VEEVA SYSTEMS INC
Form 10-Q
June 04, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

x Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended April 30, 2015

or

¨ Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from to .

Commission File Number: 001-36121

Veeva Systems Inc.

(Exact name of registrant as specified in its charter)

Delaware	20-8235463
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

4637 Chabot Drive, Suite 210

Pleasanton, California 94588

(Address of principal executive offices)

(925) 452-6500

(Registrant's telephone number, including area code)

N/A

(Former name, former address and former fiscal year, if changed since last report)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

As of May 27, 2015, there were 71,900,022 shares of the Registrant's Class A common stock outstanding and 59,842,893 shares of the Registrant's Class B common stock outstanding.

VEEVA SYSTEMS INC.

FORM 10-Q

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This report contains forward-looking statements that are based on our beliefs and assumptions and on information currently available to us. Forward-looking statements include information concerning our possible or assumed future results of operations and expenses, business strategies and plans, trends, market sizing, competitive position, industry environment and potential growth opportunities, among other things. Forward-looking statements include all statements that are not historical facts and, in some cases, can be identified by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "potential," "predicts," "projects," "seeks," "should," "will," "woul expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements, including those described in "Risk Factors" and elsewhere in this report. Given these uncertainties, you should not place undue reliance on these forward-looking statements.

Any forward-looking statement made by us in this report speaks only as of the date on which it is made. Except as required by law, we disclaim any obligation to update these forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

As used in this report, the terms "Veeva," "Registrant," "we," "us," and "our" mean Veeva Systems Inc. and its subsidiaries unless the context indicates otherwise.

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.
VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except number of shares and par value)

	April 30, 2015 (Unaudited)	January 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 107,561	$ 129,253
Short-term investments	320,947	268,620
Accounts receivable, net of allowance for doubtful accounts of $404 and $413, respectively	70,217	92,661
Deferred income taxes	4,815	4,815
Other current assets	6,235	6,488
Total current assets	509,775	501,837
Property and equipment, net	35,173	28,203
Capitalized internal-use software, net	1,075	1,240
Goodwill	11,075	4,850
Intangible assets, net	7,790	4,904
Other long-term assets	3,775	3,856
Total assets	$ 568,663	$ 544,890
Liabilities and stockholders' equity		
Current liabilities:		
Accounts payable	$ 5,288	$ 3,886
Accrued compensation and benefits	6,347	6,497
Accrued expenses and other current liabilities	8,409	8,939
Income tax payable	5,823	3,241
Deferred revenue	111,276	112,960
Total current liabilities	137,143	135,523
Other long-term liabilities	2,570	2,534
Total liabilities	139,713	138,057
Commitments and contingencies (Note 12)		
Stockholders' equity:		
Class A common stock, $0.00001 par value; 800,000,000 shares authorized, 71,381,462 and 64,729,479 issued and outstanding at April 30, 2015 and January 31, 2015, respectively	1	—

Class B common stock, $0.00001 par value; 190,000,000 shares authorized, 60,255,819 and 66,338,146 issued and outstanding at April 30, 2015 and January 31, 2015, respectively	—	1
Additional paid-in capital	327,027	317,881
Accumulated other comprehensive income	15	26
Retained earnings	101,907	88,925
Total stockholders' equity	428,950	406,833
Total liabilities and stockholders' equity	$ 568,663	$ 544,890

See Notes to Condensed Consolidated Financial Statements.

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VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

	Three Months Ended April 30,	
	2015	2014
	(Unaudited)	
Revenues:		
Subscription services	$68,894	$48,521
Professional services and other	21,029	18,200
Total revenues	89,923	66,721
Cost of revenues[1]:		
Cost of subscription services	15,873	12,040
Cost of professional services and other	16,112	13,910
Total cost of revenues	31,985	25,950
Gross profit	57,938	40,771
Operating expenses[1]:		
Research and development	12,957	8,992
Sales and marketing	15,496	12,814
General and administrative	8,560	6,408
Total operating expenses	37,013	28,214
Operating income	20,925	12,557
Other income (expense), net	763	(30)
Income before income taxes	21,688	12,527
Provision for income taxes	8,706	5,306
Net income	$12,982	$7,221
Net income attributable to Class A and Class B common stockholders, basic and diluted	$12,964	$7,128
Net income per share attributable to Class A and Class B common stockholders:		
Basic	$0.10	$0.06
Diluted	$0.09	$0.05
Weighted-average shares used to compute net income per share attributable to Class A and Class B common stockholders:		
Basic	131,163	123,902
Diluted	144,734	142,849
Other comprehensive income:		
Net change in unrealized gains (losses) on available-for-sale investments	$(3)	$46
Net change in cumulative foreign currency translation gain (loss)	(8)	(34)
Comprehensive income	$12,971	$7,233

