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Dayforce, Inc. (DAY)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

[Abrupt Start]

Jeremy R. Johnson

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

...and welcome to the Dayforce First Quarter 2024 Earnings Call. I'm Jeremy Johnson, our CFO. And joining me on the call today is CEO David Ossip; 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.

Now, 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 filed 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, Jeremy, and thank you all for joining us. Next to me, I have Steve, who will review customer and market highlights; Joe, who will highlight platform innovation; and then we'll hand the call back to Jeremy to provide details to our first quarter performance and updated full year outlook.

In the first quarter, I'm pleased to report another strong quarter for Dayforce. We grew both revenue and profit materially and we exceeded guidance across all key revenue and profitability metrics. Dayforce recurring revenue of \$337 million was up 24% including float, and 23% excluding float. And total revenue of \$431.5 million increased 16%.

On the profitability side, GAAP gross profit was \$205 million, up 28% from last year. Cloud recurring gross margin was 79%, up 170 basis points versus last year. And adjusted Cloud recurring gross margin was 80%, up 130 basis points versus last year. Adjusted EBITDA was \$130 million, up 23%, representing an adjusted EBITDA margin of 30.1%, up 170 basis points versus last year.

We remain confident in the business with strong momentum across sales, product and operations, and we have raised our guidance across all key metrics. As we look at the rest of the year and well beyond it, the HCM market

opportunity is very large and continues to expand. Estimates of global HCM and managed payroll spending are currently in the \$50 billion to \$60 billion range and growing at over 10% annually based on a Dayforce analysis of IDC data. This continues to be a resilient and durable market of growth.

Dayforce is well positioned to capitalize on this opportunity in front of us as organizations of all sizes across the world need to be more productive and to optimize their technology and processes. Leaders need to create quantifiable value for their organizations and better experiences for their people with the platforms they choose. And Dayforce meets that demand by providing simplicity at scale.

Simplicity at scale is at the core of our product innovation, particularly as we accelerate with our AI capabilities, with Dayforce Co-Pilot for both our customers and inside our organization. As we've discussed, our approach to AI is built on our foundation of trusted compliance and a single source of data.

We launched the charter version of Dayforce Co-Pilot and have seen our initial customers and their employees utilize Co-Pilot as an AI teammate to help supercharge productivity. We believe there are numerous use cases across our customer base to help them gain a competitive advantage by using Dayforce Co-Pilot. Internally, it's been very exciting to see how Co-Pilot has significantly enhanced the Dayforce experience within our own Dayforce environment, answering questions and surfacing critical company content to help our Daymakers be more productive every day. Joe will share more on our progress shortly, but I'm very encouraged with our pace of innovation.

Finally, I'm happy to announce the appointment of our new Chief People Officer, Amy, who joined Dayforce and our leadership team this week. Amy brings extensive experience driving business growth through talent training and development, workforce engagement and exclusivity and operational efficiencies. Welcome to the team, Amy.

In summary, we had a strong start to 2024 and I remain excited for the year ahead. I'd like to thank our strong community, our customers, partners and Daymakers.

I'll now pass the call to Steve to discuss customer and market highlights. Steve, over to you.

Steve H. Holdridge

President-Customer & Revenue Operations, Dayforce, Inc.

Thanks, David. In Q1, we delivered balanced and consistent growth across customer acquisition, activation, expansion and retention. We had strong results for sales kickoffs and go-lives. We ended the quarter with Dayforce recurring revenue per customer up 19% year over year, and we now have 6,575 customers live on the Dayforce platform.

From a sales perspective, we continue to see strong demand for Dayforce across the globe and saw an acceleration of competitive wins in our mid-market segment as a complement to the continued expansion in our enterprise segments we've talked about before.

Sales pipeline remains healthy and we see steady demand for the Dayforce full suite platform in all regions. Our partner ecosystem momentum continued into Q1 with SI-led sales growth up 35% year over year. We continue to demonstrate the strength of our overall Dayforce platform, attaching full suite to nearly 50% of new sales bookings. We also saw continued performance across our customer base sales motion, with customer add-on sales comprising nearly 40% of total bookings, including significant growth in our Talent Intelligence Suite.

And on Dayforce Wallet, we saw healthy traction with over 1,200 customers live and 1,960 new customers added in total. Average wallet registration rates continue to trend positively, remaining above 65%, and we continue with healthy wallet usage of about 25 times per month. We also launched two new revenue-generating features to wallet in the first quarter. Instant transfer, which allows users to move money off the card instantly using credit rails for a fee, and cash app transfer, which allows users to move money to cash apps and provides Dayforce with the interchange revenue.

