved across our product and operation and deal momentum continuing at an encouraging pace. While the macro backdrop remains fluid, we have been able to pivot to industries where Dayforce enjoys good traction, including manufacturing, retail and hospitality, among others. Looking out to the second-half of the year, we are encouraged by our achievements to-date in 2024. The core value proposition of the Dayforce platform of creating simplicity at scale, reducing complexity, driving financial ROI and improving employee engagement resonates very well with customers.

The HCM market is very large and is expanding. This continues to be a resilient and durable market of growth and our pipeline strength continued through the second quarter. We are optimistic this momentum will persist through the second-half as conversations with prospective customers for the full suite platform are progressing well in all segments and regions.

Turning to customers and market highlights, in Q2, we delivered balanced and consistent growth across customer acquisition, activations, expansion and retention. Our momentum sustained for sales, kickoffs and go-lives. We ended the quarter with Dayforce recurring revenue per customer up 18%. We now have 6,657 customers live on the Dayforce platform. From a sales perspective, we saw strong demand for Dayforce globally and sustained strength in both enterprise and major markets on a year-over-year basis.

Year-to-date, SI-led momentum continued with healthy year-over-year growth underscoring our success in expanding our partner ecosystem. Customers continue to see the power and capability of the Dayforce platform with full suite attach rates coming in at over 50% of new sales bookings. And sales to our customer base contributed positively to growth with add-on sales comprising more than 50% of total bookings, including add-on sales to the Canadian government and solid growth in our Talent Intelligence suite.

Dayforce remains differentiated from our peer group as the all-in-one global people platform that deliver simplicity at scale with a full HCM suite, a single application on a single database powered by AI. Our differentiation is evidenced by our strong win rates, best-in-class revenue retention and healthy sales growth.

Turning to Dayforce Wallet, we were pleased to hit the milestone in early July of \$4 billion logo cumulatively. We had nearly 3,000 customers live as of June 30 and registration rates and user transactions per month remain constant. Wallet revenue is expected to more than double this year and is the fastest-growing product at

Dayforce. The payroll modernization project for the Government of Canada is progressing well. As you may have seen, the Canadian government provided an update earlier this month with information about their targets, timelines and planned investments. Dayforce is proud to play a part in this project to help the Government of Canada not only pay its workers accurately and on time but to provide a modern employee engagement and talent platform as well. Jeremy will provide some color as to the impact from this project to our financial forecast.

In addition to the Government of Canada, some other notable sales wins from across the globe in Q2 included a global agribusiness and food company with more than 20,000 employees selected Dayforce Managed Payroll and Benefits, Workforce Management, Wallet and Dayforce Industry Solutions for its 5,000 US and Canadian employees. A family of independent hospitality brands based in the UK with more than 20,000 employees selected the full Dayforce suite to be used across its employee population in the UK and Ireland. A multi-national entertainment company selected Dayforce Pay and Time for its 9,000 US and Canadian employees. And some key Q2 customer go-lives included a multi-national government consulting firm that is now live on Dayforce Payroll, HR and Time for all 39,000 employees in the US, UK, Canada, Netherlands, Germany, Singapore and Saudi Arabia. A global e-commerce company with over 7,000 employees has gone live on Dayforce Payroll and Workforce Management for its US population. A UK seller of new and used cars went live with the full Dayforce platform to its 6,000 employees and a US regional airline that flies into more than 100 cities across North America implemented the full Dayforce suite for its 5,000 employees. You can read about more notable sales wins and customer go-lives in our earnings press release.

Turning now to some updates on our platform and technology. As always, our goal is to deliver simplicity at scale and allow our customers to eliminate the complexity that often results from combining multiple legacy HCM solutions. This principle guides our innovation even as we introduce new capabilities to help our customers navigate the ever-evolving landscape of work and technology. In the second quarter, we introduced several exciting innovations. We launched Dayforce Flex Work, an on-demand marketplace that helps organizations augment their workforce by posting shifts and selecting from a pool of gig retired, seasonal and alumni workers. Flex Work manages background checks, onboarding and payroll, helping to give employers peace of mind while giving frontline workers a more flexible working experience.

We launched Dayforce Skills Engine, which uses AI to help identify skills gaps, then source and upskill talent with end-customer workforces. We launched on-the-job learning checklists on the Dayforce platform, which will allow managers to document training and observe the impact on performance. We launched Dayforce Payroll in Singapore, enabling customers operating in the region across Asia to access Dayforce industry-leading payroll capabilities.

We recently introduced the Dayforce Partner Exchange, which is a marketplace where customers can connect with fully vetted Dayforce partners and discover software and services that extend the platform with access to over 120 software and SI partners. And we remain committed to helping our customers adhere to their compliance requirements with more than 200 compliance updates released in the first-half of 2024. This pace of innovation is truly impressive and we have an extensive roadmap for future enhancements and products that we are excited to provide our customers.

Finally, due to our continued strong results, profitability improvements and cash flow generation, we announced that our board of directors has approved a \$500 million share repurchase program and we announced our first ever Investor Day on November 12 in Las Vegas, alongside our Dayforce Discover conference where we plan to present a comprehensive view of our vision, strategy and multi-year financial model. We look forward to seeing many of you in-person there.

