

COMMERCEHUB, INC.

FORM 8-K (Current report filing)

Filed 08/02/17 for the Period Ending 08/02/17

| | |
|-------------|------------------------------------------------|
| Address | 201 FULLER ROAD, 6TH FLOOR ALBANY, NY 12203 |
| Telephone | 518-810-0700 |
| CIK | 0001665658 |
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| Industry | Software |
| Sector | Technology |
| Fiscal Year | 12/31 |

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

FORM 8-K

**CURRENT REPORT
Pursuant to Section 13 or 15(d)
of the Securities Exchange Act of 1934**

Date of Report (date of earliest event reported): **August 2, 2017**

COMMERCEHUB, INC.

(Exact name of registrant as specified in its charter)

Delaware

001-37840

81-1001640

(State or other jurisdiction of
incorporation or organization)

(Commission
File Number)

(I.R.S. Employer
Identification No.)

**201 Fuller Road, 6th Floor
Albany, New York 12203**

(Address of principal executive offices and zip code)

Registrant's telephone number, including area code: **(518) 810-0700**

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

- Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
- Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Indicate by check mark whether the registrant is an emerging growth company as defined in Rule 405 of the Securities Act of 1933 (§ 230.405 of this chapter) or Rule 12b-2 of the Securities Exchange Act of 1934 (§ 240.12b-2 of this chapter).

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Item 2.02. Results of Operations and Financial Condition

On August 2, 2017, CommerceHub, Inc. (the “Company”) issued a press release (the “Earnings Release”) disclosing information regarding the Company’s results of operations for the three months ended June 30, 2017, the Company’s financial condition as of June 30, 2017 and certain other financial and operating information.

This Item 2.02 and the Earnings Release attached hereto as Exhibit 99.1 are being furnished to the Securities and Exchange Commission and shall not be deemed “filed” for any purpose.

Item 9.01. Financial Statements and Exhibits

(d) Exhibits

| Exhibit No. | Name |
|-------------|-------------------------------------|
| 99.1 | Press Release, dated August 2, 2017 |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: August 2, 2017

COMMERCEHUB, INC.

By: /S/ MARK GREENQUIST

Name: Mark Greenquist

Title: Chief Financial Officer and Treasurer

EXHIBIT INDEX

| Exhibit No. | Name |
|-------------|-------------------------------------|
| 99.1 | Press Release, dated August 2, 2017 |



CommerceHub Announces Second Quarter 2017 Financial Results

*Revenue of \$25.2 million increases 9%, \$0.05 GAAP EPS, and \$0.08 adjusted EPS
Signs Top 10 U.S. Retailer and First U.K. Drop-Ship Retailer*

ALBANY, NY, August 2, 2017 – CommerceHub, Inc. (NASDAQ: CHUBA, CHUBK) (“CommerceHub,” “we,” “us,” “our” or the “Company”), a leading distributed commerce network for retailers and brands, today announced financial results for the quarter ended June 30, 2017.

“We are pleased with the solid second quarter results we announced today, including continued revenue growth and expanding profitability,” said Frank Poore, CommerceHub’s Founder, President and CEO. “We are excited to announce the addition of two strategic retailer customer wins during the quarter, making four year-to-date and delivering on the high-end of our goal of 2-4 new retailer customers per year. One is a top 10 U.S. retailer, and the other marks our first retail drop-ship customer in the U.K. The U.S. win demonstrates our market leadership and our ability to deliver high-volume drop-ship fulfillment at scale. The U.K. win establishes a beachhead for our drop-ship offerings and should help to further unlock the U.K. market for CommerceHub.”

“In addition to \$2.2 million of net income for the quarter, we generated \$8.6 million in adjusted EBITDA, representing 34 percent of revenue for the quarter and a 7 percentage point improvement over the same period last year. We also delivered strong free cash flow and continued to pay down debt, strengthening our net cash balance.” said Mark Greenquist, CommerceHub’s CFO. “We are pleased with our recent customer wins and believe this new U.S. retailer could eventually become a top 10 customer for CommerceHub.”

