07-Feb-2024

Dayforce, Inc. (DAY)

Q4 2023 Earnings Call

CORPORATE PARTICIPANTS

Matthew Wells
Head-Investor Relations, Dayforce, Inc.

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.

Steve H. Holdridge
President-Customer & Revenue Operations, Dayforce, Inc.

Joseph B. Korngiebel
Executive Vice President & Chief Product and Technology Officer, Dayforce, Inc.

Jeremy R. Johnson
Chief Financial Officer & Executive Vice President, Dayforce, Inc.

OTHER PARTICIPANTS

Scott Berg
Analyst, Needham & Co. LLC

Siti Panigrahi
Analyst, Mizuho Securities USA LLC

Daniel Jester
Analyst, BMO Capital Markets Corp.

Mark Steven Marcon
Analyst, Robert W. Baird & Co., Inc.

Raimo Lenschow
Analyst, Barclays Capital, Inc.

Brad Reback
Analyst, Stifel, Nicolaus & Co., Inc.

Jared Levine
Analyst, TD Cowen

Steven Enders
Analyst, Citigroup Global Markets, Inc.

Arvind Ramnani
Analyst, Piper Sandler & Co.

Mark R. Murphy
Analyst, JPMorgan Securities LLC

Bhavin Shah
Analyst, Deutsche Bank Securities, Inc.

MANAGEMENT DISCUSSION SECTION

Matthew Wells

Head-Investor Relations, Dayforce, Inc.

Good morning and thank you for joining. Welcome to the Dayforce Fourth Quarter 2023 Earnings Conference Call. I'm Matt Wells, Head of Investor Relations. On the call today, we have our CEO, David Ossip; and our CFO, Jeremy Johnson. We're also joined by our Chief Product and Technology Officer, Joe Korngiebel, and our President, Steve Holdridge.

As a reminder, all participants are in a listen-only mode and a question-and-answer session will follow our opening remarks. 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 a rationale behind the use of non-GAAP measures and for 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, Matt, and thank you all for joining us. Next to me, I have Steve, who will review key customer go-lives and sales wins in the quarter; Joe, who will highlight platform innovation and discuss our acquisition of eloomi. And I'm delighted to welcome Jeremy back as our CFO. Jeremy will provide details to our quarterly performance and initial 2024 outlook.

Last fall, we shared our intention to transition from Ceridian to Dayforce with a goal to simplify and strengthen our brand. And I'm excited to announce that our brand evolution is now a reality. As one united brand, Dayforce, we firmly believe that we can amplify our promise to make work life better.

Today's new workforce is boundless, fluid, always-on, and borderless. Our changing world of work makes running an organization more complex than ever, and we're committed to helping organizations conquer that complexity.

That's why we chose this moment to evolve and simplify our brand from two in the market to one. We selected Dayforce, because over the years, Dayforce has grown into a trusted global platform, setting a new standard for the human capital management industry. Our customers know the Dayforce name to represent innovation, collaboration, and transformation.

The brand represents our future, and we design everything for that ever-changing future, together with our customers, helping them transform their organizations and set the pace for their industries. I'm incredibly excited and proud of the path I see for us ahead, united with one powerful brand that represents our products, company, community at their best.

Turning to our fiscal results, total revenue was $1.51 billion and grew 23% year-over-year in constant currency. This was underpinned by the strong growth in Dayforce recurring revenue of 37% in constant currency. Dayforce recurring revenue, ex float, grew 29% ex float in constant currency and reflects the strong second half go-lives, particularly of large enterprise customers, coupled with industry-leading retention rates and sustained employment volumes.

Adjusted cloud recurring gross margins of 78.3% continue to expand, showcasing the scale and efficiency of our platform. Adjusted EBITDA margins of 27.1% or $410 million reflects the flywheel of our cloud revenue and gross margin expansion, coupled with efficient OpEx. And we had record operating cash flows of $219.5 million, a conversion of 54% from adjusted EBITDA that reflects our focus on driving our profit into cash.

Our customer base remains healthy and resilient. We ended the year with over 6.84 million employees live on the Dayforce platform, an increase of approximately 900,000 employees added year-over-year. Net go-lives of large enterprise customers or those with over 6,000 employees increased 64% year-over-year, demonstrating our ability to shift up-market.

Dayforce recurring revenue per customer of $147,000 was also up 21% year over year. And throughout the year, we also maintained our industry-leading retention rate of 97.1%. This is a metric I'm particularly proud of as it showcases our ability to continually deliver value to our customers, while helping them make work life better for their employees.

Turning to guidance. Our initial fiscal 2024 guidance contemplates Dayforce recurring revenue, ex float growth, of 20% to 21% and assumes a normalized employee cadence, coupled with continued go-live activity across our larger customers. Adjusted EBITDA margin at midpoint of 28.3% assumes our continued expansion of gross margins in addition to one-time costs associated with our rebrand and the eloomi integration. And conversion of adjusted EBITDA to operating cash flow is expected above the mid-50% range.

In summary, we had a very strong 2023, and I'm excited for the year ahead. I'd like to thank our strong community, our customers, partners and our employees, our Daymakers.

Steve, over to you.

Steve H. Holdridge

President-Customer & Revenue Operations, Dayforce, Inc.

Thanks, David. I am also truly excited for what lies ahead for Dayforce, our customers, our partners and our Daymakers across the globe. Two weeks ago, we held our largest ever sales kickoff in Orlando, 800-plus attendees, 100 partner attendees, which was double last year, 10,000 hours of sales training, all focused on accelerating sales coverage and effectiveness in 2024.

Throughout the year, we continue to attach the full suite to nearly 50% of new sales. And today, 40% of Dayforce customers have adopted full suite. Add-on sales back to the base continue to trend in line around 30% of sales bookings, consistent with prior quarters.