In summary, we continued our momentum in the second quarter and are confident in the growth opportunity in the second-half of the year. I'd like to thank everyone in our Dayforce community, including our customers, partners, and our team of passionate Daymakers.

I'll now pass the call to Jeremy to discuss our financial results in more detail. Jeremy, over to you.

Jeremy R. Johnson

Chief Financial Officer & Executive Vice President, Dayforce, Inc.

Thanks, David. We were pleased with our second quarter results. Top line growth continued to perform and we experienced enhancement to margins, allowing us to drive strong adjusted EBITDA and generate cash flow improvement. Dayforce recurring revenue was \$321.6 million, up 19.9%. And Dayforce recurring revenue, excluding float, was \$277.7 million, up 20.1%, or up 20.5% on a constant currency basis, underpinned by strong go-lives and healthy underlying customer trends.

Total revenue was \$423.3 million, up 15.7% on a GAAP basis and 16.3% on a constant currency basis. Powerpay recurring revenue was \$24.6 million, growing 2.1% on a GAAP basis and 3.7% on a constant currency basis. On a GAAP basis, gross profit was \$186.8 million, up 19.8%, and operating profit was \$14.1 million, including \$20.9 million of amortization expense related to the retired Ceridian trade name, which was not in the Q2 2023 comparison financials.

Cloud recurring gross margin was 77.7%, up 100 basis points. And excluding float, our Cloud recurring gross margin also continued to expand nicely, improving by 120 basis points. On a non-GAAP basis, adjusted Cloud recurring gross margin was 78.8%, up 70 basis points. Adjusted EBITDA was \$116.3 million, up 18%, or a 27.5% margin, expanding 60 basis points and reflecting our continued improvement in gross profit margins and scale in adjusted G&A. From a cash flow perspective, operating cash flows were \$99.2 million, up 21%; and free cash flow was \$72.7 million, up 36%.

I'd like to formally introduce a new financial metrics that we'll begin to speak about more frequently and that's free cash flow. In our SEC filings, we have included a very simple reconciliation from operating cash flow to free cash flow, simply reducing operating cash by capital expenditures. We view free cash flow as a metric that displays cash profitability on a consistent basis when viewed over time. Expanding free cash flow margin is a target for us in the long-term, enabled by our continued growth and focus on increasing profitability and improvements in cash conversion from EBITDA.

Year-to-date, free cash flow was \$53.9 million, up 48%, and we remain confident in our full-year cash flow targets of upper 50% conversion from adjusted EBITDA to operating cash flow and expect capital expenditures to remain steady on a dollar basis versus last year. As expected, eloomi revenue added approximately 200 basis points of growth to our Dayforce recurring revenue, ex-float, in the quarter. While last year's movement of the tax business represented a headwind of approximately 100 basis points to second quarter Dayforce recurring revenue, ex-float.

A few other callouts before I move on to our guidance. First, at the end of June, we performed an approximately 1% reduction in workforce, which is included in the \$10.5 million in restructuring expense adjusted out of EBITDA. This reduction was planned when we entered the year and was primarily a result of optimizations and spans of control and layers of employment levels inside each of our functions. We believe these changes will set Dayforce up on a more solid foundation to continue to build our global operating model and drive efficiencies in our business.

Second, we added disclosure to our 10-Q and earnings release to provide additional color on accounts receivable. This incremental detail includes historical breakout by quarter of accounts receivable components, including trade AR, receivables from Wallet amounts outstanding and amounts due from float income and other bank interest paid in arrears. This was previously disclosed only annually but we believe it is helpful to provide investors quarterly.

And, finally, I want to provide more clarity around the financial details of the payroll modernization product – project with the Government of Canada. If you recall in April, the government announced that they had allocated CAD 135 million in their 2024-2025 budget to explore a new HR and pay solution. Included in that allocation is now formally a contract for CAD 85 million, or approximately \$62 million to amend the contract with Dayforce to include additional talent capabilities, provide incremental licenses and to continue expand testing and design Dayforce to its specific needs. This contract included about a quarter of the funds for software, which we expect to begin realizing in the second quarter of 2025 and the remainder of the funds for services to be delivered by both Dayforce and our services partners, which we expect to deliver throughout 2024 and 2025. These services bookings are more of a continuation of the work we've been doing on this project and are already contemplated as part of guidance.

Now, turning to our guidance. For the full-year, we expect Dayforce recurring revenue, ex-float, of \$1.163 billion to \$1.168 billion, or a growth of 21% as reported, and 21% to 21.5% on a constant currency basis. Total revenue of \$1.736 billion to \$1.746 billion, or growth of 15% as reported, or 15% to 16% on a constant currency basis. Adjusted EBITDA of \$490 million to \$505 million, or 28.2% to 28.9% margin. Float revenue is now expected to be \$187 million for the full-year. And for the third quarter, we expect Dayforce recurring revenue, ex-float, of \$289 million to \$294 million, or growth [in the range] of between 18% to 20% as reported and on a constant currency basis.

[Total revenue of \$425 million to \$430 million, or growth of 13% to 14% as reported and on a constant currency basis]. Adjusted EBITDA of \$115 million to \$125 million, or 27.1% to 29.1% margin and float revenue is expected to be \$40 million for the third quarter. Our guidance implies fourth quarter Dayforce recurring revenue, excluding float, growing at approximately 23% on a constant currency basis, with fluctuating growth rates between our quarters driven primarily by the timing of go-lives and various other revenue drivers differing between this year and last year.

