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Carrie Johnson

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Tyson Seely

CONFERENCE CALL PARTICIPANTS

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Anja Marie Theresa Soderstrom Sidoti & Company, LLC - Senior Equity Research Analyst

Vincent Alexander Colicchio Barrington Research Associates, Inc., Research Division - MD

PRESENTATION

Operator

Good day, ladies and gentlemen, and thank you for standing by. Welcome to the Forrester Research First Quarter 2022 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. (Operator Instructions) As a reminder, this conference call is being recorded. (Operator Instructions) At this time, I would like to turn the conference over to Mr. Chris Finn.

Chris Finn

Hi, everyone. Before we begin, I want to quickly introduce Tyson Seely, our new Vice President of Investor Relations. Tyson joins us from Keurig Dr. Pepper, where he ran Investor Relations for the last three years, and prior to that, he was in IR and financial planning and analysis at Pinnacle Foods. We're very excited to have him on board and look forward to leveraging his expertise as we ramp up our Investor Relations function. Welcome, Tyson.

Tyson Seely

Thank you, Chris, and hello, everyone. Thanks for joining today's call. I'm very happy to be here with Forrester and look forward to making connections with all of you. Earlier this afternoon, we issued our press release for the first quarter of 2022. If you need a copy, you can find one on our website in the Investors section. I'm joined this afternoon by our Chairman of the Board and CEO, George Colony, and Forrester's Chief Financial Officer, Chris Fenn.

George will open the call this afternoon, and Chris will follow with a financial update. We'll then go into Q&A. Kelley Hippler, Chief Sales Officer; and Carrie Johnson, Chief Product Officer, will also join us for the Q&A portion of the call.

Before we begin, I'd like to remind you that this call will contain forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Words such as expects, believes, anticipates, intends, plans, estimates, or similar expressions are intended to identify these forward-looking statements. These statements are based on the company's current plans and expectations and involve risks and uncertainties that could cause future activities and results of operations to be materially different from those set forth in the forward-looking statements. Factors that could cause actual results to differ are discussed in our reports and filings with the Securities and Exchange Commission, and the company undertakes no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

Lastly, consistent with our previous calls, today we will be discussing our performance on an adjusted basis, which excludes items affecting comparability. While reporting on an adjusted basis is not in accordance with GAAP, we believe that reporting numbers on this adjusted basis provides a meaningful comparison and an appropriate basis for our discussion. You can find a detailed list of items excluded from these adjusted numbers in our press release. And with that, I'll hand it over to George.

George F. Colony - Forrester Research, Inc. - Founder, Chairman, CEO & President

Thank you for joining Forrester's Q1 2022 investor call. We are very excited to have Tyson joining the Forrester team. Welcome, Tyson.

Foster came out of the gate strong in Q1. Momentum of 2021 continued as we delivered our third consecutive quarter of double-digit CV growth. In Q1, we produced double-digit revenue growth, headlined by a 14% increase in research revenue. Wallet retention improved to 103%, CV increased by 15%, helping us deliver adjusted EPS of $0.45, exceeding our high-end guidance by $0.11, and Chris will provide more color in a few minutes. Forrester's sustained CV growth is partially driven by the success of our recently launched flagship research product, Forrester decisions.

As a reminder, Forrester Decisions combine the best of Forrester and SiriusDecisions research. It constitutes a unified portfolio of 15 different research services built around business and technology personas and their critical priorities. Since its launch in August 2021, the portfolio has become the fastest-growing product in Forrester's history, winning new logos and migrating existing clients from the legacy Forrester and SiriusDecisions research products. The salesforce has enthusiastically embraced Forrester Decisions. The product is selling at list price and the vast majority of clients have opted into multiyear deals, 5 to 6 priorities lay out the critical imperatives for each services persona. The priorities were constructed based on hundreds of customer interviews, and they have made Forrester Decisions easier to sell and to buy. The priorities are a shortcut to value for clients.