We received positive news out of the Government of Canada, which secured additional budget to progress the payroll modernization project. We expect to see continued investment in the program and expanded opportunity for Dayforce and our partners with potential acceleration of related revenues in 2025.

Now, turning to key sales wins from across the globe in Q1. A large Canadian grocer is expanding its existing Dayforce partnership with the addition of Dayforce Talent to support more than 100,000 employees. A US energy company with 17,000 employees has selected Dayforce for payroll and workforce management. One of the world's leading independent insurance brokers has chosen the full Dayforce suite for 9,300 employees in 29 countries.

Western Digital Technologies, a global provider of disk drives and flash memories, is expanding its existing partnership with Dayforce by adding managed payroll for 8,000 employees in the US. Carhartt selected Dayforce as its global people platform for 3,500 employees across seven countries. One of the top 10 dental support organizations in the US selected Dayforce as a strategic partner to support 5,000 employees.

Some of the key Q1 customer go-lives included an international real estate developer and property manager launched Dayforce Managed Payroll, Managed Benefits, Time and Attendance to 22,000 US employees. A global manufacturing and retail organization with 65,000 employees across 56 countries extended its Dayforce use to include its Malaysian operations.

Windstream Holdings went live with the full Dayforce suite for 9,500 employees across the US and Canada. A global analytics professional services company, with over 35,000 employees in 40 countries, expanded its Dayforce use to 6,000 UK employees. And a California grocery chain, with 18,000 employees in 170 locations, went live with Dayforce Managed Pay (sic) [Dayforce Managed Payroll] (00:09:19), Time, Attendance and Advanced Scheduling.

With that, I'm now pleased to hand off to 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. We had a fast and exciting start to 2024 in terms of product innovation. As you heard from David, with the launch of Dayforce Co-Pilot to our charter customers at the beginning of the year, our new generative AI teammate for the balanced workforce is empowering our customers, their employees, and also our own employees here at Dayforce with new levels of productivity and efficiency. This cutting edge innovation marks a significant milestone in our commitment to make work life better for our customers and their entire workforce.

Dayforce Co-Pilot provides instant answers to common workforce questions from the data that is often buried within large employee handbooks, detailed benefits guides and lengthy corporate FAQs. Powered by our best-in-class data and per customer large language model architecture, we are just beginning the innovation with

Dayforce Co-Pilot. We are now expanding beyond our initial answering questions and summarizing data use cases into a full-fledged task automation and content generation with generative AI. And it's all within the seamless in-context Dayforce Co-Pilot user experience.

As we iterate and continue this transformative journey, we extend our sincere gratitude to our early customers for their invaluable partnership and feedback. Together, we are truly shaping the future of work and setting a new standard of excellence in our industry. We are delivering Dayforce Co-Pilot as a new, simply priced add-on to our entire suite of HCM products. As you can tell, I'm excited about the value that our customers are starting to realize with Dayforce Co-Pilot and the massive impact that a single system that provides a single source of truth for their people data can have on their business.

In addition to these innovations with Dayforce Co-Pilot, we also delivered several key innovations to help our customers optimize their talent, manage compliance, drive productivity, and build great employee experiences. We delivered improved candidate and recruiting experiences within our Talent products to enable faster and more efficient recruiting processes when they're needed most.

We launched Dayforce Alumni Management, a new product that helps organizations maintain strong relationships with their past employees who can become boomerang talent or even refer new talent to a business. We enhanced our leading workforce management products to support companies that have multi-locations, multi-departments in order to drive greater efficiencies through centralized and multi-week calendaring, scheduling in a flash.

And finally, on compliance, which is job one for us here at Dayforce. We added more than 160 global compliance updates – updates just in the first quarter. This includes enhanced year-end requirements, optimized reporting functionality, expanded data import capabilities, and complete updates to our tax rates to help our customers operate with confidence. A truly exciting start to the year for us and our customers.

But now, let's talk financials. Over to you, Jeremy.

Jeremy R. Johnson

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

Thanks, Joe. We started 2024 strong, underpinned by healthy top line growth and continued profitability improvements. As David said, we exceeded guidance across all key revenue and profitability metrics. We delivered Dayforce recurring revenue of \$337.2 million, growing 24%. And excluding float, Dayforce recurring revenue grew 23%, underpinned by strong go-lives and healthy underlying customer trends.

Total revenue of \$431.5 million grew 16% on a GAAP basis and 17% on a constant currency basis, highlighting the continued convergence of Dayforce recurring revenue and total revenue growth rates. And 78% of our total revenue is Dayforce recurring revenue.