Second Quarter 2017 Financial Highlights

- **Revenue** was \$25.2 million, a 9% year-over-year increase from \$23.1 million in 2016. Core drop-ship revenue, which excludes revenue from our demand channel solutions, increased 14%.
 - **Gross margin** was 78%, compared to 77% in 2016.
 - **Adjusted gross margin** was 78%, compared to 75% in 2016.
 - **Net income** was \$2.2 million, or \$0.05 per diluted share, compared to \$4.4 million, or \$0.10 per diluted share, in 2016.
 - **Adjusted net income** was \$3.7 million, or \$0.08 per diluted share, compared to \$2.6 million, or \$0.06 per diluted share, in 2016.
 - **Adjusted EBITDA** was \$8.6 million, compared to \$6.3 million in 2016.
 - **Operating cash flow** was a positive \$7.1 million, compared to a negative \$73.3 million in 2016, which was impacted by a non-recurring cash payment of \$78.5 million in share-based compensation related to our spin-off from Liberty Interactive.
 - **Free cash flow** was a positive \$6.5 million, compared to a negative \$76.5 million in 2016.
 - **Cash** at quarter end was \$6.8 million and the total amount outstanding under our credit facility was \$6.0 million.
-

An explanation of the non-GAAP financial measures discussed above is included below under the heading "Statement Regarding Non-GAAP Financial Measures." A reconciliation of these non-GAAP financial measures to the closest comparable GAAP financial measures has also been provided in the financial tables included at the end of this press release.

Other Recent Highlights

- Total customer count at June 30, 2017 was 11,274, up from 9,730 at June 30, 2016, or 16% year-over-year.
- Drop-ship order volume growth was 17% in the second quarter.
- We expanded our CommerceHub for Retailers network with the signing of a top 10 U.S. retailer that we believe has the potential to become a top 10 customer for CommerceHub. This win is a conversion of an existing in-house drop-ship program, which we believe demonstrates the complexity of such programs and the value CommerceHub can deliver through increased operational efficiencies, improved customer service and capital-efficient expansion of product assortments .
- We signed our first U.K. retailer drop-ship customer. This is a mid-sized U.K. retailer seeking to expand its ecommerce business by leveraging CommerceHub's drop-ship model, while reducing inventory risk and operating costs.

Conference Call Details

The Company will offer a live conference call, and a live, listen-only webcast of the call via the CommerceHub Investor Relations website at 4:30 p.m., E.T., today, Wednesday, August 2, 2017. See <http://ir.commercehub.com/events.cfm>, where supporting materials, including a presentation and supplemental financial data, have been posted.

| | |
|-----------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Live Call: | U.S./Canada Toll-Free Participants Dial-in Number: (800) 219-6912 International Toll Participants Dial-in Number: (574) 990-1026 Conference ID/Passcode: 55684519 |
| Webcast (live and replay): | http://ir.commercehub.com/events.cfm |

About CommerceHub:

CommerceHub is a distributed commerce network connecting supply, demand and delivery that helps retailers and brands increase sales by expanding product assortments, promoting products on the channels that perform, and enabling rapid, on-time customer delivery. With its robust platform and proven scalability, CommerceHub helped over 10,000 retailers, brands, and distributors achieve an estimated \$13+ billion in Gross Merchandise Value in 2016.

Important Information Regarding Forward-Looking Statements

This press release contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995, including statements about future business strategies, future financial performance, market conditions and potential, future growth of ecommerce, customer growth, sales channel expansion, international expansion and other matters that are not historical facts. These statements involve many risks and uncertainties that could cause actual results to differ materially from those expressed or implied by such statements, including, without limitation, market acceptance and performance of our products and services, competitive issues, general market conditions, regulatory matters affecting our business and changes in law. These forward-looking statements speak only as of the date of this presentation, and we expressly disclaim any obligation or undertaking to disseminate any updates or revisions to any such statement contained herein to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based. There can be no assurance that any expectation or belief expressed in a forward-looking statement will occur, and you should not place undue reliance on any forward-looking statements. Please refer to our public filings with the Securities and Exchange Commission, including our Annual Report on Form 10-K for the fiscal year ended December 31, 2016, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, for additional information about us and the risks and uncertainties we face that may affect the forward-looking statements made in this press release.