Dayforce Wallet also saw healthy traction with 1,150 customers live and 1,860 new customers added. Average Wallet registrations continue to tick up now above 60%, along with healthy Wallet usage of about 25 times per month. We surpassed $3 billion in total Dayforce Wallet loads earlier this year, compared to $1 billion at the start of 2023.

Last year, we brought in Sam Alkharrat as Chief Revenue Officer to take our sales function to the next level, and we are already seeing significant benefits from his leadership, including strong talent infusion, enhanced pipeline size and quality, improved conversion rates, deal execution rigor, and stronger go-to-market alignment. However, we did also see longer sales cycles and more decision gates in Q4 impacting our sales performance relative to our aggressive goals. That said, in 2023, we saw 50% year-over-year growth in pipeline generation. We entered 2024 with a record pipeline coverage ratio and started the year strongly with January sales ahead of our target.

Before I move to key sales and go-lives, I'd like to also share the recent announcement from the Government of Canada that their extensive testing of the Dayforce platform has led them to conclude that Dayforce is a technically viable option for the next modern HR and pay system. This is another testament of the ability of Dayforce to handle complexity at scale and our multi-year partnership with the Government of Canada.

Now, turning to key sales wins from across the globe in Q4. Elior, one of the world's leading catering services companies with 90,000 employees globally, has chosen Dayforce to support its US and UK-based employees.

Viva Energy, a leading convenience retailer, commercial services and energy infrastructure business growing to more than 13,000 employees, selected Dayforce for full suite of HCM technology to support its growth in retail.

A global designer and manufacturer of innovative furnishings and workspace solutions partnered with Dayforce to transform payroll operations for more than 11,000 employees across 30 countries.

A global sports fashion retailer with 75,000 employees expanded its use of Dayforce to include 21,000 employees in the US. An innovative and fast-growing electric vehicle manufacturer selected the full Dayforce platform to support 7,000 employees in the US.

Now, turning to our record Q4 go-lives. One of the world's largest global shipping and logistics organizations with over 0.5 million employees completed its Phase 1 development to over 33,000 employees, along with tax services for its entire US employee population.

A multinational manufacturer of consumer and industrial brands with over 50,000 employees successfully continued its Dayforce implementation and is now live in 22 countries with 27,000 employees.

A leading consumer goods company with 28,000 employees in 40 countries completed Phase 1 of its global Dayforce implementation with the deployment of Workforce Management and Payroll in Hong Kong and Thailand.

A global European bank with 70,000 employees in 50 countries continued its Dayforce deployment to employees in the US and Canada. Saber Health, a senior care service provider with 14,000 employees across the US, went live with the full Dayforce suite. And one of the world's leading mining and infrastructure companies with 13,000 employees being paid across the globe continued its multi-phase global Dayforce implementation.

I'm now pleased to hand off to my colleague, my innovation partner, Joe Korngiebel, our Chief Product and Technology Officer. Joe, over to you.

Joseph B. Korngiebel
Executive Vice President & Chief Product and Technology Officer, Dayforce, Inc.

Thank you, Steve. On the product front, we continue to invest in innovation that drives value through efficiency and productivity for our customers and their people. By leveraging the advancements around data and AI, as well as delivering simplicity at scale, we released some key innovations in Q4 that provide quantifiable value for our customers.

First and foremost, Dayforce Co-Pilot, our generative AI assistant. It was delivered to our early adopter customers in Q4, providing dramatic improvements in the productivity of employees in answering common HR-related policy and compliance questions and, in turn, saving valuable time for HR administrators. Dayforce Co-Pilot will be sold as a new product in our suite as an add-on to our core products of HR, pay, time, benefits and talent.

Next, HR Service Delivery. It's a new product that we released in Q4 that is now in the hands of our customer, driving efficiencies with an AI-first approach to answering open tickets for employees. Our early HR Service Delivery customers are eliminating the cost of bolt-on, expensive point solutions, and driving more value with Dayforce as a single, robust HCM platform.

Now on to Dayforce Talent Marketplace, which was extended in Q4 for both internal and external talent efficiencies, allowing greater flexibility to meet labor needs. For employees, we enhanced our shift bidding and shift trading capabilities, boosting employee control over their work hours and allowing employers the ability to close scheduling gaps more quickly and efficiency – efficiently.

For the boundless workforce outside of your direct employees, we officially launched our new Ideal Talent Marketplace in Q4, which provides an on-demand, pre-qualified hourly workforce, enabling flexibility across a network of skilled employees when needed.

On scale of our industry-leading global payroll product, we have delivered our new horizontally scaled Payroll-as-a-Service architecture. This empowers both our large customers with dramatic performance gains as well as our small business PowerPay customers with a modernized payroll platform.

On to mobile and empowering the frontline workforce, which continues to be a powerful capability of our HCM suite, driving engagement and connectivity for employees. We have now reached over 1 million daily active users on Dayforce mobile. And our compliance leadership continues to grow as we closed out 2023 with an additional 36 countries and territories where our customers compliantly pay their workforce accurately with Dayforce.

Finally, I wanted to further highlight our acquisition of eloomi, which closed on February 1. This acquisition brings together an innovative team and product that is incredibly well-aligned with our culture and our shared ambition to make work life better for our customers

This partnership supercharges our Dayforce learning and talent products, extending our leadership in compliance with industry-leading learning management capabilities, combined with an engaged Learning Experience Platform to ensure employees stay current and compliant; also in frontline workforce enablement, with mobile micro-learning for training and people development; and in AI innovation, with generative AI learning content authoring and personalized learning paths.