And in addition, they create a clear research agenda for the analysts that serve Forrester Decisions clients. To drive excellent customer experiences with our new portfolio, we made enhancements in Q1 to the Forrester Decisions user interface and search functionality, and we continue to streamline how our clients find relevant research. Between search, the priority architecture, and site organization, clients can get to value faster. Quarterly visits to the site are up 42%.

In addition, Forrester Decisions inquiry and guidance sessions are enabling clients to directly apply our research. And here's a quote from the CMO of a large commercial bank. Forrester Decisions [seats] are must-have for all of my direct reports during the bank's next budget cycle. I have already added two seats for team members who are involved in our analyst conversations. So as noted on previous calls, we will be continually improving the product and finding innovative ways of delivering our research. Benchmarks and forecasts have been added as content categories, and we expect to create additional features and value over time. Forrester Decisions will become our power platform, the most important product in our CV growth engine. Before I move on, I would like to highlight some of the key research we published in Q1.

In March, a research team analyzed the much height Web3. The report concluded that many of the underlying Web3 technologies and premises will never be fully workable and the CIOs and CMOs should adopt a posture of educated awareness. Forrester has been assembling a portfolio of research to prepare Forrester's clients for potential cybersecurity attacks that we expect to be launched in the West as a result of the Russia-Ukraine war. And finally, a group of analysts published an in-depth analysis of the metaverse, concluding that the technology is (inaudible) at best. Now that said, large company executives should engage in aggressive experimentation to prepare for possible internal and customer applications that could emerge in the next five years.

As these examples demonstrate, Forrester is unafraid to make objective calls on emerging technology, running against the grain of media, venture capital, and vendor hype. And finally, I'm happy to report that the White House announced two weeks ago that the federal government will be using Forrester's CX Index to measure its department and overall citizen experience. Its goal is to move from the bottom of the CX Index to the top 10% over the next four years. Forrester has been working with the U.S. government for many years, and we are very happy that it has now decided to embed our methodologies to accurately measure and improve its digital and physical experiences.

Turning now to our events business. Earlier this week at Austin, Texas, Forrester hosted its annual B2B North America Summit. And this was Forrester's first in-person event since November of 2019. Attendees were excited to be together, and they are very highly engaged. All of our events for 2022 are planned to be hybrid, in-person running concurrently with virtual. We had over 1,500 attendees at Summit with over 100 in-person sponsors. In addition to bringing back physical events, Forrester fully reopened 18 offices globally in Q1 after more than two years of being closed. Forresterites around the globe are embracing the spirit of our new anywhere work policy, which empowers employees to decide when and how often to be in the office, depending on their needs. We believe this is not only the right approach for our people but also for our business. Our research shows that companies embracing similar policies have happier, more engaged employees with attrition running lower than average rates.

Now it is a challenging hiring environment. And as you know, Forrester is looking to expand headcount by double digits in the year. After spiking in 2021, attrition across all departments is dropping, and we are expecting that in 2022, the company will return to our pre-pandemic levels. Anywhere work is helping us with talent acquisition, and we've expanded our hiring staff to enable the company to extend its research and sales capacity. Overall, company headcount was up 7% in Q1 as compared to Q1 of 2021.

I'm pleased to share two new additions to the Forrester team. First, Sarah Le Roy has joined us as our new Chief People Officer. Sarah has had a very distinguished career, most recently as the Chief Human Resources Officer at RSA Security. She will play a key role in expanding our ability to attract and retain top talent and our background extends to compensation, diversity inclusion, and training and development.

I would also like to welcome Warren Romine to Forrester's Board. As we scale our company and continue to drive contract value growth, we look forward to benefiting from Warren's deep expertise in leading investment banking, finance, and M&A functions. Warren joins as the eighth independent Board member out of a full board of nine members.

And finally, in celebration of Earth Day, we announced our plan to reduce Forrester's carbon emissions from 2019 to 2025 by 50%, and anywhere work will be a big part of that story. Before I turn the call over to Chris, I'd like to take a moment to discuss the Russia-Ukraine war. Four years ago, we made the decision to not expand our business into Russia, and we have no staff, offices or significant business in that country. That said, we did have several clients controlled by Russian companies. In the quarter, we made the decision to sever those relationships. We have stated publicly that as a company, we stand with international sanctions levied against Russia in response to its invasion of Ukraine.