The USD to Canadian foreign exchange rates assumed in our guidance are \$1.38 for Q3 and Q4, or an average of \$1.37 for the full-year. To be clear, the weakening Canadian dollar continues to be a headwind for us, which we are accounting for in our maintained or raised guidance ranges for the full-year.

I'd like to thank you for your interest in Dayforce. We are excited to continue executing against our opportunity in the third quarter and the remainder of 2024.

With that, we can begin the Q&A portion of our call.

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

Hey, Jeremy, thank you for that. Before I ask David to moderate the Q&A, one item possibly since you ended off on the FX, could you provide some impact as to the headwinds of FX this year and how we've incorporated that into our guidance?

Jeremy R. Johnson

Chief Financial Officer & Executive Vice President, Dayforce, Inc.

Yeah. Thanks, David. It's a good point. For total revenue, we started the year with total revenue guidance of \$1.72 billion to \$1.73 billion and we raised our guidance since then by \$16 million to our current guidance ranges. Now, to get here, we beat our guidance in the first quarter by \$4.5 million and our guidance in the second quarter by \$4.3 million for a total of about \$9 million, and we've also raised the rest of the year by another \$7 million to get to that total \$16 million.

But our original guidance contemplated \$1.33 USD to Canadian FX rates, while the Canadian dollar has actually weakened to about \$1.38 at the spot rate today. And because of that, we've also absorbed almost \$13 million of FX headwinds versus our original guidance assumption to total revenue. So, in essence, we've increased our revenue guidance by \$29 million from our original guide in February but have had to absorb \$13 million in FX headwind.

Now, this happens in Dayforce recurring revenue, ex-float, as well. We started the year with guidance of \$1.16 billion to \$1.165 billion, and we raised our guidance by \$3 million and we beat first quarter by \$3 million as well. But due to the weakening Canadian dollar, we've had to absorb almost \$7 million of FX headwinds. So, in essence, we've increased our Dayforce recurring revenue, ex-float guidance, by about \$10 million. But have had to absorb that \$7 million FX headwind.

And with regard to adjusted EBITDA, we started the year with guidance of \$480 million to \$495 million, and we raised our guidance by \$10 million to get to our current guidance ranges. And to get here, we beat our first quarter by \$4 million, our second quarter by \$3 million, and we raised the rest of the year by \$3 million. And our FX has had an impact on adjusted EBITDA, although it's somewhat muted due to our offsetting expenses in Canada but there has been a headwind of approximately \$4 million versus our original guidance ranges. So, in essence, we've increased our adjusted EBITDA by \$14 million but with a \$4 million FX headwind. So, the weakening Canadian dollar, since the beginning of the year, is having an outsized impact on our results. But we continue to execute well with these headwinds.

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

Maybe, David Niederman, do you want to go ahead and open up to the first question?

QUESTION AND ANSWER SECTION

David Niederman

Vice President-Investor Relations, Dayforce, Inc.

A

Yeah. Great. So, thanks everyone for joining. Our first question is going to come from Mark Marcon from Baird. Mark, please unmute yourself and go ahead.

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

Q

Hey, good morning and thanks for taking the questions. And congratulations on the solid results, particularly encouraging to see the free cash flow as well as the progress on the Canadian government. A couple of observations and a question. Your margins are increasing nicely. And then when we take a look at the business highlights and the sales highlights, a lot of the wins are global companies or international companies. I'm wondering if you can just talk a little bit about, from a longer-term perspective, how we should think about the profitability of the international opportunities relative to North American opportunities?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Mark, thanks very much for that question and also thank you for highlighting the fact that we've been quite successful on a global basis. As you know, this is part of our durable growth strategy and it's allowed us to be successful this year by, quite honestly, pivoting to markets where we've still seen robust purchasing. In terms of overall profitability, our profitability, as you know, is driven by density of features that our customers are buying. We pointed out that about 50% of the new sales are full suite products and we've also had very successful sales back to the base and we see the NRR is included. When we go back to the base, we add obviously an additional revenue without really changing the cost basis from a support [organization] perspective. So, a lot of it flows directly down to the bottom line. The same is true on a global basis.

In terms of comparison between global customers and North American customers, we would expect to see the same margins on a global basis. Obviously, our sales and marketing costs and some of our P&T costs as we enter new geos would be slightly higher. But as those products reach maturity, you will see those normalize as well.

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

Q

That's great. And then thanks for the additional color with regards to the Canadian government project, obviously things are going well there. Jeremy, you highlighted that by the time we get to the second quarter of 2025, we might see some software revenue come through to a greater extent. Is there anything else that you can tell us with regards to the magnitude of the size and how we should think about layering that in as we think about 2025 and then going into 2026?

Jeremy R. Johnson

Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

Yeah. Look, I think, first and foremost, we're excited about continuing to build that partnership with the Government of Canada and help them modernize their payroll. As I said on the call, specifically we signed a contract for about \$60 million with the Government of Canada to expand testing and design to their specific

needs. About a quarter of that was for software subscription, beginning what we expect to be, assuming we can execute, which we have confidence, in April of 2025. So, the remainder of that would be for professional services work. That's more ongoing-type work that we have been continuing to do with the government across both us and our partners, already largely contemplated in our guidance. But we'll continue throughout that term as well.