In addition, we will also be adding several new products to Dayforce with the assimilation of the eloomi technology. And that includes Dayforce learning content, which offers prepackaged curated learning content that targets compliance, industry and geographic needs with one affordable subscription. And also a brand-new product, Dayforce Employee Communications, delivering a mobile-first experience with real-time chat, collaborative communities and up-to-the-minute newsfeed for Dayforce.

That's a quick look at some of the innovations in Q4 and our recent investments in innovation. Now, over to Jeremy to talk through the financials. Jeremy?

Jeremy R. Johnson

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

Thanks, Joe. Feels good to be back. I'm proud of the way our team closed out the year. In Q4, we delivered Dayforce recurring revenue ex float growth of 29% on a constant currency basis, underpinned by strong Q4 enterprise go-lives and healthy underlying customer trends. Tax modernization contributed about 440 basis points of growth as we completed the transition at the end of the year.

Adjusted cloud recurring gross margin of 78.1% expanded 190 basis points year-over-year as the Dayforce platform continues to scale. Adjusted EBITDA of $99 million, or a 24.8% margin, expanded by 470 basis points year-over-year, reflecting the timing of OpEx investments in addition to incremental brand spend.

Operating cash flows of $90 million in Q4 benefited from strong operating income and working capital trends. On the full year, we delivered 54% conversion from adjusted EBITDA, or $219.5 million. All in, this was a successful quarter and year. We brought live some of our largest customers to date, while delivering healthy top-line growth and record operating cash flows. Our cloud revenue growth, expanding gross margins and consistently high retention rates showcase the strength of our financial model.

Turning to guidance, in the first quarter, we expect Dayforce recurring revenue ex float growth in the range of 20% to 21%, both as reported and at constant currency. Total revenue is expected to grow 14% to 15%, both as reported and at constant currency. And adjusted EBITDA is expected to be in the range of $123 million to $126 million or a 29.3% margin at the midpoint.

For the full year 2024, as David previously mentioned, we expect Dayforce recurring revenue ex float growth in the range of 20% to 21%, both as reported and at constant currency. This reflects sustained employment volumes the first half of the year balanced by a more conservative second half of the year.

We have reflected eloomi in this guidance assuming approximately 150 basis point contribution to Dayforce recurring revenue ex float growth in 2024, and 100 basis point contribution in Q1, reflecting only two months of ownership. Float revenue guidance of $174 million for the full year reflects a moderating rate environment throughout the year. Total revenue guidance for the full year is 14% growth as reported or 13% to 14% growth at constant currency.

Adjusted EBITDA for the full year in the range of $480 million to $495 million or 27.9% to 28.6% margin. This range includes incremental headwinds from the eloomi and the Dayforce rebrand totaling approximately $15 million. Additionally, we expect operating cash conversion from adjusted EBITDA to in the mid- to high-50% range for the full year.

Before we break into Q&A, I'd like to provide an update on two items. First, in conjunction with our rebrand to Dayforce, we made the decision to terminate our frozen defined benefit pension plan. If you recall, this was a legacy pension plan that Dayforce inherited from Ceridian and its predecessors. We expect this termination process to take 15 to 18 months and conclude in 2025.

As a result of this termination, we expect to see some financial impacts to our 2025 numbers, specifically a cash charge in the range of $15 million to $25 million to fully fund the plan and cover termination expenses. And in

2025, we'll also incur a non-cash charge to reflect the termination of the pension plan. We do not expect an impact to adjusted EBITDA margins either in 2024 or 2025.

And second, the modernization of PowerPay is well underway and we now have our first PowerPay customers using Dayforce-embedded payroll engine as their calculation engine. This enhancement will provide PowerPay customers with access to new features and functionality with a more robust platform. And while we're very excited about this transition, we do not plan to reclassify PowerPay revenue to Dayforce, simply given the different customer profiles between Dayforce and PowerPay. As such we will continue to disclose PowerPay revenue separately for financial reporting purposes.

And with that, I'll hand the call back over to Matt to begin the Q&A portion.

QUESTION AND ANSWER SECTION

Matthew Wells
Head-Investor Relations, Dayforce, Inc.
A

Thanks, Jeremy. I'd like to remind everyone one question and one follow-up, please. We have a pretty healthy audience today. Our first question comes from Kevin McVeigh with UBS. Kevin, if you want to unmute. We'll circle back. Scott Berg with Needham.

Scott Berg
Analyst, Needham & Co. LLC
Q

Hi. Good morning, everyone. Thanks for taking my questions and congrats on the good quarter. I wanted to start on a question regarding the longer sales cycles comments. I guess, can you help break that down a little bit in terms of what you saw? Was this just a couple of deals that pushed maybe from Q4 to Q1? Was it a significant amount of deals? You obviously called it out, so it was a little bit material. But just want to try to think about the impact on both the year and then was that the primary benefit for the January outperformance versus your plan? Thanks.

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.
A

Thanks, Scott, and nice to speak with you. First of all, it has no impact on our fiscal 2024 guide. What we did see was slightly more decision gains in Q4, coupled with probably fewer days with inside the actual month. Christmas vacation, as you know, started a bit early this year relative to the past.

When we look at the start of the year, as you pointed out, we had a good January. It came in above our internal expectations for that particular month. And we also entered the year with almost 2 times the coverage that we had at the beginning of last year. I don't believe that there is any change in the macro quarter-over-quarter. And we are, obviously, going into this year quite optimistic about the forecast for sales.

Scott Berg
Analyst, Needham & Co. LLC
Q

Thank you. Helpful. My follow-up is actually for Jeremy. Welcome back. Looking forward to working with you more here. You come into the CFO role with a unique view. Obviously, have been with the company for an extensive period before. But how do you think about driving additional efficiencies and maybe leverage in the model versus your prior experience with the company? Is there anything that you think about doing maybe differently in the current position as CFO than maybe you did before that might be interesting for investors to think about here going forward? Thanks.