Statement Regarding Non-GAAP Financial Measures

In addition to reporting financial measures calculated in accordance with U.S. generally accepted accounting principles (“GAAP”), we provide non-GAAP financial measures that management considers in reviewing our financial performance because we feel they are relevant measures of the overall efficiency of our business model. These non-GAAP financial measures are not a substitute for, or superior to, and should be considered only in addition to, financial measures calculated in accordance with GAAP. They are subject to inherent limitations and exclude significant expenses and income that are required by GAAP to be recorded in our financial statements. Certain of these adjustments are based on estimates and assumptions of management and do not purport to reflect actual historical results. In addition, you should be aware that our computation of these non-GAAP financial measures may not be comparable to other similarly titled measures computed by other companies, because all companies do not calculate these measures in the same fashion. We define “adjusted gross profit” as gross profit plus share-based compensation and acquisition-related intangible amortization. We define “adjusted gross margin” as adjusted gross profit divided by revenue. We define “adjusted operating expenses” as total operating expenses less share-based compensation and acquisition-related intangible amortization. We define “adjusted EBITDA” as net income or loss plus interest expense, income tax expense, depreciation of property and equipment, amortization of capitalized software costs and intangible assets and share-based compensation expense, less interest income and income tax benefit. We define “adjusted net income” as net income or loss plus share-based compensation, acquisition-related intangible amortization and the tax effect of these adjustments. We define “adjusted earnings per diluted share” or “adjusted EPS” as earnings per diluted share plus the diluted per share effects of share-based compensation, acquisition-related intangible amortization and the tax effect of these adjustments. We define “free cash flow” as net cash provided by, or used in, operating activities less purchases of property and equipment and additions to capitalized software. A reconciliation of these non-GAAP financial measures to the closest comparable GAAP financial measures has been provided in the financial tables included at the end of this press release.

CommerceHub Investor Relations Contact

Sara Leggat

investor@commercehub.com

Consolidated Statements of Operations

(in thousands except per share data)

(unaudited)

| | 3 months ended: | | 6 months ended: | |
|--------------------------------|-----------------|-----------|-----------------|-----------|
| | 6/30/2017 | 6/30/2016 | 6/30/2017 | 6/30/2016 |
| Revenue | \$ 25,208 | \$ 23,103 | \$ 49,776 | \$ 45,193 |
| Cost of revenue | 5,639 | 5,320 | 11,155 | 11,425 |
| Gross profit | 19,569 | 17,783 | 38,621 | 33,768 |
| Gross margin | 78% | 77% | 78% | 75% |
| Research and development | 6,396 | 3,444 | 12,311 | 8,314 |
| Sales and marketing | 2,387 | 2,384 | 4,318 | 6,001 |
| General and administrative | 6,945 | 4,675 | 13,884 | 15,199 |
| Operating expenses | 15,728 | 10,503 | 30,513 | 29,514 |
| Operating income | 3,841 | 7,280 | 8,108 | 4,254 |
| Interest (expense) income, net | (229) | 63 | (456) | 229 |
| Pre-tax income | 3,612 | 7,343 | 7,652 | 4,483 |
| Income tax expense | 1,367 | 2,919 | 2,948 | 2,049 |
| Net income | \$ 2,245 | \$ 4,424 | \$ 4,704 | \$ 2,434 |
| Earnings per share: | | | | |
| Basic | \$ 0.05 | \$ 0.10 | \$ 0.11 | \$ 0.06 |
| Diluted | \$ 0.05 | \$ 0.10 | \$ 0.10 | \$ 0.06 |
| Share count (1) : | | | | |
| Basic | 43,155 | 42,703 | 43,068 | 42,703 |
| Diluted | 44,957 | 42,703 | 44,842 | 42,703 |

(1) Share counts for pre-spin periods represent the shares issued at spin-off on July 22, 2016.

CommerceHub, Inc.
Consolidated Balance Sheets
(in thousands)
(unaudited)

| | 6/30/2017 | 12/31/2016 |
|----------------------------------------|------------------|------------------|
| Assets | | |
| Cash and cash equivalents | \$ 6,777 | \$ 6,471 |
| Accounts receivable, net of allowances | 11,721 | 18,109 |
| Prepaid income taxes | 3,012 | 4,311 |
| Prepaid expenses | 1,533 | 1,549 |
| Total current assets | <u>23,043</u> | <u>30,440</u> |
| Capitalized software, net | 5,053 | 6,716 |
| Deferred services costs | 4,837 | 4,989 |
| Property and equipment, net | 7,283 | 7,629 |
| Goodwill | 21,410 | 21,410 |
| Deferred income taxes | 8,639 | 7,714 |
| Other long-term assets | 1,524 | 1,122 |
| Total assets | <u>\$ 71,789</u> | <u>\$ 80,020</u> |
| Liabilities and Equity | | |
| Accounts payable and accrued expenses | \$ 2,223 | \$ 2,135 |
| Accrued payroll and related expenses | 6,165 | 7,435 |
| Income taxes payable | 8 | 7 |
| Deferred revenue | 5,589 | 5,149 |
| Total current liabilities | <u>13,985</u> | <u>14,726</u> |
| Deferred revenue, long-term | 7,965 | 7,581 |
| Other long-term liabilities | 1,995 | 1,135 |
| Long-term debt | 6,000 | 26,000 |
| Total liabilities | <u>29,945</u> | <u>49,442</u> |
| Equity: | | |
| Total equity | 41,844 | 30,578 |
| Total liabilities and equity | <u>\$ 71,789</u> | <u>\$ 80,020</u> |