Mark Steven Marcon

Analyst, Robert W. Baird & Co., Inc.

Q

Great. Thank you very much and congrats.

David Niederman

Vice President-Investor Relations, Dayforce, Inc.

A

Our next question will come from Samad Samana from Jefferies.

Samad Samana

Analyst, Jefferies LLC

Q

Hi. Good morning and thanks for taking my questions. I'll echo Mark's comments, it's a great quarter. Maybe first, Jeremy, for you. Just as I think about the guidance for 3Q and 4Q, the implied ramp in the fourth quarter is really impressive, right? It implies growth accelerating against the tougher comp. It would be one of the bigger kind of dollar adds that you've had in the fourth quarter in several years. So, just can you help us understand what's underpinning the confidence in that ramp and how much visibility you have into that? And is it any particular large deals that are expected to go-live or is it just the natural cadence of the business?

Jeremy R. Johnson

Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

Yeah. Thanks, Samad. It's good to hear from you. Look, I'll go back to the point that I make frequently, and it's around the level of visibility we have into our numbers. We've got confidence in our guidance ranges and we performed consistently against them since our IPO. And quarterly differences between last year and this year can cause growth rates to bounce around a little bit. Factors can include timing of go-lives, the amount of year-end services fees in Q1. We've got Wallet revenue and obviously we have to do all the revenue accounting that we're required to do, among many other things.

But we're performing well. Our results are strong and we have a great amount of confidence into that visibility that we have in both Q3 and Q4 and expect to be able to achieve the guidance that we've set out.

Samad Samana

Analyst, Jefferies LLC

Q

Great. And then maybe a follow-up for you, David. Just as I look across the landscape, one of your competitors did a really large reduction in force. And I'm just curious, just as you think about that and what maybe some of the other companies in the space are doing, you guys appear to be getting stronger. I'm just curious what do you think is, is leading to that inflection right now? And are you seeing a change in where your wins are coming from as far as the incumbents that you're taking share from?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Thanks, Samad. Look, I think, in difficult times, it's where you see differentiation in terms of performance across organizations. And as you pointed out, the strong gets stronger and the weak get weaker. We've seen our win

rates go up quite considerably year-over-year as we find that our messaging, which is largely a 12:1 simplification is being heard very well in the market. What the 12:1 refers to again is that we approach organizations and we clearly map out the different applications that make up their overall HR stack.

We then work with the prospect to quantify how much they're paying in terms of subscription or licensing fees for each of those 12 different systems. We also quantify how many FTEs they have supporting each of those systems. We do the same for their integration platform, the cost of integration, the cost of aggregation and data reporting. And then we show a move to Dayforce, which eliminates integration, increases automation, reduces the number of FTEs required to support the system quite dramatically and also reduces the subscription fees that they have to pay for Dayforce versus the 12 different other systems. That message, in this particular macro, is very well-received.

From a technology perspective, we are differentiated with our single database and our single application. It's a very clean design for a product, and our product capabilities, whether it would be the compliance modules or the talent modules, are very competitive even against the best-of-breeds in their respective areas. That allows us to show very well and at the same time deliver a cash IRR to the actual customers. And that differentiates us in market and I think has led to our success.

Samad Samana

Analyst, Jefferies LLC

Q

Great. Thank you, guys. Have a great day.

David Niederman

Vice President-Investor Relations, Dayforce, Inc.

A

Our next question comes from Scott Berg from Needham.

Scott Berg

Analyst, Needham & Co. LLC

Q

Hi, everyone. Nice quarter. Thanks for taking my questions. I guess I got two. I don't know if this is better suited for David or maybe Joe. David, you spoke about solid bookings coming from the Talent Intelligence functionality that you all have brought to the market the last year or two now. Is the current AI tailwind, that rhetoric, helping that business knowing that that platform certainly has underpinnings within these technologies?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

So, Scott, already the customers can benefit from AI inside our platform. The design of the data within Dayforce is well-formed and suited for AI, as well the overall experience of our customers is through our hub experience. And remember, hub experience is essentially a content management system designed for the CHR and their team to create really beautiful experiences that render both on the Web and across mobile. Because the system is a content management system, we've been able to develop models that allow us to index the content for the respective audience of each of the documents that are uploaded into the hub and to make that available through the Co-Pilot in a ChatGPT-type of format.

And as well, when we respond to the actual question by the person, we're able to reference the underlying source document where we actually got the questions from. That's available inside the actual platform and is very powerful and actually shows very, very nicely. At Discovery this year, you'll see Joe highlight where we're going from an AI perspective and it is very exciting. When we compare it to the competitors, whether they be the ERPs

or whether they'd be some of the best-of-breeds, I do believe that we have a strong advantage from an AI perspective that already is reflected in the US that we provide our customers and allows them to get benefit.

Scott Berg

Analyst, Needham & Co. LLC

Q

Excellent. Very helpful. And then my follow-up, Jeremy, I wanted to touch on your free cash flow comments kind of expectations and how you think about adjusted EBITDA-to-free cash flow. You and I recently had a conversation on this a couple of months ago. How do you move that conversion metric without changing your level of debt? Or is that potentially contemplated in that strategy to move that conversion up?