Jeremy R. Johnson
Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

Yeah. Thanks, Scott. It's good to talk to you again. And as I said, it's good to be back. It does kind of feel like coming home here, especially with an executive team that I'm largely familiar with, a finance team that I know the key players very well, the board and investors that I also know really well.

So, look, I think there's a number of levers that we have to continue to grow this business. I think since I've been gone, I've been very impressed with some of the big rocks that the company has moved. We've dramatically moved up into the enterprise space and we called out some of the metrics there, where we've increased our go-lives and enterprise customers 64% year-over-year. We've talked about partnerships and some of the progress we've made with global SIs there. And I'm also thinking about global expansion. And we've done some amazing things in the APJ and EMEA region.

I think we've got a lot of room to continue to expand profitability at this company and conversion into cash flow. And that's really where I'm going to spend my time focusing on is maintaining growth, making sure we invest the right amounts to maintain that growth, but also making sure that we continue to improve the cash flow position of this company. And you saw us make some really great moves there this year.

Scott Berg
Analyst, Needham & Co. LLC

Q

Excellent. Thanks for taking my questions.

Matthew Wells
Head-Investor Relations, Dayforce, Inc.

A

Our next question comes from Siti Panigrahi with Mizuho.

Siti Panigrahi
Analyst, Mizuho Securities USA LLC

Q

Great. Thanks for taking my question. And Jeremy, welcome back. So it's good to see this 20% plus kind of growth guidance for your organic Dayforce recurring. That's probably – you're growing faster than other payroll peers. So my question is like you have been adding so many modules since IPO, and even Joe's team relentlessly kept on adding more features there. So how big is this growth opportunity to now cross-sell these modules to your base to deliver the sustainable growth? And what's your go-to-market strategy to go after the base, because most of them are displacement opportunity, so you have to displace some existing vendor?

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.

A

Thanks, Siti. And great to speak with you. It's a very valid question. So when I look at the overall company, what I can say is this. Our client retention rate is probably several percentage points higher than anyone else in industry, including the ERPs. As you know, it's 97.1%. When we, though, look at our sales back to the base as a percentage, we're quite low relative to industry. So this year, we brought on a very senior leader to head up the customer-based sales team. And we're expecting to take the sales back to the base, up by about 5% relative to last year. So it's definitely a focus that we have at the moment.

One other clarification that you might have, when you look at the Dayforce recurring revenue growth year-over-year, you must remember that last year, we had a tailwind of about 500 basis points from the movement of the tax business. This year, you have it effectively in the denominator, in the reverse. So if you actually – if we had not migrated the tax, which we did obviously for accounting reasons, you effectively would be a few percentage points higher, probably around 23% on an organic basis.

Siti Panigrahi
Analyst, Mizuho Securities USA LLC
Q

Thanks for that clarification. And just a follow-up, if I look at Q4 results, that's kind of this organic Dayforce recurring revenue growth came in line with expectation. Is there anything you want to point to? Is that on employment level or any go-live? Also, if you could touch upon your so many large deals that's schedule to go live, any update on that?

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.
A

Look, as you know, we guide very narrowly. And so, you expect, as we get to the end of the year, the numbers should come within guide, which it did, which I think is reflection of a well-managed and very predictable type of business. As Steve called out, we were very happy with the go-lives that we saw in the quarter. In fact, they came in ahead of what we had internally budgeted.

It's also impressive given the fact that we now have at least half of the deals that we're implementing run by the system integrators, but they're priming the actual implementations. And that I think is a reflection on the robustness of the software that it's not only us that can implement, that we're finding that our system integrator partners are able to implement and to implement predictably on time, which, I think, is a very good testament.

Jeremy, anything else that you'll call out?

Jeremy R. Johnson
Chief Financial Officer & Executive Vice President, Dayforce, Inc.
A

I think you said it nicely. The only thing I'll add is you saw us increase guidance throughout the year in Q2, Q3. So I think we feel really good about the quarter that we had. And coming in line with guidance, I think, on a tight metric like that, speaks to the visibility that we have into the business and the accuracy of the model.

Siti Panigrahi
Analyst, Mizuho Securities USA LLC
Q

Great. Thank you.

Matthew Wells
Head-Investor Relations, Dayforce, Inc.
A

Our next question comes from Dan Jester with BMO.

Daniel Jester
Analyst, BMO Capital Markets Corp.
Q

Great. Thanks for taking my question. Maybe a couple for Steve. First, can you maybe double click on any of the go-to-market or partner changes that you're really excited about for 2024? And then, secondly, appreciate the update on the Government of Canada process. Can you give us an update in terms of the roadmap for next steps as they assess Dayforce more broadly? Thank you.

Steve H. Holdridge
President-Customer & Revenue Operations, Dayforce, Inc.
A

Yeah. Hey. Happy to answer both of those. Let me start with your second one first. So, Government of Canada, it's a significant step. They put it out on a press release. They have determined that our solution is technically viable, which is a result of many multiple years of a pilot proving it at all sorts of complexity. The next step is a continued process on that. I don't want to get too far ahead of where they're at, but we're continuing to work with them to define what are the next steps in rolling that out over the next couple of years here.

In terms of the go-to-market, so nothing dramatically changes in tune of it. You heard David talk about really three things. One continued focus on our customer base and how we service the customer, how we take advantage in terms of our high retention rate, the focus on the customer base team, and the amount of investment we're making in innovation and the product. We believe that's an incredible growth source for us.

Secondly, we've continued to increase the sales capacity and knowledge and we've continued to refine around our go-to-market in terms of understanding the places where we have the best right to win and making sure we're adjusting and surging sales resources where we tend to win. We tend to find we're winning more up-market, we're winning global, and we're winning in terms of compliance, in terms of product satisfaction and in terms of full suite.