(1) Includes stock-based compensation as follows:

Cost of revenues:		
Cost of subscription services	$111	$53
Cost of professional services and other	742	582
Research and development	1,383	887
Sales and marketing	1,120	776
General and administrative	1,443	958
Total stock-based compensation	$4,799	$3,256

See Notes to Condensed Consolidated Financial Statements.

VEEVA SYSTEMS INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three Months Ended	
	April 30,	
	2015	2014
	(Unaudited)	
Cash flows from operating activities		
Net income	$12,982	$7,221
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	1,024	930
Amortization of premiums on short-term investments	763	312
Stock-based compensation	4,799	3,256
Bad debt expense (recovery)	(7)	28
Changes in operating assets and liabilities:		
Accounts receivable	23,536	(2,812)
Income taxes	2,862	(2,678)
Other current and long-term assets	33	(1,861)
Accounts payable	(760)	912
Accrued expenses and other current liabilities	(1,336)	5,318
Deferred revenue	(2,197)	7,492
Other long-term liabilities	92	12
Net cash provided by operating activities	41,791	18,130
Cash flows from investing activities		
Purchases of short-term investments	(100,837)	(135,116)
Maturities and sales of short-term investments	47,744	3,867
Purchases of property and equipment	(4,710)	(299)
Acquisitions, net of cash acquired	(9,987)	—
Capitalized internal-use software development costs	(22)	(220)
Payments for restricted cash and deposits	1	(3)
Net cash used in investing activities	(67,811)	(131,771)
Cash flows from financing activities		
Proceeds from early exercise of common stock options	8	—
Proceeds from exercise of common stock options	1,162	685
Net proceeds from offerings	—	34,994
Restricted stock units acquired to settle employee tax withholding liability	(4)	—
Excess tax benefits from employee stock plans	3,169	4,379
Net cash provided by financing activities	4,335	40,058
Effect of exchange rate changes on cash and cash equivalents	(7)	(36)
Net change in cash and cash equivalents	(21,692)	(73,619)
Cash and cash equivalents at beginning of period	129,253	262,507
Cash and cash equivalents at end of period	$107,561	$188,888
Supplemental disclosures of other cash flow information:		

Cash paid for income taxes, net of refunds	$2,642	$3,918
Non-cash investing and financing activities:		
Changes in accounts payable and accrued liabilities related to property and equipment purchases	$2,482	$69
Vesting of early exercised stock options	$17	$119
Offering costs not yet paid	$—	$515

See Notes to Condensed Consolidated Financial Statements.

VEEVA SYSTEMS INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Business and Significant Accounting Policies
Description of Business

Veeva is a leading provider of cloud-based software solutions for the global life sciences industry. We were founded in 2007 on the premise that industry-specific business problems would best be addressed by tailored cloud solutions, an approach referred to as industry cloud. All of our solutions are designed from the ground up to address the unique business and regulatory requirements of the life sciences industry. We enable life sciences companies to realize the benefits of a cloud delivery model and modern mobile applications for their most critical business functions with solutions that meet their specialized functional and compliance needs. Our fiscal year end is January 31.

Principles of Consolidation and Basis of Presentation

These unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (GAAP) and applicable rules and regulations of the Securities and Exchange Commission (SEC) regarding interim financial reporting, and include the accounts of our wholly owned subsidiaries after elimination of intercompany accounts and transactions. Certain information and note disclosures normally included in the financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. Therefore, these condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in Veeva's Annual Report on Form 10-K for the fiscal year ended January 31, 2015, filed on April 1, 2015. There have been no changes to our significant accounting policies described in the annual report that have had a material impact on our condensed consolidated financial statements and related notes.

The consolidated balance sheet as of January 31, 2015 included herein was derived from the audited financial statements as of that date. These unaudited condensed consolidated financial statements reflect all normal recurring adjustments necessary to present fairly the financial position, results of operations, our comprehensive income and cash flows for the interim periods, but are not necessarily indicative of the results of operations to be anticipated for the full fiscal year ending January 31, 2016 or any other period.