Additionally, I'm very proud of Forresterites who collectively raised a substantial sum for humanitarian relief in Ukraine, one of the largest fundraising efforts in our history. So to conclude, we are very pleased with our performance in the first quarter as we continue to increase contract value at double-digit rates. I'm especially proud of how the Forrester teams are staying focused on helping our clients navigate the challenges of the pandemic, inflation, and the war in Europe. We continue to be on their side and by their side. And now I'd like to turn the call over to Chris Fin, Forrester's CFO. Chris?

Chris Finn

Thanks, George, and thanks again to everyone for joining us. There is no question that the year is off to a great start. As George mentioned, we delivered strong CV growth of 15% in the quarter and overall revenue growth of 10%, driven by the strength in our research business. In the quarter, we exceeded our guidance for revenue, adjusted operating margin and adjusted EPS. Specifically, for the first quarter, our key metrics continue to be strong with improvements in wallet and client retention compared to the prior year period. Sales productivity also continued to increase, and I'm encouraged by our growth in sales headcount.

Let me walk you through our results in more detail, starting with revenue. Total revenue increased 10% to $125 million compared to $113.8 million in the prior year period. As I indicated, this growth was largely driven by our research business. Specifically, research revenues increased 14% compared to the first quarter of 2021 as a result of the aforementioned double-digit growth in CV. Further, wallet retention increased 14 points compared to Q1 of last year and was up 1 point over our previous quarter, representing our sixth sequential quarter of wallet retention growth. Client retention and client count were also both up from Q1 of last year. Although (inaudible) decline slightly from Q4 due to elevated churn within our smaller vendor clients. To this end and looking forward, we believe there may be continued noise around client count and retention as we migrate our legacy base to the Forrester Decisions platform. But with that said, our wallet retention metric continues to improve, showing that we are keeping and enriching our larger clients.

Part of the enrichment story has been the success of our Forrester Decisions platform as clients that migrate to our new platform have shown strong enrichment. Let me provide a quick comment on our CV metric. We have calculated the current quarter CV at the 2022 foreign currency rates that we use internally. And for comparative purposes, we have recast our historical CV at these 2022 rates. We have publicly updated CV metric on a quarterly basis going back to the first quarter of 2020 in the investor presentation on our website. Our consulting business posted revenues of $38.4 million, which were essentially flat compared to the prior year as our analysts continue to shift a portion of their focus to delivering on our fast-growing CV business.

And finally, in terms of our events business, we had minimal revenue as we did not hold any events during the quarter. We look forward to talking to you more about this segment of our business as the year unfolds, and we are certainly encouraged by the prospect of holding hybrid events this year. As George mentioned, we just completed our first hybrid event, B2B Summit this week in Austin. Continuing down our P&L, adjusted operating expenses for the first quarter increased by 12%, driven by higher headcount and increased compensation costs.

To be more specific, for the first quarter, headcount was up 7% compared to the same period in 2021, which was in line with our projected head count for the quarter. As a result of these increased expenses, adjusted operating income declined by 7% to $13.1 million or 10.5% of revenue in the current quarter compared to $14 million or 12.3% of revenue in the first quarter of 2021. Interest expense for the quarter was $0.6 million as compared to $1.1 million in the first quarter of 2021. This reduction was driven by lower outstanding debt. Finally, adjusted net income of $8.6 million and adjusted earnings per share of $0.45 were flat compared to the same period last year.

Turning now to our cash flow and our balance sheet. During the first quarter of 2022, cash flow from operating activities was $22.7 million and capital expenditures were $1.3 million. Given this strong performance, we ended the quarter with nearly $132 million of cash and investments. From a capital structure standpoint, we paid down $15 million of our revolver during the first quarter, leaving us with $60 million of outstanding debt. We also purchased $9.5 million of our common stock, leaving us with approximately $80 million of our stock repurchase authorization as of March 31st. We intend to remain opportunistic with our stock repurchase program during 2022.