Daniel Jester
Analyst, BMO Capital Markets Corp.
Q

Thank you. And then maybe a quick one for Jeremy on your commentary about a little bit more conservatism in the back half of the 2024 guidance. Can you just elaborate on that a little bit, what's driving that conservatism and if there's anything you'd call out from a seasonality perspective as we think about the quarters for 2024? Thank you.

Jeremy R. Johnson
Chief Financial Officer & Executive Vice President, Dayforce, Inc.
A

Yeah. Good to speak with you again, Dan. The comment in my scripted remarks was specifically around employment levels and employment levels moderating in the back half of the year. Visibility there is probably where we have, obviously, the least, and so we're being a little bit more conservative on expecting any upside there. As you know, I talked about this before, but we have a lot of visibility into our numbers as we head into a year and we feel confident in our guidance.

Daniel Jester
Analyst, BMO Capital Markets Corp.
Q

Thank you very much.

Matthew Wells
Head-Investor Relations, Dayforce, Inc.
A

Our next question comes from Mark Marcon with Baird.

Mark Steven Marcon
Analyst, Robert W. Baird & Co., Inc.
Q

Hey. Good morning, and thanks for taking my question. And Jeremy, great to work again with you. Looking forward to that. I'm wondering if you can talk a little bit more about one of the newer modules, the HR Service Delivery, sounds like it could be really promising. Can you elaborate a little bit there in terms of which point solutions you could be going after, how big you think that TAM is, and what characteristics does the Dayforce HR delivery model have that is superior to some of the incumbents that are out there that have been doing relatively well?

Jeremy R. Johnson
Chief Financial Officer & Executive Vice President, Dayforce, Inc.
A

Mark, good to talk to you again, and thank you for the question. HR Service Delivery has grown as an importance to the overall HCM suite to deflect questions and provide a knowledge base so that customers can get their questions answered when they have questions around their employment, when they have HR policy questions or compliance-related questions. And so, it has grown. There are a handful of point solutions that have grown over the last decade in the HR space. And traditionally, it was a bolt-on.

The hard thing about that was employees didn't know where to go to get their questions answered. There was different technology solutions and they wouldn't have a streamlined user experience. And so, the delivery of that product, especially now for us, with the advancements in AI and being able to surface answers quickly and effectively to employees, is proving to be a really important differentiator for us.

A lot of companies that did it in the past leveraged a traditional just search model, and search can only be so accurate. And so, technology has really provided us a boost in terms of what we can do to see that, and our early adoption customers that took the product in Q4 highlighted that for us. So, we see it as a key add-on that almost every one of our customers will want.

It drives efficiency in a world of efficiency right now for our customers. It makes their employees, especially the HR administrators that are highly paid and need to really manage their time effectively in this world of change, it drives efficiency and productivity into that level of their workforce. And so, we're really bullish about what it's going to provide as far as an add-on module.

We're seeing the uptake in Q4 as an example of where we're going is to be quite high. And it eliminates, like I said, that need for the complex integration, the expense of these point solutions that were widespread, and they were really bringing down a lot of the efficiency of the workforce.

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.
A

Hey, Mark. One thing in terms of advantage relative to the others, the central part of our experience to employees and managers is the Dayforce Hub experience, which in itself is a content management system, which means that as organizations build their Hub experiences by loading up documents, say, for example, a paternity policy to the actual platform, we can index it immediately and make it available through what we call intelligent search. And through the intelligent search, if someone were to say, hey, can I take up this amount of time, if the search doesn't respond with the sufficient amount of information, we can create that service ticket for the individual. And so, I do think from an integration perspective or experience perspective, the fact that we are one with the employee model, one with the actual experience, gives us a leg up relative to the competitors.

Jeremy R. Johnson
Chief Financial Officer & Executive Vice President, Dayforce, Inc.
A

The single experience is really powerful, to highlight David's point, too. And when you add on what we're doing with Co-Pilot, you can actually refine your question down, and you're seeing that over and over again from our customers wanting to leverage technology to drive efficiencies and productivity into their workforce.

Mark Steven Marcon
Analyst, Robert W. Baird & Co., Inc.
Q

That's terrific. And then with regards to a couple of things that you mentioned earlier, with regards to the Government of Canada, I think at one point you mentioned roll out over the next two years. So, are we to take that comment that essentially not only are you technically viable, but there is, in fact, a plan to roll you out over the next two years? And would you get the entire government? And then, is there anything that you can tell us about the big logistics company that you've signed up and that you've started up in the US, any big learnings there that will position you to continue to gain some of those really large enterprises?

Steve H. Holdridge
President-Customer & Revenue Operations, Dayforce, Inc.
A

So, a couple of things on Government of Canada, I want to be careful, we don't get ahead of where we are. It was a two- to three-year process to go through an intense evaluation for us to be determined technically viable, which is significant. We are in the process of defining the next steps and roll out over the entire government. It will be more than a two-year process on that and the timeline that is still under discussion. And there's, obviously, funding and other political things that need to happen for that. But we're very positive with where it's at and it's a significant next step.

Secondly, I guess learnings in terms of the logistics company, we talked about them and others key wins before, is we are understanding and improving the ability of the product to scale. Right? And while this first phase was a chunk of it, we're well into the second phase, which is going to be significant. We're looking at accelerating that. And thanks to Joe and what his team has done, we're really demonstrating that our ability to scale and the things that Joe talked about are reality and are creating a level of confidence and a customer like this who you know will exercise and test us at the highest levels.

Mark Steven Marcon
Analyst, Robert W. Baird & Co., Inc.
Q

Terrific. Thank you.