CommerceHub, Inc.
Consolidated Statements of Cash Flows
(in thousands)
(unaudited)

| | 3 months ended: | | 6 months ended: | |
|------------------------------------------------------|------------------------|------------------|------------------------|------------------|
| | 6/30/2017 | 6/30/2016 | 6/30/2017 | 6/30/2016 |
| Cash flows from operating activities | | | | |
| Net income | \$ 2,245 | \$ 4,424 | \$ 4,704 | \$ 2,434 |
| Adjustments to net income: | | | | |
| Depreciation and amortization | 2,182 | 2,539 | 4,276 | 4,862 |
| Amortization of debt issuance costs | 55 | — | 111 | — |
| Share-based compensation | 2,617 | (3,477) | 4,977 | 6,560 |
| Deferred income taxes | (283) | 21,585 | (925) | 19,214 |
| Bad debt expense | 187 | 222 | 591 | 255 |
| Accrued interest income | — | (107) | — | (273) |
| Loss on disposal of long-term assets | 17 | 160 | 17 | 160 |
| Working capital changes: | | | | |
| Accounts receivable | 621 | 1,315 | 5,796 | 5,919 |
| Prepaid expenses and other assets | (245) | (11) | (488) | (420) |
| Income taxes, net | (2,376) | (738) | 1,300 | (738) |
| Deferred costs | (29) | (103) | 152 | (295) |
| Deferred revenue | 490 | (249) | 824 | (31) |
| Accounts payable and accrued expenses | 256 | (1,827) | 593 | 231 |
| Accrued payroll and related expenses | 1,373 | (1,973) | (1,247) | (867) |
| Share-based compensation liability payments | — | (78,494) | — | (85,930) |
| Parent receivables and payables, net | — | (16,603) | — | (16,346) |
| Net cash provided by (used in) operating activities | <u>7,110</u> | <u>(73,337)</u> | <u>20,681</u> | <u>(65,265)</u> |
| Cash flows from investing activities | | | | |
| Purchases of property and equipment | (257) | (1,845) | (949) | (4,136) |
| Additions to capitalized software | (353) | (1,321) | (984) | (3,504) |
| Collections on note receivable - Parent | — | 36,380 | — | 36,380 |
| Net cash (used in) provided by investing activities | <u>(610)</u> | <u>33,214</u> | <u>(1,933)</u> | <u>28,740</u> |
| Cash flows from financing activities | | | | |
| Borrowings on note payable - Parent | — | 28,664 | — | 28,664 |
| Payments on revolver | (4,000) | - | (20,000) | — |
| Cash paid for debt issuance costs | — | (1,000) | — | (1,000) |
| Cash received from exercise of stock options | 233 | 21 | 1,557 | 73 |
| Purchase of treasury stock | — | (3,600) | — | (3,600) |
| Net cash (used in) provided by financing activities | <u>(3,767)</u> | <u>24,085</u> | <u>(18,443)</u> | <u>24,137</u> |
| Currency effect on cash | — | — | 1 | — |
| Net increase (decrease) in cash and cash equivalents | <u>2,733</u> | <u>(16,038)</u> | <u>306</u> | <u>(12,388)</u> |
| Beginning cash and cash equivalents | 4,044 | 22,987 | 6,471 | 19,337 |
| Ending cash and cash equivalents | <u>\$ 6,777</u> | <u>\$ 6,949</u> | <u>\$ 6,777</u> | <u>\$ 6,949</u> |