Given all of that, I'll now walk you through what we are expecting over the rest of the year and provide some additional commentary. We have good momentum coming out of the first quarter, although there are still many macroeconomic uncertainties in the balance of the year. We did a good job in the quarter navigating these challenges and hiring new talent in what remains a difficult environment for talent acquisition. Given the ongoing war in Europe, COVID-related challenges and record inflation rates, which all lead to rising recession risks, we remain cautiously optimistic looking ahead to the rest of the year. As we have indicated previously, we do expect some lumpiness across the quarters on a top line basis. Specifically, for the full year, we continue to expect FX [head winds] to reduce revenue growth by approximately 1% to 2% with an insignificant effect on adjusted operating margin.

Also, as I mentioned on our last call, a portion of our research revenue is recognized as we deliver it, such as our reprint product and the advisory and event tickets that are included in certain of our research subscriptions. This revenue can be uneven and was higher than expected in the first quarter. Due to the uneven nature of this revenue, along with current macroeconomic risk, we do not expect the revenue beat in the first quarter to carry over for the full year.

I'll now provide commentary on our expectations for top line growth for our segments. In our Research business, for the second quarter, we expect high single to low double-digit growth. And for the full year, we expect low double-digit growth on the strength of our CV growth in 2021 and our projected CV bookings for 2022. For our consulting business, we expect revenue to continue to be flat to down in the second quarter with double-digit growth in the second half as we ramp capacity and mid-to-high single-digit growth for the full year.

Finally, for our events business, our revenue guidance includes a presumption that we will continue to be able to hold hybrid events during the year, which is highly dependent on local conditions in each of the jurisdictions where we hold events. As previously mentioned, we just wrapped up our first hybrid event and are planning for our second significant hybrid event later in June. Given all of this, we expect second quarter revenue to increase 160% to 170% compared to prior year, and we expect event revenue for the full year to approximately double compared to 2021. As we move through the year, we will revisit the event's revenue outlook based on changing macro environment conditions.

In the second quarter, given everything I just walked through, we expect total revenue of $144 million to $148 million and for the full year, we continue to expect total revenue to be $550 million to $560 million. In terms of other guidance, in the second quarter of 2022, we expect our adjusted operating margin to be 14% to 16%, and we continue to expect our full-year adjusted operating margin to be 11.5% to 12.5%. Given the post-pandemic ramping of the business, along with our ongoing investment initiatives to drive growth. We also continue to expect interest expense at $2.5 million for the year as our lower debt balance sheet offsets expected increases in rates.

In the second quarter and for the full year of 2022, we continue to expect an adjusted effective tax rate of 30%. Finally, for the second quarter, we expect our adjusted EPS to be in a range of $0.70 to $0.76 and we continue to hold our guidance for the full year in the range of $2.25 to $2.35. Given the strong performance that we posted today, we have the potential to raise this guidance later in the year, but given the macro-environment that both George and I have spoken to, we are holding our original guidance for the full year at this point.

In summary, Forrester is off to a great start to the year, with Forrester Decisions performing well, our talent acquisition engine, bringing new employees to drive our growth, and excellent CV and revenue growth. While there are still many macro headwinds, both geopolitical and economic, we are confident in the guidance we have put out today and our ability to navigate through these challenges to deliver on our commitments.

Finally, I continue to be extremely thankful to all our employees for their work to drive these strong results. With that, let me hand it back over to the operator for any questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question or comment comes from the line of Andrew Nicholas from William Blair.

Andrew Owen Nicholas - William Blair & Company L.L.C., Research Division - Analyst

I wanted to start by touching on a few references in your prepared remarks and in the release about the macro headwinds. I understand that -- that would make sense, certainly in terms of conservatism for the rest of the year. But I'm just curious, are you seeing anything kind of with boots on the ground now in terms of those headwinds impacting your business? Obviously, it doesn't look like that in terms of the first-quarter results, but thinking about maybe the first four or five weeks of the year, that's leading you to mention that? Or organic, just tied to conservation through year-end?