Matthew Wells
Head-Investor Relations, Dayforce, Inc.
A

Our next question comes from Raimo Lenschow with Barclays.

Raimo Lenschow
Analyst, Barclays Capital, Inc.
Q

Hey. Thank you. I have two quick questions, and congrats from me as well. First one is on the customer addition this quarter. Obviously, you're moving up-market a little bit, so there's going to be fewer customers that you're kind of dealing with compared to the past. But then you also talked a little bit about like longer deal cycles. Can you just frame it in terms of how much of that number was kind of driven by a change in strategy versus like the market? And then I had one follow-up, please.

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.

A

So, Raimo, remember, it's a net add. As you know, we are focusing on the larger customers. And included in the base of customers going back to about 2018 and before, we had a large number of PowerPay payroll customers using Dayforce for workforce management, and these are very small customers. And so, we are seeing churn at the small end of the customers partially by design as we continue to focus up-market.

In terms of the quarter and the elongated sales cycles, I'm not ready to say if it is macro elongated cycles or just how the days of the week fell in December, coupled with an earlier Christmas break, where we had several days fewer than we normally have to go through the end of the year.

And as I mentioned, we got off to a very strong start in Q1. And when I look at the pipeline development that we did over 2023, which was a key priority for us, we see that reflected in the almost 4 to 5 times coverage relative to our sales targets of this year. Historically, we would have gone in probably around 2 to 3 times. So, I think the macro is still there. I think customers are still buying, et cetera.

Raimo Lenschow
Analyst, Barclays Capital, Inc.

Q

Yeah. Okay, perfect. That's really helpful. That's really good to hear. And then, one follow-up for me is, if you think about – are there any differences that you see at the moment as your sales leaders are discussing the year with you in terms of US, Canada versus kind of Europe, Asia in terms of like what demand signals you're seeing there, just to get a better idea in terms of how the global economies are playing out for you? And then lastly, Jeremy, welcome back and looking forward to working with you.

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.

A

Look, I think we have a very strong opportunity in APJ, in Asia Pacific and Japan. I actually was there last week. And when I look at our footprint in market, it is quite remarkable. In total, we have about 1,500 customers in region, of which we pay almost 2 million people in terms of regular pay slips. By the way, those 1,500 would not be included in the Dayforce counts that we have. And the customers that we have there are the best of the best. The breakfasts and the lunches and the customer meetings I had really speak about the potential that I do think we have inside that region.

That said, when we look towards our 2024 plan, I think it's largely in line in terms of a global distribution with prior years. But we do have a lot of global capability. And when I do speak to customers or to the large SI partners, one thing that is called out consistently is that we're able to deliver strong local payroll in a lot of different countries and as well we're able to offer very strong global payroll across all the countries that customers have. And that does differentiate us quite significantly from any other player, whether it be HCM, payroll, or ERP.

Jeremy R. Johnson
Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

Yeah. I would just add one thing to that is our growth levers remain the same and we have the advantage of a balanced portfolio approach to how we drive our sales, right? Significant push in growth in terms of global. We are number one in terms of that, and customers recognize it. You've seen the growth in enterprise. But we still have a very healthy mid-market business and a differentiation around full suite across that. We still – you talked about the back-to-the-customer base motion. You heard the stats in Wallet and other things around adjacent innovation.

So as we take a look at the year, each one of those levers has a growth target assigned to it, and we see a pretty even distribution of the portfolio. And one of the advantages in our go-to-market as things change in different geographic or macro conditions, we can adjust those levers and continue to drive a number.

Raimo Lenschow
Analyst, Barclays Capital, Inc.

Q

Okay. Perfect. Thank you.

Matthew Wells
Head-Investor Relations, Dayforce, Inc.

A

Our next question comes from Brad Reback with Stifel.

Brad Reback
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thanks very much. Jeremy, as you think about your guidance philosophy going forward, can you give us a sense of how that may have differed, if at all, from previous CFOs? Thanks.

Jeremy R. Johnson
Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

Hey, Brad. Good to speak with you again. The answer to the question is really no changes. The guidance philosophy I have is generally going to be consistent with the way we've guided in the past under previous CFOs.

Brad Reback
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Great. Thanks very much.

Matthew Wells
Head-Investor Relations, Dayforce, Inc.

A

Our next question comes from Jared Levine with Cowen.

Jared Levine
Analyst, TD Cowen

Q

Thanks. In terms of the demand environment 4Q and so far into 1Q, have you seen any differences based on employer size, geography, vertical or even payroll versus workforce management?

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.

A

Not really. I don't think so. Look, a lot of it depends on how we basically set our priorities in terms of, as Steve says, balance across the different segments we play in and the geographies. We know that we still have a tremendous amount of white space just in the US and Canada. And so, we are still quite focused on what I call the domestic market, just given the amount of growth potential we still have over here. But I can't say that I'm seeing any global market kind of stand out, either positively or negatively.

Jared Levine
Analyst, TD Cowen

Q

And then, just...

Steve H. Holdridge
President-Customer & Revenue Operations, Dayforce, Inc.

A

Yeah. We see growth across all of them. David talked about APJ. I'm with our team in Europe. We have a number of significant brands over the past couple of years that we sold that are helping us there. But no, I think, just to go back, we have the advantage of a balanced portfolio and the ability to grow from multiple levers and to, any time, adjust up or down on those levers based on what's happening in a particular economy.

Jared Levine
Analyst, TD Cowen

Q

Great. And then, in terms of upsells and targeting an increasing mix of bookings related to upsells, do you anticipate that to be pretty broad-based across payroll versus your other modules? As you roll out more native payroll functionality, do you anticipate the mix of upsells related to payroll to change over the medium term here?

Steve H. Holdridge
President-Customer & Revenue Operations, Dayforce, Inc.