Powerpay recurring revenue was \$26 million, growing 8% including float and 5% excluding float. On a GAAP basis, gross profit was \$205 million, up 28%, and operating profit was \$41 million, up 6%, including a full quarter of the amortization of the Ceridian trade name, which is in G&A expenses at approximately \$21 million.

Cloud recurring gross margin was 79%, up 170 basis points versus last year. And excluding float, our Cloud recurring gross margin also continued to expand nicely, improving by 170 basis points year over year. On a non-GAAP basis, adjusted Cloud recurring gross margin was 80%, expanding 130 basis points year over year as the Dayforce platform continues to scale.

We view adjusted Cloud recurring gross margins as a key metric that shows how much we make from an average dollar of recurring revenue after customers go live on the platform. It's a great comparison to our HCM peers and market, and it excludes non-cash items like depreciation, share-based compensation as well as R&D-related costs.

Adjusted EBITDA was \$129.9 million, up 23%, or a 30.1% margin, expanding 170 basis points year over year and reflecting our continued improvement in gross profit margins and scale in adjusted G&A.

From a cash flow perspective, operating cash flows were \$9.1 million in Q1, \$2 million lower than last year, primarily due to higher trade receivables. This was the result of timing, specifically related to the change in our brand name as some customer payment cycles were delayed as a result of our name change to Dayforce. We remain confident in our full year cash flow targets of upper 50% conversion from full year adjusted EBITDA to operating cash flow. As expected, eloomi revenue added approximately 100 basis points of growth to our Dayforce recurring revenue in the first quarter.

Looking ahead for the full year, we now expect Dayforce recurring revenue ex float of \$1.163 billion to \$1.168 billion or growth of 21% as reported and on a constant currency basis. Total revenue of \$1.73 billion to \$1.74 billion, or approximately 14% to 15% growth as reported and on a constant currency basis. Adjusted EBITDA of \$484 million to \$499 million, or 28% to 28.7% margin. And float revenue is now expected to be \$183 million for the full year, reflecting fewer rate cuts than originally anticipated.

For the second quarter, we expect Dayforce recurring revenue ex float of \$276 million to \$279 million, or growth in the range of 19% to 21% as reported, or 20% to 21% on a constant currency basis. Total revenue of \$414 million to \$419 million, or growth of 13% to 15% as reported and on a constant currency basis. And adjusted EBITDA is expected to be in the range of \$108 million to \$113 million, or a 26.1% to 27% margin. Float revenue is expected to be \$47 million for the second quarter.

As you recall, there are typically a handful of items that impact sequential growth between Q1 and Q2, including the year-end print and filing revenue that drive Q1 higher but don't reoccur in Q2. And seasonal employee volumes that tend to fall off in Q2. This is reflected in our guidance. We have also updated the FX rate assumptions used for our guidance as the current spot rate of approximately [ph] CAD 1.37 (00:17:45) to CAD has worsened from the [ph] CAD 1.33 (00:17:50) level observed at the beginning of 2024.

Before we go into Q&A, I want to remind investors and stakeholders that our financial reporting and accounting policies are underpinned by strong processes and procedures that undergo multiple layers of internal and external review. We stand behind our financial reporting and accounting policies, which have been carefully considered, reviewed and audited and transparently disclosed since becoming a public company in 2018. We encourage investors to review our financial statements along with our past earnings call, transcripts, and press releases for a comprehensive view of our financial profile, our accounting policies, and our view point on key financial and operating metrics.

Thank you for your continued support and conviction in Dayforce. We are excited for the future. With that, we can begin the Q&A portion of our call.

QUESTION AND ANSWER SECTION

A

Thanks, Jeremy. I'd like to remind everyone to please keep their questions to one question and one follow-up. Our first question comes from Mark Marcon with Baird. Mark?

Mark Steven Marcon

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

Q

Hey, good morning, everybody. Want to go – I've got two questions. One, the Government of Canada, in their 2024 budget, they basically ended up committing CAD 130 million to improve public service, human resources and pay systems. That's up materially relative to the CAD 52 million that they had allocated during the prior year. And so, what I'm wondering is, first of all, it sounds like things are really progressing well. You had mentioned on the call that you don't anticipate seeing a major step up until 2025.

I know that there's some sensitivities in terms of what you can disclose, but it sounds like things are going really well. And I'm wondering if you can give us any additional perspective in terms of what the next milestones are, what we should be monitoring, because this is obviously a huge deal.

Steve H. Holdridge

President-Customer & Revenue Operations, Dayforce, Inc.

A

Yeah. Hey, Mark. This is Steve Holdridge, I'll take that and anyone is welcome to jump in. Yeah, as I said on the call, we view this as positive news, right? This is a statement of continued commitment. It is a budget expansion going into that. So, in terms of the macro, this further cements that.