Chris Finn

Yes, thanks. This is Chris. That's a good question. So yes, as we indicated in the call, I think there's still a lot of uncertainties in the current environment, as we mentioned, Ukraine, Russian war, COVID driving continued lockdowns in Asia and elsewhere, height inflation, a tight labor market, the risk of recession. I think really, it's given that it's still early in the year, our view is that it's a prudent course to really just hold our guidance at this juncture, given all the uncertainties, we do have full confidence that we can navigate all these challenges that we've done over the last three years and believe we can deliver on the guidance that we reiterated today with the possibility of updating the guidance later in the year, as we noted. But at this point, we're just taking the stance that we're going to wait and see how these uncertainties unfold. And I'd call out that a large part of our top and bottom-line beat this quarter was also driven by the one-time revenues we noted. And there's not necessarily things that are going to repeat per se and can cause some lumpiness in our results. And we were conservative in forecasting those items in the first quarter. We continue to be conservative as we forecast those items going forward.

George F. Colony - Forrester Research, Inc. - Founder, Chairman, CEO & President

Andrew, I think we think we believe there'll be more clarity after Q2. So we'll give you a better direction then.

Andrew Owen Nicholas - William Blair & Company L.L.C., Research Division - Analyst

All right. Great. And then I just wanted to spend a little bit of time for my follow-up question on Forrester Decisions. I think, George, in your prepared remarks, you talked about it being a benefit to both upsells but also new logos. Is there a benefit that's disproportionate between the two that you're seeing from Forrester Decisions? Or is it pretty broad-based across all those different types of growth vectors?

Carrie Johnson

Andrew, this is Carrie Johnson. If we're talking about the sort of split between new business versus existing migrations, the bulk of Forrester -- well, it's both, but we are seeing really healthy uptake from our existing client base, and that's where we're seeing a lot of the bookings benefits to revenue benefit where those deals are mostly multiyear selling at or above list price, and they're also a pretty healthy contract value increase as they migrate to the new portfolio.

Operator

Our next question comment comes from the line of Vincent Colicchio from Barrington Research.

Vincent Alexander Colicchio - Barrington Research Associates, Inc., Research Division - MD

Yes. Good quarter, guys. Yes, I'm curious, your contract value very, very strong year-over-year growth. Sequential growth slowed a little bit. I'm wondering if that's -- is there anything to look into that? Or should it pick up again in the Q2? And that's my question.

George F. Colony - Forrester Research, Inc. - Founder, Chairman, CEO & President

Yes, Vincent, I think we did see good strong growth in contract value and our expectation is as we move forward, we'll see that pick up, obviously, in revenue as we move forward.

Vincent Alexander Colicchio - Barrington Research Associates, Inc., Research Division - MD

And then I'm curious, for Forrester Decisions, are you seeing the strength, is it broad across all the functional areas you're targeting? Or are there some like many things in life, some areas where you're seeing a lot more strength than others?

Carrie Johnson

Vince, this is Cary. I'll take this one, too. We're seeing -- we're really pleased with the size of every single service right now, and we're seeing some strength in some of our services that we've -- like customer experience and B2B marketing executives in particular. But overall, every service has cleared a threshold there sort of booking threshold that we were looking for. Very pleased with it across the board.

Vincent Alexander Colicchio - Barrington Research Associates, Inc., Research Division - MD

And then, Kelly, are you continuing to see a return of new clients that had left in the pandemic?

Carrie Johnson

Thank you, Vincent, for the question. In terms of our win backs, we do continue with that program, and we are continuing to win back clients not at the same rate as pre-pandemic because, thankfully, we've been retaining more of them. But our win-back efforts to continue and that is contributing to the strength of our new business efforts.

Vincent Alexander Colicchio - Barrington Research Associates, Inc., Research Division - MD

Okay, I will go to the queue.