Jeremy R. Johnson

Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

Yeah. Thanks, Scott. Look, first and foremost, I think I want to acknowledge the fact that we have made some really significant strides in free cash flow improvement over the last few years and we still have room to go. If you go back to two years ago, I think our free cash flow margin was only a couple of percentage points and now we're actually heading towards something around 10%. If you kind of do the math that we're laying out, which is going from our adjusted EBITDA margin at around a 55%-plus, kind of upper 50% conversion rate into operating cash flow with capital expenditures remaining relatively constant on a dollar basis year-over-year, and that will get you to kind of our expectations anyways on free cash flow. So, it's pretty significant improvement in margin.

Now, a lot of that has been driven by our overall improvements in profitability. And the rest of it is – and that will continue, I should say, Scott. But we do think we can improve that conversion from kind of adjusted EBITDA into a free cash flow with some balance sheet optimization. And you're going to see us continue to push on things like DSO to really focus on cash as an operating metric and operate as if we're truly running this business on a cash basis, which is something that I think is a muscle we're building out here at Dayforce and I'm excited to lead the charge there.

So, I think we've got some really nice things happening. Q2 was a really nice quarter from an operating cash flow and a free cash flow perspective and you can see that reflected in our SEC filings that it's going to be an area of focus for us in the future on free cash flow and that's not going to change.

Scott Berg

Analyst, Needham & Co. LLC

Q

Excellent. Thanks. See you again on the next quarter.

David Niederman

Vice President-Investor Relations, Dayforce, Inc.

A

Our next question comes from Siti Panigrahi from Mizuho.

Siti Panigrahi

Analyst, Mizuho Securities USA LLC

Q

Thanks for taking my question. Congratulation on a good quarter and good to see this free cash flow focus. But I want to ask a question, as a follow-up to Samad's question about your Q3 and Q4 guidance. So, just want to clarify, do you rely on any bookings in the second-half to achieve your number?

And second thing, you talked about the go-lives visibility. But in this kind of environment, is there a risk for customers to delay their go-live or they will expedite, is there any cost serving any kind of incentive for them? Also, Jeremy, could you talk about any assumption on macro for the rest of the year in terms of employment?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Hey, Siti. Nice to speak with you. The forecast for Q3 and Q4 is largely built up by the work-in-process of the accounts that are currently going through implementation. In the first-half of the year, we actually came in ahead of our forecast and so we've got a high degree of confidence that the go-lives will go as planned. Typically, we hit the go-live forecast and usually actually exceed it. So, we aren't concerned about the macro from a perspective of any delays in terms of our go-lives. In fact, we remain very confident on that.

Jeremy R. Johnson

Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

Yeah. And maybe just to answer your second question on some of the more macro kind of things we're seeing here. Employment levels, really it's a fluid picture right now with some pockets of strength in industries and segments that we have success in. We also have some pockets of weakness but it's ultimately resulting in a – in overall picture that is kind of in-line with our expectations, which is flat employment levels year-over-year. Collectively, I think our view on Dayforce and not the overall economy but we believe it should kind of remain steady from where we're seeing things right now. And we're definitely optimistic on limited downside risk given what we're seeing in the numbers today.

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Yeah. Siti, what I would add is that we've built the company on a very durable growth profile and we remain quite in tune with the overall macro. Because the requirement for our particular market is largely driven by the jurisdictions, not by particular organizations or even particular industries, it allows us to pivot, as needed, to where the market still is quite strong. Year-to-date, we've had a lot of success in industries like hospitality, which I would say is doing very, very well. Obviously, we've also invested quite a lot in public sector over the last number of years and we're seeing that yield a lot of benefit as you see with the Government of Canada types of deals.

And as asked earlier, we also have the ability to pivot on a macro – on a global basis to go to where economies are strong and are growing. And I think that's been quite consistent over the last number of six years, where there's been quite a lot of challenges, if you like, at times in the overall economy, whether it would be COVID, come back from COVID, et cetera, where we've been able to navigate and continue growing the company quite robustly over that period of time.

Siti Panigrahi

Analyst, Mizuho Securities USA LLC

Q

Great. Thanks for the color.

David Niederman

Vice President-Investor Relations, Dayforce, Inc.

A

Our next question comes from Steve Enders from Citi.

Steven Enders

Analyst, Citigroup Global Markets, Inc.

Q

Hey. Great. Thanks for taking my questions here. I guess, maybe to start, I think you called out in the prepared remarks that over half of the new bookings had come from add-on sales this quarter. And I would just like to get a little bit better understanding for maybe kind of what drove the strength there this quarter or if there's anything to call out in upside or maybe something slowing down on kind of the net new coming in. Just maybe we can get a little bit more detail on what's supporting that right now?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Well, Steve, if you recall, last quarter, we spoke about the fact that we felt that we could lift up the sales back to the base. We had an analysis by a consulting group at the end of last year where, as you know, our gross retention rates on clients at 97.1% is, by far, best-in-class, however, they did point out from an NRR perspective that we could lift up. So, we made some purposeful moves at the end of last year. We brought in a very strong leader for the client base sales. We built up that team quite substantially. We put in motion programs to basically go back to the actual base to make sure that they're aware of what the capabilities of the actual product are. We've taken the 12:1 simplification message back to the base and that's been heard quite well too and we're beginning to see that take traction.