Use of Estimates

The preparation of condensed consolidated financial statements in conformity with GAAP requires us to make estimates, judgments and assumptions that affect the condensed consolidated financial statements and the notes thereto. These estimates are based on information available as of the date of the condensed consolidated financial statements. On a regular basis, management evaluates these estimates and assumptions. Significant items subject to such estimates and assumptions include, but are not limited to:

the best estimate of selling price of the deliverables included in multiple-deliverable revenue arrangements;
the collectibility of our accounts receivable;
the fair value of assets acquired and liabilities assumed for business combinations;
the valuation of short-term investments and the determination of other-than-temporary impairments;
the valuation of building and land;
the realizability of deferred income tax assets;

- the fair value of our stock-based awards and related forfeiture rates; and
- the capitalization and estimated useful life of internal-use software development costs.

As future events cannot be determined with precision, actual results could differ significantly from those estimates.

Revenue Recognition

We derive our revenues from two sources: (i) subscription services revenues, which are comprised of subscription fees from customers accessing our enterprise cloud computing solutions, and (ii) related professional services and other revenues. Professional services and other revenues generally include consulting, data services and training. We commence revenue recognition when all of the following conditions are satisfied:

- there is persuasive evidence of an arrangement;
- the service has been or is being provided to the customer;
- the collection of the fees is reasonably assured; and
- the amount of fees to be paid by the customer is fixed or determinable.

Our subscription services arrangements are generally non-cancellable and do not provide for refunds to customers in the event of cancellations. We record revenues net of any sales taxes.

Subscription Services Revenues

Subscription services revenues are recognized ratably over the order term beginning when the solution has been provisioned to the customer. Our subscription arrangements are considered service contracts, and the customer does not have the right to take possession of the software.

Professional Services and Other Revenues

The majority of our professional services arrangements are recognized on a time and material basis. Professional services revenues recognized on a time and material basis are measured monthly based on time incurred and contractually agreed upon rates. Certain professional services revenues are based on fixed fee arrangements and revenues are recognized based on progress against input measures, such as hours incurred. In some cases the terms of our time and materials and fixed fee arrangements may require that we defer the recognition of revenue until contractual conditions are met. Data services and training revenues are generally recognized as the services are performed.

Multiple Element Arrangements

We apply the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2009-13, Multiple—Deliverable Revenue Arrangements, to allocate revenues based on relative best estimated selling price to each unit of accounting in multiple element arrangements, which generally include subscriptions and professional services. Best estimated selling price of each unit of accounting included in a multiple element arrangement is based upon management's estimate of the selling price of deliverables when vendor specific objective evidence or third-party evidence of selling price is not available.

Our multiple element arrangements contain non-software deliverables such as our subscription offerings and professional services. For these arrangements we must: (i) determine whether each deliverable has stand-alone value; (ii) determine the estimated selling price of each element using the selling price hierarchy of vendor-specific objective evidence (VSOE) of fair value, third-party evidence (TPE) or best estimated selling price (BESP), as applicable; and (iii) allocate the total price among the various deliverables based on the relative selling price method.

In determining whether professional services and other revenues have stand-alone value, we consider the following factors for each consulting agreement: availability of the consulting services from other vendors, the nature of the consulting services and whether the professional services are required in order for the customer to use the subscription services.

We have determined that we are not able to establish VSOE of fair value or TPE of selling price for any of our deliverables, and accordingly we use BESP for each deliverable in the arrangement. The objective of BESP is to estimate the price at which we would transact a sale of the service deliverables if the services were sold on a stand-alone basis. Revenue allocated to each deliverable is recognized when the basic revenue recognition criteria are met for each deliverable.

We determine BESP for our subscription services included in a multiple element subscription arrangement by considering multiple factors including, but not limited to, stated subscription renewal rates offered to the customer to renew the service and other major groupings such as customer type and geography.

BESP for professional services considers the discount of actual professional services sold compared to list price, the experience level of the individual performing the service and geography.

Deferred Revenue

Deferred revenue includes amounts billed to customers for which the revenue recognition criteria have not been met. The majority of deferred revenue primarily consists of billings or payments received in advance of revenue recognition from our subscription services described above and is recognized as the revenue recognition criteria are met. We generally invoice our customers in annual, quarterly or monthly installments for the subscription services, which are typically contracted for a term of one year or less. Accordingly, the deferred revenue balance does not generally represent the total contract value of a subscription arrangement. Deferred revenue that will be recognized during the succeeding 12-month period is recorded as current deferred revenue.