Keep in mind that this is a long-term program. It's probably a minimum of two years before we even begin to see the first set of go-lives. A big chunk of this is to continue the funding from prior years. Another big chunk of it goes to the government in terms of their labor and infrastructure. And then there's a bunch of partners we have with it, but we do expect an uptick, a lot of it focused on the implementation and services sort of work. And then in early 2025, we'll expect to be seeing some increases in employee volumes there. So, overall positive, but part of a long journey.

Mark Steven Marcon

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

Q

Got it. And then as my follow-up, Dayforce Co-Pilot, David and Joe, you both sounded extremely excited about it. Joe, you mentioned that there's simplified pricing around it. Wondering, can you give us any sense with regards to the incremental pricing and what the early customer feedback is and how you expect that to translate to upsells to the existing client base.

Joseph B. Korngiebel

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

A

Mark, good to hear your voice and thank you for the question. Yeah. Co-Pilot is a foundational really transformation in how people use people platform to be able to get answers and make more efficient and

productive decisions for their employees. We started with an early design program and we brought customers in early to start to vet out how the value could be realized.

That early partnership work with our customers has transformed now into a charter program. We have our early customers leveraging it with their customers, uploading documents so they can see the answers that are oftentimes buried in different documents as I mentioned, to be able to answer. So, that really takes the workload off of your HR admins and your staff. It can really optimize the performance of your staff in terms of their ability to get answers done and get back to their job. For us, that is rolling out now. We'll then go from that to general availability in the second half of this year.

As I mentioned in my statements, we are simplifying the pricing. There's a lot in the industry going around real complex pricing of these type of generative AI tools. For us, it's an add-on to any of our products within our HCM suite. And so, if you just buy one product or buy our full suite, you can add that on to give the productivity boost. And our customers are giving us feedback. That's exactly [ph] what we want. We're already (00:22:28) seeing within our prospective customers, the same kind of interest. It really moves us forward.

Mark Steven Marcon

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

Q

Can I sneak one more in? Jeremy, did you build anything in in terms of recurring for this?

Jeremy R. Johnson

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

A

Hi, Mark. We – at this point, probably not incrementally in. I think we're testing out the use cases, we're building this up with customer base and probably not incrementally at this point.

Mark Steven Marcon

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

Q

Great. Thank you very much.

A

Our next question comes from Kevin McVeigh from UBS. Kevin? Kevin, you may unmute your line. Kevin?

Kevin D. McVeigh

Analyst, UBS

Q

Great. Thanks so much. Can you hear me?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Yeah.

Kevin D. McVeigh

Analyst, UBS

Q

Hey, congratulations on the results. I think you had referenced kind of the SI-led sales growth in the quarter was about 35%. Give us an update on where that is in terms of some of the transition from professional services – on

the professional services side to the SIs and how that sales distribution channel is going forward because it seems like a part of the story that's starting to kind of scale.

Steve H. Holdridge

President-Customer & Revenue Operations, Dayforce, Inc.

A

Yeah. Yeah. And I think we've been consistent in that. Over the past few years, we've seen steady growth in that. We've also been very public that our strategy is to move to primarily in the SI-led ecosystem even broader than SIs, right? Advisory partners, partners with PE. We continue to see strength on that, both with the large global systems integrators, where we continue to see expansion as well as a number of regional mid-market. We expect for the balance of the year the growth in SIs to outpace even our growth of bookings and we expect to see penetration across all markets.

We have high penetrations in EMEA and APJ, where we haven't built up the sort of services capabilities. What's that allowed us in the US to do is focus our services on new and emerging products and really supporting SIs with technology and product-specific capability.

Kevin D. McVeigh

Analyst, UBS

Q

That's very helpful. And then just with the uptick in float, any change philosophically as to how we should think about just whether that gets redeployed or kind of just any impact because, obviously, that seems like somewhat unexpected given where rates are. But just remind us of how we're thinking about that incremental float benefit.

Jeremy R. Johnson

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

A

Yeah. Thanks, Kevin. Yes. It's obviously a nice surprise that float is going to stick around a little bit longer here. We will continue to look for opportunities to invest. Well, there are – there's a significant amount of growth that we can go after. We've got a bunch that we can do on the product side of things. But at the same time, we know we have margin targets and free cash flow targets that we want to hit. So, you'll probably see us take a balanced approach here with the float.

Kevin D. McVeigh

Analyst, UBS

Q

Thank you so much.

A

Our next question comes from Raimo Lenschow from Barclays. Raimo?

Raimo Lenschow

Analyst, Barclays Capital, Inc.

Q

Yeah. Can you hear me okay?