It's important for us, as we look towards our much longer targets that we look towards 2031, also we do believe that we have to get to a 50/50 blend between net new sales and between sales back to the base. When we sell back to the base as well, the profitability profile is quite different than what you see with net new sales. Obviously, the cost of sales is lower, so higher sales productivity, which I think is very important.

Second, because the customers are already live and we already have the cloud environment and we have the support teams around the client, typically you get a higher gross margin on recurring, on the add-on sales than you do get on net. Second, from a client acquisition cost basis, from an LTV basis, the profile of add-on sales is obviously very, very good. And even if I look at our net new sales client acquisition costs or LTV numbers where they're fantastic. So, it's very much purposeful, which will allow us to kind of hit our longer-term growth and our longer-term profitability and cash flow targets.

Steven Enders

Analyst, Citigroup Global Markets, Inc.

Q

Okay. No. That's helpful context there. I guess maybe just – I guess with regards to the deal environment and kind of the net new opportunities coming in the door, like how are you – I guess how did that kind of shake out in the quarter and how are you kind of feeling about where the pipeline is today and the ability to close on net new coming to the door?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Our pipeline remains very strong. If I look at the next four quarters, we're operating in about a 4 times coverage, which is very helpful, in a very healthy and typically above historical targets. When I look at the number of open opportunities that we'll close, and we'll say in the next 120 days, I'll say that they're at record levels. So, we are seeing still a robust market for us in general. That 12:1 simplification message really does help.

We've also had some other tailwinds as well. The branding exercise that we've done and some of the investments we've made on the marketing side are beginning to take hold. I think that our reputation in the industry, and if you

do your field research, you'll find the product is very differentiated. If you looked at, again, our client retention rates, if you looked at our NPS scores, they're, by far, best-in-class in the industry. If you looked at our services experience that our customers are having, we're very proud of that as well. So, I think we're continuing to execute quite well in the actual marketplace. And I think you will see us continued to do well as we go into the future.

Steven Enders

Analyst, Citigroup Global Markets, Inc.

Q

Okay. Perfect. Thanks for taking the questions.

David Niederman

Vice President-Investor Relations, Dayforce, Inc.

A

Our next question comes from Bhavin Shah from Deutsche Bank.

Bhavin Shah

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks for taking my question. David, can you just maybe give us an update on the SI relationships and partnerships, kind of where are they in terms of the ramp to be able to sell and prime deals themselves? And kind of how much of your new bookings is kind of led by the channel today and where do you think it goes over the next year or two?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Bhavin, as I mentioned in my script, we saw a nice growth year-over-year in terms of SI prime deals and obviously the involvement of the SIs in the actual deal. We have Steve here with us as well. So, let's see, maybe he'll provide a bit more color.

Steve H. Holdridge

President-Customer & Revenue Operations, Dayforce, Inc.

A

Yeah. I mean, I think it's steady as she goes, what we've been talking about the past three years, we continue to execute. I was actually just in our Toronto office yesterday and we had 50 of our leading partners in for a number of days. So, we're focused on really three things. We're focused on helping them sell and create demand on their own in the marketplace.

We're focused on enabling them and we'll continue to see strong acceleration and growth, right? Our target is the same as we talked about. We want 75% of the deals out there to be SI-led across all markets. We're beginning to specialize around industries and regions with both global SIs as well as regional SIs. So, it's been a successful scenario. We continue to invest on and see return in both demand creation and giving the customers choice.

Bhavin Shah

Analyst, Deutsche Bank Securities, Inc.

Q

Okay. Super helpful. Just one quick follow-up maybe for Jeremy. Just great to see the buyback and focus on free cash flow. Does that change your philosophy at all on M&A or even the types of deals you might look at?

Jeremy R. Johnson

Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

Hi. Thanks, Bhavin. Look, it's the first time we've talked about this here. So, I do want to highlight the fact that we did announce this \$500 million share repurchase program. I think there's a couple of goals to this. One is obviously reducing the impact of future share dilution from employee stock issuances. And the second is to capitalize on what we believe are currently undervalued shares. And you'll see us be opportunistic in the market on that front.

We plan to execute those share repurchases through open market transactions and, ultimately, this increasing free cash flow that we're seeing is behind a lot of this. I think when you think about how we plan to deploy our capital in the future, it still will remain to be kind of an opportunistic M&A pipeline where we see deals that make sense to our business. And that's either to kind of expand our platform like we've done in the past or kind of to expand our TAM and go more global or in more adjacent markets.

The other option obviously is to return shares or capital to shareholders and I think this is a really nice way to start doing that. And you'll see us kind of balance all of those in our capital allocation.

Bhavin Shah

Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks for taking my questions.

David Niederman

Vice President-Investor Relations, Dayforce, Inc.

A

Our next question comes from Brad Reback from Stifel.

Brad Reback

Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thanks very much. David, can you remind us the new customer account continues to moderate. Is that a shift in go-to-market or are there other dynamics going on underneath the covers there? Thanks.

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

It's a move upmarket. If you look at the average revenue from clients, up about 18% year-over-year. I think that is actually quite important. It also reflects that we are now looking towards a long-term blend between sales back to the base and net new sales. I remember we've spent a tremendous amount on P&T over the last number of years building out very robust and very deep talent modules, and so we do see a lot of white space in our existing client base.