Certain Risks and Concentrations of Credit Risk

Our revenues are derived from subscription services, professional services and other services delivered primarily to the pharmaceutical and life sciences industry. We operate in markets that are highly competitive and rapidly changing. Significant technological changes, shifting customer needs, the emergence of competitive products or services with new capabilities and other factors could negatively impact our operating results.

Our financial instruments that potentially subject us to concentration of credit risk consist primarily of cash and cash equivalents, short-term investments and trade accounts receivable. Our cash equivalents and short-term investments are held in safekeeping by large, credit-worthy financial institutions. We have established guidelines relative to credit ratings, diversification and maturities that seek to maintain safety and liquidity. Deposits in these financial institutions may exceed federally insured limits.

We do not require collateral from our customers and generally require payment within 30 to 60 days of billing. We periodically evaluate the collectibility of our accounts receivable and provide an allowance for doubtful accounts as necessary, based on historical experience. Historically, such losses have not been material.

No single customer represented over 10% of accounts receivable in the condensed consolidated financial statements as of April 30, 2015 or January 31, 2015. No single customer represented over 10% of total revenues in the condensed consolidated financial statements for the three months ended April 30, 2015 and 2014.

Recent Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board (FASB) issued new accounting guidance Customer's Accounting for Fees Paid in a Cloud Computing Arrangement. This guidance is intended to help entities evaluate the accounting for fees paid by a customer in a cloud computing arrangement, primarily to determine whether the arrangement includes a sale or license of software. The new guidance is effective for annual periods, including interim periods within those annual periods, beginning after December 15, 2015. Early adoption is permitted. We have elected not to early adopt. The adoption of guidance is not expected to have a material impact on our condensed consolidated financial statements.

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, “Revenue from Contracts with Customers,” which requires revenue to be recognized when promised goods or services are transferred to customers in an amount that reflects the consideration that is expected to be received for those goods or services. ASU 2014-09 supersedes the existing revenue recognition guidance in “Revenue Recognition (Topic 605)” and will be effective for our fiscal year beginning February 1, 2017. Early adoption is not permitted. The standard permits the use of either the retrospective or cumulative effect transition method. We are evaluating the effect that ASU 2014-09 will have on our condensed consolidated financial statements and related disclosures. We have not yet selected a transition method nor have we determined the effect of the standard on our ongoing financial reporting.

Note 2. Acquisition of Qforma CrowdLink

On March 31, 2015, we completed our acquisition of the key opinion leader, or KOL, business and products known as Qforma CrowdLink in an all-cash transaction. We expect this acquisition to support our entry into the key opinion leader business. Total closing consideration for the purchase was $10.0 million in cash. Approximately 15% of the closing consideration has been placed into escrow to be held for 12 months following the close as security for losses incurred by us in the event of certain breaches of representations and warranties by the sellers and certain other losses. There are no contingent cash payments related to this transaction. As of April 30, 2015, we had incurred $0.3 million in acquisition-related transaction costs. The assets, liabilities and operating results of Qforma CrowdLink have been reflected in our consolidated financial statements from the date of acquisition and have not been material.

Through the transaction we acquired the outstanding equity interests of Mederi AG, and the selected other KOL-related business assets and liabilities of Qforma, Inc. and other affiliated entities. Under the acquisition method of accounting, the total preliminary purchase price was allocated to Qforma CrowdLink's net tangible and intangible assets based upon their estimated fair values as of March 31, 2015. The total preliminary purchase price for Qforma CrowdLink was $10.0 million of which $6.2 million was allocated to goodwill, $3.3 million to identifiable intangible assets and $0.5 million to net assets assumed. Goodwill represents the excess of the purchase price over the fair value of the underlying net tangible and intangible assets and represents the future economic benefits of the data technology contributions in support of our Veeva OpenData solution. Goodwill is not deductible for U.S. tax purposes.

The fair values assigned to assets acquired and liabilities assumed are based on management's best estimates and assumptions as of the reporting date and are considered preliminary pending finalization of valuation analyses pertaining to intangible assets assumed, liabilities assumed and tax liabilities assumed including calculation of deferred tax assets and liabilities. Changes to amounts recorded as assets or liabilities may result in corresponding adjustments to goodwill during the measurement period (up to one year from the acquisition date).