Jeremy R. Johnson

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

A

Yeah.

Raimo Lenschow

Analyst, Barclays Capital, Inc.

Q

Good. Perfect. Hey, can I just double click a little bit what you're seeing out there in the economy, like in terms of interest on starting new projects. You obviously have a long list of new clients that you announced, which is really good to see. But what's the overall appetite in terms of thinking about traditional transformation in the HCM space and how much is AI kind of a talking point, you kind of open doors for that one? And then I have one follow-up for Jeremy.

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Sure. Hey, Raimo, good to speak with you. Hey, Raimo, just check your math on your early report as well in terms of the guide, we actually pushed the full amount to the full year, not half of it. So, just a correction in your note.

In terms of your question, if we look at the actual pipeline, the pipeline levels remain very healthy and robust. What we're seeing in the industry is that there is a focus on increased automation. And the way that typically translates is that we would come in and we often see a simplification of 12 systems to about 1. And as we simplify the environment for the client, it means that you have more automation, less integration, less manual effort, less manual errors, less FTEs, higher efficiencies. And that messaging is resonating very well in today's economy. And I think that's reflected in the numbers and the accounts that Steve spoke about.

Raimo Lenschow

Analyst, Barclays Capital, Inc.

Q

Good. Perfect. Thank you. And then, Jeremy, you talked a little bit about the – that extra float revenue coming in there. Can you talk a little bit about the – some of the priorities that you – if you think about balancing it out, some of the priorities in terms of kind of maybe giving us more versus kind of investing more, like, where would that be? Thank you. And congrats from me as well. And I'll look into that, David.

Jeremy R. Johnson

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

A

Yeah, thanks, Raimo. I think, when we talk about getting incremental float dollars that either can flow right down to the bottom line or we can choose to reinvest those funds. There is, as I mentioned, kind of a lot of room to grow in this business. We're talking about our ability to go global. We're talking about expanding across the HCM space and launching new products and investing in things like AI. So, I look at it really as how much do we put into sales, marketing to continue growth and how much do we put into product and technology versus take into the bottom line?

And I do think that our opportunity is huge out there. As you heard us talk to that, the HCM market is a really big one with a huge TAM that's growing nicely, and we're really well positioned to go in and capitalize on some of that. That's when I say we'll take a balanced approach, we'll definitely look at both taking and expanding margins as well as continuing to invest in the growth opportunities that are out there.

Raimo Lenschow

Analyst, Barclays Capital, Inc.

Q

Okay. Perfect. Thank you. Well done.

A

Our next question comes from Siti Panigrahi from Mizuho.

Siti Panigrahi

Analyst, Mizuho Securities USA LLC

Q

Hey. Thanks for taking my question. So, David, when I look at your peers' growth, they're – it's decelerating in the payroll space. But you continue to deliver 20% plus organic, 20% plus on your recurring – Dayforce recurring ex float. So, what gives you confidence that you'll continue to deliver that kind of 20% kind of growth?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Yeah. Thanks, Siti. The first thing that I'll point out is that if you look at the actual quarter add-ons, which is adding the employee of record and the talent component, was 40% of our sales. And if we look at full suite sales in the quarter, it was 50%. So, when you look at Dayforce, we aren't a payroll company, we are an HCM company, which gives us a much more durable growth profile than others in the market that are more focused on the actual [indiscernible] (00:29:47).

And when we look at the breadth of our application and the depth of each of the different modules, you'll find that they are very competitive even with the stand-alone talent vendors out there. Part of our growth as well is, as you know, we are cross segment, whether it'd be the major market space which goes up to about 1,000, the major markets – sorry, the enterprise – sorry, major markets goes from about 700 to about 1,000 – major markets from about 1,000 to about 3,000. And then we have enterprise from 3,000 to 12,000 and large enterprise above.

But the different segmentation gives us also the ability to emphasize differently based on the actual macro. And as well we have a very strong global profile, which also allows us to balance growth across different markets as the macro changes as well.

Siti Panigrahi

Analyst, Mizuho Securities USA LLC

Q

Thanks for the color. And a follow-up, when I look at your pipeline – not pipeline, actually the deals you closed since Q1 of 2022, large deals in terms of enterprise, you mentioned before that go-lives should be around two years or so. How is the go-live trend right now in terms of your confidence of those companies going live with those large deals? And how is that going to help drive that growth as well this year and next year?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Well, Siti, as we've discussed before, the larger accounts give us more of that durable growth profile as the implementations do stretch, typically across different tiers. If we look at the large logistic company, as you know, and as a proportion of their population went live previously and we are expecting additional waves to go live shortly. But again, it allows us to plan out the business very, very carefully. And you see that reflected in the very tight revenue and EBITDA guides we give to the market. It's a highly plannable business.