A

I think there's really three key focus areas for upsell with our existing base. One, customers that we have a footprint in a particular region and moving them to global. We're finding even small mid-market companies are pulling up shared services centers. Number two, customers that have time and pay with us to full suite, with all the investments we've done in terms of talent, HR Service Delivery, there's a significant push in that. And then, secondly, different divisions and distributions where we have one division in a company and cross-selling to another division as part of a larger global multinational.

Joseph B. Korngiebel
Executive Vice President & Chief Product and Technology Officer, Dayforce, Inc.

A

I'd just complement that with our approach on the product standpoint. We have an industry-leading payroll product. It's a global payroll product that's differentiated. You heard from David, you heard from Steve in terms of whether it's APJ or across the globe, handling it both locally and then being able to handle a global footprint. We oftentimes lead with that and you can land and expand with Dayforce.

We started Dayforce with an industry-leading WFM product. It's a product that is differentiated with its ability to extend in different industries and to do that hyper-effectively. We oftentimes lead with that product as a best-of-breed WFM solution and we land and expand and can grow our footprint.

And now, with the eloomi acquisition, you can see what we're doing in talent, a really powerful frontline workforce with an AI capability that really provides industry-leading talent capabilities. We can lead now with talent and you can land and expand with the compliance solutions that we have that are leading around WFM and payroll.

And so, we're really coming at it not just as a full suite, which we, of course, now have a very robust full suite. We can give you best-of-breed capabilities in those three areas and then land and expand with our customers. And in a world of efficiency and productivity needs, it's turning to be a good strategy.

Jared Levine
Analyst, TD Cowen

Q

Great. Thank you.

Matthew Wells
Head-Investor Relations, Dayforce, Inc.

A

Our next question comes from Steve Enders with Citi.

Steven Enders
Analyst, Citigroup Global Markets, Inc.

Q

Okay, great. Thanks for taking the questions here. Maybe just to start, it seems like, as we think about the model moving forward and the pace of net new go-lives, that maybe we should expect that level to be a little bit lower, just given some of the dynamics. Like, I guess, I just want to clarify that and how you're thinking about what the pipeline looks like for go-lives going through calendar 2024?

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.

A

So that metric is a – it's not a simple metric. The better number to look at would be the number of employees that were onboarding on to the actual platform. If you look at 2023 to 2022, we added about 900,000 people on to the actual platform. In the net number of customers that are live, there are a lot of customers that are not included in that number, because we've tried to keep the number consistent than the way we did it at a time of IPO. So I think Jeremy will have to determine what we actually disclose on a go-forward basis when it comes to that metric or employee volumes.

In terms of our go-to-market strategy, we remain committed to focusing on the markets where we believe we have differentiation. When I look at the actual product, what we do exceptionally well is we deliver simplicity at scale where we're able to solve very complex problems for our customers, especially around the payroll, workforce management, scheduling benefit side, while at the same time simplifying the number of different vendors that they're dealing with to get a complete and powerful total human capital management experience.

That means that largely you'll see us continue to go up-market to play very successfully in what we describe as the enterprise space, that 3,000 to 12,000 employee mark, and as well in the major space, which goes from about 1,000 employees up to about 3,000. When we go into the very large enterprise, we are now seeing full HCM suites in particularly where they are high percentages of frontline workers. So think retail, for example. In other industries, we typically focus on our compliance modules, our global payroll and global workforce management capabilities, which, as you know, are quite unique in market.

Jeremy R. Johnson
Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

And if I could just add three things that I think are really strong metrics for us that we've talked about already, but I'll highlight them again. We had record go-lives this past year and in Q4. That's on a dollar basis metric. We have maintained our world-class retention rates of 97.1% and we had net adds for our enterprise customers up 64% year-over-year. So, larger customers, record go-lives and strong dollar-based retention, I think, are the three metrics that I want to highlight there.

Steven Enders
Analyst, Citigroup Global Markets, Inc.

Q

Okay, perfect. That's helpful context there. And then maybe just on the partner feedback and the potential customer feedback you've heard so far on the name change to Dayforce, and I guess, yeah, what has been the comment that you've heard so far?

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.

A

One, I'm very proud of the work that our branding team did.

Arvind Ramnani
Analyst, Piper Sandler & Co.

Q

[indiscernible] (00:51:12).

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.

A

I'm seeing tremendous excitement, both internally and externally from the simplification of the actual name change.

Arvind Ramnani
Analyst, Piper Sandler & Co.

Q

Give me a few seconds.

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.

A

Now, I'd say it's been very, very positive.

Steven Enders
Analyst, Citigroup Global Markets, Inc.

Q

Okay, perfect. Thanks for taking the questions.

Arvind Ramnani
Analyst, Piper Sandler & Co.

Q

I am going to open the door.

Matthew Wells
Head-Investor Relations, Dayforce, Inc.

A

Arvind, I think you're going to have to mute. But if you'd like to ask a question, this is Arvind Ramnani with Piper Sandler. Next question, Mark Murphy with JPMorgan.

Mark R. Murphy
Analyst, JPMorgan Securities LLC

Q

Yes. Thank you very much. I'm wondering if you can drill down a bit into what you're expecting for migration tailwinds in 2024. David, I think you mentioned the tax modernization side, but I'm interested also in the international payroll migrations. Should we think that the tax migrations fade off somewhat while the international payroll piece perhaps starts to pick up and make up some of that difference? And then I have a quick follow-up.

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.

A

So, the tax migration, as you know, that was a platform change onto the Dayforce and so largely driven by accounting reasons. In terms of the APJ migration, we are now beginning to target what – there's a product in market called Preceda, particularly in the Australia marketplace. And we are actively speaking with the Preceda customer base about their journey towards Dayforce. I had a lunch with many of them just last week. We have several that have completed the journey and are highly referenceable. So, I'm optimistic that that journey will go very well.