We did not record any in-process research and development in connection with the acquisition.

Each component of identifiable intangible assets acquired in connection with the above acquisition as of April 30, 2015 were as follows (dollar amounts in thousands):

	April 30, 2015	
	Estimated Fair Value	Estimated Useful Life (in years)
Existing technology	$200	5.0
Database	1,800	5.0
Customer relationships	800	4.0
Software	500	5.0
	$3,300	

Amortization expense associated with acquired intangible assets associated with Qforma CrowdLink identifiable intangible assets for the three months ended April 30, 2015 were not recorded as the amounts for the period were immaterial.

Pro forma results of operations have not been presented because the effect of this acquisition was not material to the consolidated financial statements.

Note 3. Short-Term Investments

We classify short-term investments as available-for-sale at the time of purchase and reevaluate such classification as of each balance sheet date. All short-term investments are recorded at estimated fair value. Unrealized gains and losses for available-for-sale securities are included in accumulated other comprehensive income, a component of stockholders' equity. We evaluate our investments to assess whether those with unrealized loss positions are other than temporarily impaired. We consider impairments to be other than temporary if they are related to deterioration in credit risk or if it is likely we will sell the securities before the recovery of their cost basis. Realized gains and losses and declines in value judged to be other than temporary are determined based on the specific identification method and are reported in other income (expense), net, in the condensed consolidated statements of comprehensive income. Interest, amortization of premiums, and accretion of discount on all short-term investments classified as available for sale are also included as a component of other income (expense), net, in the condensed consolidated statements of comprehensive income.

At April 30, 2015, short-term investments consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Asset-backed securities	$ 11,075	$ 2	$ (3)	$ 11,074
Commercial paper	3,396	—	—	3,396
Corporate notes and bonds	44,733	12	(14)	44,731
U.S. agency obligations	248,678	76	(19)	248,735
U.S. treasury securities	12,975	36	—	13,011
Total available-for-sale securities	$ 320,857	$ 126	$ (36)	$ 320,947

At January 31, 2015, short-term investments consisted of the following (in thousands):

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Available-for-sale securities:				
Asset-backed securities	$ 9,323	$ —	$ (4)	$ 9,319
Commercial paper	3,394	—	—	3,394
Corporate notes and bonds	45,990	18	(19)	45,989
U.S. agency obligations	199,822	92	(3)	199,911
U.S. treasury securities	9,999	8	—	10,007
Total available-for-sale securities	$ 268,528	$ 118	$ (26)	$ 268,620

We may sell our short-term investments at any time, without significant penalty, for use in current operations or for other purposes, even if they have not yet reached maturity. As a result, we classify our investments, including securities with maturities beyond 12 months, as current assets in the accompanying condensed consolidated balance sheets.

The following table summarizes the estimated fair value of our short-term investments, designated as available-for-sale and classified by the contractual maturity date of the securities as of the dates shown (in thousands):

	April 30, 2015	January 31, 2015
Due in one year or less	$ 250,106	$ 224,263
Due in greater than one year	70,841	44,357
Total	$ 320,947	$ 268,620

We have certain available-for-sale securities in a gross unrealized loss position, all of which have been in such position for less than 12 months. We review our debt securities classified as short-term investments on a regular basis to evaluate whether or not any security has experienced an other-than-temporary decline in fair value. We consider factors such as the length of time and extent to which the market value has been less than the cost, the financial position and near-term prospects of the issuer and our intent to sell, or whether it is more likely than not we will be required to sell the investment before recovery of the investment's amortized-cost basis. If we determine that an other-than-temporary decline exists in one of these securities, the respective investment would be written down to fair value. For debt securities, the portion of the write-down related to credit loss would be recognized to other income, net in our condensed consolidated statements of comprehensive income. Any portion not related to credit loss would be included in accumulated other comprehensive income. There were no impairments considered other-than-temporary as of April 30, 2015 and January 31, 2015.

The following table shows the fair values and the gross unrealized losses of these available-for-sale securities aggregated by investment category as of April 30, 2015 (in thousands):

	Fair Value	Gross Unrealized Losses
Asset-backed securities	$6,288	$ (3)
Corporate notes and bonds	32,560	(14)
U.S. agency obligations	49,511	(19)
U.S. treasury securities	999	—

The following table shows the fair values and the gross unrealized losses of these available-for-sale securities aggregated by investment category as of January 31, 2015 (in thousands):