Siti Panigrahi

Analyst, Mizuho Securities USA LLC

Q

Great. Thank you.

A

Our next question comes from Scott Berg with Needham. Scott, you may unmute your line. Maybe we can circle back on Scott. Next, we'll go to Steve Enders from Citi.

Steven Enders

Analyst, Citigroup Global Markets, Inc.

Q

Okay, great. Thanks for taking the questions here. I guess, maybe just to start, I think you called out mid-market win rates improving in the quarter. Just, I guess, would be helpful to get a little bit more clarity on what you view as driving that. And then maybe just a little bit more detail on what you're seeing in terms of overall demand dynamics between mid-market and enterprise today.

Steve H. Holdridge

President-Customer & Revenue Operations, Dayforce, Inc.

A

Yeah. Hey, this is Steve. I'll take that and anyone can jump in on that. So, in the past, we've continued and you've seen some great wins upmarket in terms of the enterprise. And we continue to see that. What we have seen is our ability to, one, be in more deals in mid-market as we've increased the sales coverage, we got more focus on our go-to-market, and continue to increase our win rate. We feel our suite fits 100% and we tend to lead with the full suite there. So, we're confident.

And as David talked about, our advantage is that we have a balanced portfolio. We've seen some increase in mid-market and we're continuing to drive large enterprise. And we think it's a combination of those that feed into our guidance and the predictability of the full year revenue.

Steven Enders

Analyst, Citigroup Global Markets, Inc.

Q

Okay, great. That's helpful. And then maybe for Jeremy, just in terms of the – thinking about profitability dynamics kind of through the year and now 2Q has had some seasonality in there, but I guess any kind of like change in investment cadence or anything else that you would kind of call out as we think about EBITDA flowing down through the year?

Jeremy R. Johnson

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

A

I think – and hey, Steve, how are you doing? I think ultimately we've – we beat in Q1, we had a really solid quarter from a profitability side of things. I think 2Q always tends to come down a little bit from a profitability side, but ultimately we remain confident in the full year and we've flowed through that beat into our updated guidance. And I think our overall adjusted EBITDA targets of 28% to 28.6% or 28.7%, so kind of midpoint, 28.5% or just under that are really good target for us to hit and push us toward that 30% kind of midrange target that we've set for 2025. And I think it's a nice stopping point along the way. So, we're feeling pretty solid about that. And as I mentioned, it will take kind of a balanced approach here with it as we get incremental float revenue here.

Steven Enders

Analyst, Citigroup Global Markets, Inc.

Q

Okay, perfect. Thanks for taking the questions.

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, Jeremy, to you. You called out kind of a few things about helping us think about the seasonality into the second quarter on the Dayforce line. Can you maybe just get a little bit more explicit about what you're assuming in terms of macro for the rest of the year? Any changes relative to how you guided last quarter for the full year? Thanks.

Jeremy R. Johnson

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

A

Yeah. Nice to speak with you, Dan. I think ultimately employment levels remain kind of in line with our expectations, which was essentially flat with normal seasonality. I think if you look at any seasonal impacts, we always see that typical Q1 to Q2 drop off with some of the year end and print revenue in Q1 that doesn't happen in Q2. And we do the seasonal volume in Q1 that again, drops off or tends to drop off in Q2.

It's something that's been with our business consistently. And you've heard us talk about this in the last couple of couple of years and we'll continue to talk through it in Q1 to Q2 dynamics. But for the rest of the year, no real changes in how we're guiding or any macro factors that would impact our guidance at this point.

Daniel Jester

Analyst, BMO Capital Markets Corp.

Q

Great. Thank you. And then maybe going back to the Co-Pilot and the comments about simple pricing, maybe we could just expand on that a little bit more. I think one of the things many people are thinking about is about how do you manage sort of compute costs and margins and usage for some of these tools. And so, maybe can you just help us think about how you're thinking about this for your customers and what does simple really mean? Great. Thank you.

Joseph B. Korngiebel

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

A

Simply put, for Dayforce Co-Pilot, what we're doing is a per employee per month cost, just like we do with the rest of our products. We can rationalize all the costs on what we're doing with the innovation that's happening with large language models and the like. But we're making it simple for our customers.

Daniel Jester

Analyst, BMO Capital Markets Corp.

Q

Okay, great. Thank you very much.

A

Our next question comes from Alex Zukin with Wolfe.

Alex Zukin

Analyst, Wolfe Research LLC



Yeah. Hey, guys, thanks for taking the question. I guess, just maybe the first one, if we think about the commentary around bookings and kind of sales growth, as you now, you're a month of the way through April, any commentary about pipeline conversion statistics or just sales growth exiting the month and how that's trending between kind of new versus selling into the base?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.