What I would point out is that if we look at our overall market share relative to the TAM, we're still very low. Our overall market share is probably just under 3%, so we have still tons of white space in the market to acquire new customers and it kind of converges. As we get higher depth of a module density across our client base, our reputation does go up as well and word does spread. And I think we're operating now with a very good brand in market that we're quite proud of.

Brad Reback

Analyst, Stifel, Nicolaus & Co., Inc.

Q

That's great. And so just one quick follow-up on that. Should we expect it to stabilize at sort of this 350 level, or could it moderate a little bit more from here before it finds its bottom?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

I'm sorry. What are you referring to in terms of the 350?

A

Brad Reback

Analyst, Stifel, Nicolaus & Co., Inc.

The sequential adds in customers?

Q

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

We don't run the company from that perspective. And, remember, if we add a very large organization with hundreds of thousands of employees, it counts as one. If we add a major market account with 1,000 employees, it counts as one. So, I wouldn't look at that number quite honestly for many purpose. It's not a number that we look at internally.

A

Brad Reback

Analyst, Stifel, Nicolaus & Co., Inc.

Great. Thank you very much.

Q

David Niederman

Vice President-Investor Relations, Dayforce, Inc.

Our next question comes from Daniel Jester from BMO.

A

Daniel Jester

Analyst, BMO Capital Markets Corp.

Great. Thanks for taking my questions. So, maybe to steer the conversation a little bit in different direction. About a year ago, David, you had talked about some of the efforts that you're doing internally to deploy generative AI to boost efficiency inside your organization around customer support and the like. Maybe is there any update in terms of what you're seeing from those efforts now that they've been in the field for a while?

Q

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

Yeah. It's been great. We're seeing efficiency gains of about 14%, 15% in our customer support organization. I had spoken about this on previous calls that we learned a lot through that and that allowed us to build out the GenAI capabilities and the Co-Pilot capabilities in the Dayforce product. The area that we focused on, from a customer delivery perspective, is in line with what we saw in terms of the efficiency of our support department, which is allow the HR departments to load documents into the hub experience, index those documents, and then allow the Co-Pilot to be used to query those particular documents.

A

So, if you're a client, you could load up a job-sharing policy, a maternity policy and a employee could then ask questions such as, hey, I'm having a baby, when can I take off, how do I get paid, how do I come back type of thing. And the product answers actually very nicely with a reference link. Our expectation is that our customers should see a similar efficiency gain across their HR business partners in terms of handling queries from the actual employees, while at the same time really drastically improving the overall experience for the frontline workers or frontline managers and for the executives. So, it was actually a very, very good experience.

By the way, we actually have now incorporated that same AI tool into the overall product. So, if you're an admin user, those implementation guides and support guides are part of the documents that you're in the audience for. So, you have the ability to ask questions about configuration to the actual Co-Pilot as well. And so that we also believe will further help our support organization in that the AI will handle a lot of those questions.

Daniel Jester

Analyst, BMO Capital Markets Corp.

Q

Great. Thank you very much. And then as a follow-up, recently, the US Consumer Financial Protection Bureau announced some rules around earned wage access. I guess as you think about what's going on there in the Wallet, are there any implications? Thank you.

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

So, Daniel, first of all, we've had a very good year from a Wallet perspective. We believe that Wallet revenue this year will go up by more than 100%. In terms of the EWA kind of legislation, remember that we do not do a payday loan. We're quite unique in industry that any time you add money to the Wallet, we do an off-cycle payroll. We generate a payslip and we do the remittances within 24 hours at the federal and state levels. And that is very different than the other players in the market that typically use a bolt-on technology where it is a payday loan-type of construct.

We've spoken about this for quite several years that we were very particular in the way that we constructed the Dayforce Wallet so that it would be a true payroll to the employee. When you look at the actual funding mechanism where we effectively lend money to the employer, so the employer can pay the employee when they do an on-demand payroll is very unique. And the fact that we do the remittances within the 24 hours again is very unique as well.

And, lastly, from an employee perspective, it's never a loan situation. Beginning of the period, you can add nothing to your Wallet. If I work eight hours, at the end of that shift, provided that I've covered all the necessary limits and taxes and garnishments, only then am I able to take out my net earnings. And all of this is actually predicated on that continuous Pay engine that we have, whereby, any time there's a change to the employer record or benefit record or time record, we calculate net earnings. Again, we're the only one in the industry that does that and that's why we can do it in a compliant and non-payday loan mechanism – manner.

Daniel Jester

Analyst, BMO Capital Markets Corp.

Q

Very clear. Thank you very much.

David Niederman

Vice President-Investor Relations, Dayforce, Inc.

A

Our next question comes from Raimo Lenschow from Barclays.

Raimo Lenschow

Analyst, Barclays Capital, Inc.

Q

Hey. Thank you. Thanks for squeezing me in and congrats from me as well. If I look at the industry, David and Jeremy, the one problem that everyone seems to be struggling, not you, but everyone else is that their customers are not expanding their employees, so there's not a lot more payroll, new payroll guys coming in. And the guys that charge per paycheck obviously see it immediately.