George F. Colony - Forrester Research, Inc. - Founder, Chairman, CEO & President

We're all just coming back from Summit, Vincent. And there are a number of clients there who -- they were former (inaudible) plan to drop off, they've come back to us now. So I think the events go back to being in person, that's helping us reconnect and that's bringing those clients back into our fold, which is best.

Vincent Alexander Colicchio - Barrington Research Associates, Inc., Research Division - MD

Okay. I'll go back to the queue. Nice quarter. Thanks.

Operator

Our next question or comment comes from the line of Anja Marie Soderstrom from Sidoti.

Anja Marie Theresa Soderstrom - Sidoti & Company, LLC - Senior Equity Research Analyst

Congratulations on another great quarter. First, I'm just curious, the number of clients declined sequentially. Is there anything to call out there?

Unidentified Company Representative

Yes. Thanks, (inaudible). So yes, as we move forward, I think as we move through the transition of the base of legacy clients over to Forrester Decisions, we do expect to see some lumpiness in a number of clients in (inaudible) retention. I think we went down sequentially from 78% to 77% on retention and number of clients did dip slightly, but we do expect to be in the high 70s as we continue and go through that migration. As we said before, we're looking at essentially approximately 1/3 of CV to being FD this year, and we're still very much on track at those targets.

George F. Colony - Forrester Research, Inc. - Founder, Chairman, CEO & President

There was some seasonality...

Anja Marie Theresa Soderstrom - Sidoti & Company, LLC - Senior Equity Research Analyst

Okay. And is there any sort of time frame when you expect all the legacy to have transitioned on to the Forrester Decisions or...

Carrie Johnson

We're still -- Anja, this is Cary. We're still determining the total time line for that. We have -- we're still selling some of our core legacy products. We have discontinued some, but our core research products actually are still available for purchase. So we'll probably have more information for you at the next call on that.

Anja Marie Theresa Soderstrom - Sidoti & Company, LLC - Senior Equity Research Analyst

Okay. And then I'm just curious, you mentioned the risks you are seeing and you mentioned the recession. How do you get there in the last recession?

George F. Colony - Forrester Research, Inc. - Founder, Chairman, CEO & President

What was the last part of that?

Anja Marie Theresa Soderstrom - Sidoti & Company, LLC - Senior Equity Research Analyst

(technical difficulty)

George F. Colony - Forrester Research, Inc. - Founder, Chairman, CEO & President

In OA, we put free cash right through that recession. Yes, revenue was down maybe someone in the room can help me with this, probably was down 3% or so, 3% to 4%. It wasn't down that much, and we flowed free cash throughout the OA recession. Obviously, [it was easy, good] way back here, [OO] recession was much more difficult for us because that was a tech recession essentially. But as I said, I think on the last call, the -- our clients are looking for us -- looking to us to help them through [higher] inflation. There's a change in budgeting, which we help them with budgets during recessions. So we are affected, but in times of change and times of challenge that tends to stimulate some -- a good retention of research. So -- so revenue -- our FP&A guys running is down the board now. We were down 3% in revenue in (inaudible), strong cash in that recession. (inaudible) Manage.

Chris Finn

Yes. It's early in the year... I think that's the point we're making at this juncture. So it's a little bit to wait to your [approach].

Anja Marie Theresa Soderstrom - Sidoti & Company, LLC - Senior Equity Research Analyst

Yes. Yes, I understand... That was all from me.

Operator

Thank you. I'm showing no additional questions in the queue at this time. I'd like to turn the conference back over to Mr. Tyson Seely for any closing remarks.

Tyson Seely

Thank you, Howard, and thank again everyone for joining us today. As I said upfront, it really is a pleasure to be here at Forrester, and I'm excited to get the opportunities ahead for all of us. I'll be around and available this evening and for tomorrow, next week. So please follow up and reach out with any questions. Thank you.

George F. Colony - Forrester Research, Inc. - Founder, Chairman, CEO & President

Thank you very much, everyone.

Operator

Ladies and gentlemen, thank you for participating in today's conference. This concludes the program. You may now disconnect. Everyone, have a wonderful day.