Yeah, the – April was a good month. Came in slightly ahead of our plan.

Alex Zukin

Analyst, Wolfe Research LLC



Perfect. And then, David, you talked a lot about how Dayforce is becoming an HCM company and how much talent is kind of critical to that notion over the next few years. If you think about just the penetration rate within your customer base today, where you've sold kind of the most impactful pieces of the HCM portfolio in addition to payroll and time. What is that opportunity? How far through that are you and how to think about that over kind of the next kind of year plus?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.



We're in early stages, if you look at the average PEPM across our client base, you can still see there's quite a delta between the average PEPM price and between, I'll say, our target price. If you look at the results with inside the quarter, both in terms of add-on sales back to the base and our number of full suite sales, you can see the numbers are very strong.

What I can say is we did onboard a very strong client base leader in Q1 and we are seeing impact from that already. We also have a overlay talent team now and they are really doing tremendously. If I look at their results year to date, they've come in well ahead of schedule. And if you look at the customers that we actually pulled out, the 100,000-employee-plus grocery chain that has now purchased the full talent suite, where we are replacing one of the large ERPs with talent suite across their entire enterprise, talks about the strength, the capabilities and the viability of our talent [ph] on payments (00:39:45).

Alex Zukin

Analyst, Wolfe Research LLC



Perfect. Thank you, guys.

Operator: Our next question comes from Bhavin Shah with Deutsche Bank.

Bhavin Shah

Analyst, Deutsche Bank Securities, Inc.



Great. Thanks for [ph] taking the (00:39:55) question. I guess, Steve, one for you and kind of dovetailing on that, just on the customer base motion, you guys talked about impressive stats. Can you just elaborate on the typical customer that you're able to upsell? Who are you displacing in terms of the talent suite and kind of what are the other big opportunities outside of talent that kind of upsell into that base?

Steve H. Holdridge

President-Customer & Revenue Operations, Dayforce, Inc.

A

Hey, so a couple things. Yeah. So, one I'll point out and double down on what David said, is one of the things we did differently this year is that that is a dedicated customer base motion versus an overlay motion. So, we've invested in terms of the number of account executives and the focus on that.

In terms of who we're displacing, it's all the usual players up and down the market, right? In the low end of the market, we're displacing the [ph] Pays (00:40:34) and UKG. In the up – mid and upper end of the market, we're displacing the ERPs. And we're displacing them because of the capability of our pay and time solution and the stickiness of that and the fact that our Talent Intelligence Suite is now incredibly competitive, in fact, with the newest technology on the market. And as David talked about, this is around cost rationalization and the value of an entire platform with our talent is what's helping us win.

Bhavin Shah

Analyst, Deutsche Bank Securities, Inc.

Q

Super helpful. Just as a follow-up, David, to an earlier question that Raimo asked on the macro, I know there's been some conversations with some potential digestion period for back office software, just kind of post elevated spend as we exited COVID. When you speak to customers, do you see this at all? How would you kind of describe customer scrutiny? And if that's changed at all in the past few months?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Over the last, I don't know, 10 years, I can't say that there's really been an easy quarter. We now have, as you know, almost 6,600 customers live on the actual platform. And every single one of those was a competitive RFP situation. When I look at the actual pipeline and I would argue that under Sam's leadership, it's now a highly qualified pipeline. The ratios are very good in terms of coverage to our target.

And as Steve mentioned, the simplicity at scale message which I spoke about earlier, which is the more automation and our ability to go to a customer, clearly identify on average about 12 different HR systems that they have in place, simplifying that to one Dayforce system, that typically yields a subscription saving for the client in the very first year. Plus they have much better automation, lower manual error rates, less FTEs, much more efficiencies around different types of workflows, which also contribute to a very strong and quantifiable IRR on the Dayforce system. And at the same time, we are able to significantly lift up the experience for their frontline workers, their managers, and their executives, all based on that single data base that we have been powering Dayforce.

And when you now begin to layer on what we're doing in terms of data and AI, the impact that we can have on decision making and on both the top line and the bottom line of the organization is very impactful. And I would actually question that if it's not Dayforce, why isn't it Dayforce, because we really do have quite a differentiated solution in market.

Bhavin Shah

Analyst, Deutsche Bank Securities, Inc.

Q

Super helpful. Thanks for taking the question.

A

Our next question comes from Jared Levine with TD Cowen.

Jared Levine

Analyst, TD Cowen

Q

Thank you. In terms of looking at your professional and – professional services revenue and other revenue, can you discuss the mix of that, currently that's implementation related and non – versus non-implementation related and how you'd expect each of those to grow over the medium term?