But even guys that are playing more upmarket kind of started talking about it in terms of true-ups not coming through. How is that situation for you? Are you just kind of on a different cycle, the expansion that you guys seeing from moving upmarket is helping you to offset that, or are you seeing that as well, like can you help us how you're doing so much better than the other guys? Thank you.

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Yeah. There are two reasons for that Raimo and nice to speak with you. First, as you know, we're the leader in terms of global compliance. And in our target market, which, again, remember, is in the mid to the large enterprise space, almost all of our customers are global in nature. So, when we talk about sales back to the base, a lot of that actually is expansion into new geos. And that's quite different than most of the other players in the market.

The second is, remember, Joe joined the organization probably about three-plus years ago with a focus on really lifting up our talent capabilities. And we're now seeing that our talent capabilities being best-in-class, again we're in the Gartner Magic Quadrant for organization that are more than 1,000 employees for HCM, so for the talent component. We have a lot of white space in our 6,700 or so customers that are live. And again bringing in a very strong leader to go back to the actual client base and having really a product, marketing and branding strategy around that has allowed us to start selling back to the base. And that's a new motion for us. So, in that regard, we are on an early cycle.

Now, when I talk about the actual ERPs, what I think is happening in market is I think the ERPs have sold a lot of shelfware. And so when they are hitting their renewals, they may be seeing lower renewal rates. I don't think it is lower employee counts because we are not seeing that.

Raimo Lenschow

Analyst, Barclays Capital, Inc.

Q

Okay. Perfect. Thank you for the clarification. And then one for Jeremy. Congrats on the share buyback announcement. That's really helpful. Do you have any indication a little bit of like how you think about deploying that? Is that – are you kind of doing it opportunistic? Is there like a level, a quarter you're thinking about, is there a valuation that you have in your mind that you're kind of having each quarter? Like, what's the cadence there? Thank you.

Jeremy R. Johnson

Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

Yeah. Thanks, Raimo. Look, today, we think the shares are undervalued and we'll continue to monitor that and be opportunistic with how we buy back. Let me make a point about us being comfortable with debt as well, right? And we obviously have debt obligations. We have been a levered company. We've maintained our ability to manage against gross-to-net leverage targets. And you'll continue to see us use debt financing in general in this business to fund both M&A and any kind of organic and inorganic opportunities that we see.

So, you're going to see us look at share buybacks, kind of the M&A, organic growth and continue to utilize that financing in our overall capital allocation and I think we're going to take a nice balanced approach, but be opportunistic when we believe our shares are undervalued, which we think they are today.

Raimo Lenschow

Analyst, Barclays Capital, Inc.

Q

Perfect. Thank you. Congrats.

David Niederman

Vice President-Investor Relations, Dayforce, Inc.

A

Our next question comes from Jared Levine from TD Cowen.

Jared Levine

Analyst, TD Cowen

Q

Thank you. Based on a year-to-date signings, what does that inform you regarding January 2025 go-live and how does that compare to this past January?

Jeremy R. Johnson

Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

I'm sorry, Jared. Can you repeat that question? We lost you a little bit.

Jared Levine

Analyst, TD Cowen

Q

Yes. So, in terms of year-to-date signings, what does that inform you regarding January of 2025 go-lives and how does that compare to this past January?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

I'm sorry, Jared. I'm missing the reference to January 2025. Could you maybe...

Jared Levine

Analyst, TD Cowen

Q

Yeah. Based on year-to-date signings, what does that inform you about this upcoming January go-live?

Steve H. Holdridge

President-Customer & Revenue Operations, Dayforce, Inc.

A

It's early for January, right, for 2025.

Jeremy R. Johnson

Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

Yeah. Well, maybe, I'd say, look, year-to-date we're having I think really good success in our go-lives and great visibility into what we expect to do for the rest of the year. I think as we look out, our guidance would contemplate strength in go-lives this year, heading into next year. And I think our bookings are solid and we're comfortable with those throughout the year. And we see nice strength as we head into the rest of the year. So, I think if that answers your question is we're feeling pretty confident about our ability to continue to execute on growth and go-lives.

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Yeah. And Jared, I would say that if you look at the guide for the second-half of the year, you see strength in the remainder of the half, especially in Q4. And that's a setup for obviously Q1.

Jared Levine

Analyst, TD Cowen



Okay. Perfect. Perfect. And then in terms of sales head count, can you provide an update on your fiscal year sales head count targets and how those are trending year-to-date?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.



So, we don't actually provide numbers as to the actual number of sellers. But what I can say is we're obviously very happy with the buildout of the sales team. We continue to strengthen the leadership with inside that sales team. We're quite happy with the sales productivity as well. Obviously, the results speak for themselves as well. Sales has been good year-to-date. As I often comment during the earnings call, the first month of Q3 has also come in quite well too.

Jared Levine

Analyst, TD Cowen



That's perfect. Thank you.

David Niederman

Vice President-Investor Relations, Dayforce, Inc.

So, we're out of time. So, we're going to conclude the call at this point. I'll turn it over to David for closing remarks.

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

Just thank you, everyone, for joining us today. I look forward to speaking with the rest – with many of you over the next few hours. Thanks again.

David Niederman

Vice President-Investor Relations, Dayforce, Inc.

Bye.

Editor's Note: Text in [] was added at the request of the company, after the conclusion of the call, to provide clarity to the readers.

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