Likewise, we're actually focusing on simplification across the other countries within APJ. The launch of Dayforce Unified, which gives the customers a consistent experience when we incorporate what I call the headless payroll engine that we have across multiple APJ countries, that's also launched and also going quite nicely. And then, over time, you'll see the expansion of Dayforce native as we go into 2025 and 2026.

Mark R. Murphy
Analyst, JPMorgan Securities LLC

Q

Okay. Understood. And then as a follow-up, perhaps for Jeremy, it is great to have you back, of course. Arithmetically, is it correct that the float income guidance steps up slightly for 2024? And if so, mechanically, could you just remind us how that works and are you factoring in an expectation for some rate cuts in the spring or summer?

Jeremy R. Johnson
Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

Hey, Mark. Good to speak with you again, and thanks for the question. Yeah. So, float steps up slightly in guidance compared to where we ended the year. We ended the year at around $169 million and our guidance was $174 million. Essentially, what you can assume there is balanced growth, offset by essentially flat rates. Now, keep in mind, we have baked in rate cuts throughout the year into this number, but the way we ladder our portfolios, the rate cuts won't really hit this year. They'll start to hit next year or towards the end of this year and not impact that average rate that we're seeing.

Mark R. Murphy
Analyst, JPMorgan Securities LLC

Q

Okay. So, something like a six- to nine-month lag because of the laddering?

Jeremy R. Johnson
Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

Maybe a little bit longer than that, but something like that.

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.

A

Yeah. So, Mark, if you look at it, last year, our yield was effectively 3.74%, and this year, we're assuming about 3.75%. So, it takes a bit of time to have the rate increases go through the system. We're still climbing the yield curve when it comes to the core portfolio, that's part of the portfolio that we ladder out. In Q1, the proportion between the short term and the core portfolio shifts more towards the short term. So, we should see some benefit from a higher rate environment in Q1 relative to last year.

Mark R. Murphy
Analyst, JPMorgan Securities LLC

Q

Understood. Thank you very much. Appreciate it.

Matthew Wells
Head-Investor Relations, Dayforce, Inc.

A

Our next question comes from Kevin Kumar with Goldman Sachs. Our next question comes from Bhavin Shah with Deutsche Bank.

Bhavin Shah
Analyst, Deutsche Bank Securities, Inc.

Q

Great. Thanks for taking my question. Just first on Dayforce Co-Pilot, I think you talked about in your prepared remarks about the strong productivity improvements from some of the early adopters. Can you just talk about how you're thinking about monetization of this SKU? How much is based on productivity and kind of how that pipeline is faring for this offering?

Joseph B. Korngiebel
Executive Vice President & Chief Product and Technology Officer, Dayforce, Inc.

A

Bhavin, good to talk to you, and thank you for the question. We see it as an add-on to our suite. And so, when you look at our overall suite, whether it's core HR, our compliance modules of payroll, workforce management or what we're doing in talent, analytics, we feel like Co-Pilot is – as we refer to it, is an AI teammate for your global workforce. It can help you in terms of efficiency quickly, easily, get the questions you have answered. It's also moving into action where it can automatically generate reports instead of having to work with IT to create reports or get the data you need out of the system. It can do it more instantly and it's a nice add-on. So, we treat it as any module we have, you can add on Co-Pilot for an additional charge and drive those efficiencies.

With our early adopters now, we're monitoring that efficiency and really driving that so that we can then, in our go-to-market later this year, really drive that into the metrics that we provide for customers to upsell and see what labor increases they can see and what productivity increases they can see from their workforce as a result of using Co-Pilot. So, it is an add-on module that you add on to a subscription. Whether you just buy payroll or you buy our full suite, it can be added on as an additional cost saver for your business.

Bhavin Shah
Analyst, Deutsche Bank Securities, Inc.

Q

Super helpful. Just one quick follow-up, based on – I guess, more for Jeremy, just based on kind of you noted in the guidance, it assumes a more moderating rate environment. Obviously, it's lighter, so the impact's going to be more in, I guess, 2025. But how are you as a management team thinking about just the rate and pace of investments to the extent we are in a lower-pace environment? Does that kind of impact how you're thinking about investing into go-to-market, et cetera?

Jeremy R. Johnson
Chief Financial Officer & Executive Vice President, Dayforce, Inc.

A

We always look at the float as a really nice piece of our business, and we'll take it when it's here. But as it goes away, it's something that we will continue to invest in the business. We'll also focus on expanding our adjusted EBITDA margins and the conversion of that into cash flow. I think maybe what I'll highlight there is we saw significant improvement in our operating cash flow and conversion from adjusted EBITDA into operating cash flow. So, we ended the year at $219.5 million in operating cash flow, which is a 54% conversion from our adjusted EBITDA. So, we're really pleased with that. You'll continue to see us focus on profitability regardless of the rate environment.

David D. Ossip
Chairman & Chief Executive Officer, Dayforce, Inc.

A

The other thing that I'll mention is if I look at the EBITDA, which came in, as you know, the 27.1% for the full year, ex float, that was up by 340 basis points year-over-year. So while we did get benefit from the float, we did continue our focus on, as Jeremy pointed out, more efficient of OpEx across the company and as well the cash conversion. We were very happy that we came in at 54% conversion of operating cash flow – EBITDA to operating cash flow. And when we look at our guide for 2024, we're looking at increasing that by possibly another 10% up to the high-50% range of cash conversion.

Bhavin Shah
Analyst, Deutsche Bank Securities, Inc.

Q

Appreciate the answers. Thanks for taking my questions.

Matthew Wells
Head-Investor Relations, Dayforce, Inc.

Thanks, everyone, for dialing in today. This concludes our call.