Jeremy R. Johnson

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

A

Yeah. Yeah. And we think of that really in kind of two broad categories, implementation and then what we call value-added services around that. And within implementation, over time, we expect the core implementation to continue to decrease year over year as our partners move into that. The one exception is obviously we mentioned with Government of Canada. And we expect our value-added services and our focus on new and emerging products and supporting the SIs to increase. But with that, we also expect to see a continued slow growth and profitability as that mix increases as well.

Steve H. Holdridge

President-Customer & Revenue Operations, Dayforce, Inc.

A

Yeah. And, Jared, maybe I'll add there. Also inside of professional services and other gross margin, we have things like clocks and custom training revenue and that will continue and we still have a good opportunity to continue to grow that. And then the last thing I'll say is, as we move and continue to move into SIs, not all of that is on the SI's paper. Some of that is – when we say SI-led, some of that is actually contracted on our paper, which means we've got to account for it under ASC 606 with a couple of – two performance obligations and things like that. So, I think just to clarify, I think that might be a misnomer out there.

Jared Levine

Analyst, TD Cowen

Q

Got it. Thank you. And then both Powerpay recurring ex float and bureau recurring ex float both came in below your expectations for 1Q. Can you discuss what drove those lower than expected results? Is it more so a pushout of revenue later in the year?

Jeremy R. Johnson

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

A

Yeah, I think we had – so we set some lofty expectations I think for Powerpay and on that side of things that the employment levels, I think, in Canada aren't as solid as we had expected. And I still think, in general, though, we grew that business by 8% in total or 5% excluding float. So, just slightly behind our expectations on that one.

And on the bureau side, it's really about end-of-lifing products and migrating over into Dayforce. And that's really what you're going to see continued on that kind of other revenue line. And we expect that to continue to decrease year on year.

Jared Levine

Analyst, TD Cowen

Q

Just a quick follow-up here, if I could. What is the updated Dayforce recurring ex float guide assumed for bureau migration contribution there?

Jeremy R. Johnson

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

A

I don't believe we've disclosed that specifically.

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

It's immaterial.

Jeremy R. Johnson

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

A

Yeah.

Jared Levine

Analyst, TD Cowen

Q

Okay. Thank you.

A

Our next question comes from Mark Murphy with JPMorgan.

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

Thank you very much. David, I'm wondering if you could give us your perspective on the labor market. When we look at non-farm payroll growth in the US, it slowed from 5% a few years ago to about 1.8%, 1.9% range recently. I'm wondering, because obviously you're performing pretty well, how does that trend look comparatively within your installed base? And do you think that might continue to grow in the low-single digits for the time being? And then I have a quick follow up.

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Hey, Mark. So, I would say the volumes came in slightly ahead of what we had forecasted. And we're still seeing healthy employment rates at our customers. On top of that, I would point out again that part of our durable growth profile is the fact that we have a very strong employer of record and talent capabilities inside the system. And our ability to go back to the base and do the add-ons to drive that cash IRR for our client does lead to consistent growth for our business.

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

Okay. Understood. I wanted to ask as well because we saw the comments on full suite bookings and add-on bookings. I think you said the trends were positive in April as well. I'm just curious, did you see a total bookings

bounce back relative to some of the softness you're seeing around the holiday selling season? Or is it still a bit of a measured buying environment out there as we've kind of seen across the broader industry?

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

Yeah, Mark, we saw that very early on in the actual year with January coming in very strong. And as I mentioned, April came in ahead of plan as well. So, we're pleased with sales year to date.

Mark R. Murphy

Analyst, JPMorgan Securities LLC

Q

Thank you.

A

Great. Looks like our final question will come from Kevin Kumar with Goldman Sachs.

Kevin Kumar

Analyst, Goldman Sachs & Co. LLC

Q

Hi. Thanks for taking my question. Yeah. In terms of the demand environment, have you seen any differences or trends that you'd call out in the mid-market versus enterprise and any color there would be helpful. Thanks.

David D. Ossip

Chairman & Chief Executive Officer, Dayforce, Inc.

A

In the mid-market, which we call major markets and as well in our enterprise space, which goes up to 12,000, what we are seeing is the simplicity at scale again, that on average 12 different systems to 1 Dayforce system seems to be the kind of the theme in the market, what we're hearing from both prospects and customers. They ask about more automation, less integration, less manual work, less FTEs, more efficiencies, seems to be quite topical at the moment.

Kevin Kumar

Analyst, Goldman Sachs & Co. LLC

Q

Very helpful. Thank you.

Unverified Participant

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

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