CommerceHub, Inc.
Supplemental Information
(in thousands)
(unaudited)

| | 3 months ended: | | | 6 months ended: | | |
|----------------------------------|------------------------|------------------|--------------------|------------------------|------------------|--------------------|
| | 6/30/2017 | 6/30/2016 | % Inc (Dec) | 6/30/2017 | 6/30/2016 | % Inc (Dec) |
| Revenue by type: | | | | | | |
| Usage revenue | \$ 16,553 | \$ 15,333 | 8% | \$ 32,412 | \$ 29,875 | 8% |
| Subscription revenues | 6,943 | 6,228 | 11% | 13,840 | 12,346 | 12% |
| Set-up and professional services | 1,712 | 1,542 | 11% | 3,524 | 2,972 | 19% |
| Total revenue | \$ 25,208 | \$ 23,103 | 9% | \$ 49,776 | \$ 45,193 | 10% |

| | 3 months ended: | | 6 months ended: | |
|----------------------------------|------------------------|-------------------|------------------------|------------------|
| | 6/30/2017 | 6/30/2016 | 6/30/2017 | 6/30/2016 |
| Share-based compensation: | | | | |
| Cost of revenue | \$ 89 | \$ (662) | \$ 199 | \$ (158) |
| Research and development | 530 | (747) | 1,101 | 1,113 |
| Sales and marketing | 300 | (383) | 435 | 601 |
| General and administrative | 1,698 | (1,685) | 3,242 | 5,004 |
| Total | \$ 2,617 | \$ (3,477) | \$ 4,977 | \$ 6,560 |

CommerceHub, Inc.
GAAP to Non-GAAP Reconciliations
(in thousands)
(unaudited)

Reconciliation of GAAP gross profit to adjusted gross profit:

| | 3 months ended: | | 6 months ended: | |
|---------------------------------------------|-----------------|-----------|-----------------|-----------|
| | 6/30/2017 | 6/30/2016 | 6/30/2017 | 6/30/2016 |
| Gross profit | \$ 19,569 | \$ 17,783 | \$ 38,621 | \$ 33,768 |
| Share-based compensation | 89 | (662) | 199 | (158) |
| Acquisition-related intangible amortization | — | 187 | — | 375 |
| Adjusted gross profit | \$ 19,658 | \$ 17,308 | \$ 38,820 | \$ 33,985 |
| Adjusted gross margin | 78% | 75% | 78% | 75% |

Reconciliation of GAAP operating expenses to adjusted operating expenses:

| | 3 months ended: | | 6 months ended: | |
|---------------------------------------------|-----------------|-----------|-----------------|-----------|
| | 6/30/2017 | 6/30/2016 | 6/30/2017 | 6/30/2016 |
| Operating expenses | \$ 15,728 | \$ 10,503 | \$ 30,513 | \$ 29,514 |
| Share-based compensation | (2,528) | 2,815 | (4,778) | (6,718) |
| Acquisition-related intangible amortization | — | (250) | — | (500) |
| Adjusted operating expenses | \$ 13,200 | \$ 13,068 | \$ 25,735 | \$ 22,296 |

Reconciliation of GAAP net income to adjusted EBITDA:

| | 3 months ended: | | 6 months ended: | |
|--------------------------------|-----------------|-----------|-----------------|-----------|
| | 6/30/2017 | 6/30/2016 | 6/30/2017 | 6/30/2016 |
| Net income | \$ 2,245 | \$ 4,424 | \$ 4,704 | \$ 2,434 |
| Interest expense (income), net | 229 | (63) | 456 | (229) |
| Income tax expense | 1,367 | 2,919 | 2,948 | 2,049 |
| Depreciation and amortization | 2,182 | 2,539 | 4,276 | 4,862 |
| Share-based compensation | 2,617 | (3,477) | 4,977 | 6,560 |
| Adjusted EBITDA | \$ 8,640 | \$ 6,342 | \$ 17,361 | \$ 15,676 |

CommerceHub, Inc.
GAAP to Non-GAAP Reconciliations, continued
(in thousands except per share data)
(unaudited)

Reconciliation of GAAP net income to adjusted net income:

| | 3 months ended: | | 6 months ended: | |
|---------------------------------------------|-----------------|-----------|-----------------|-----------|
| | 6/30/2017 | 6/30/2016 | 6/30/2017 | 6/30/2016 |
| Net income | \$ 2,245 | \$ 4,424 | \$ 4,704 | \$ 2,434 |
| Share-based compensation | 2,617 | (3,477) | 4,977 | 6,560 |
| Acquisition-related intangible amortization | — | 437 | — | 875 |
| Tax effect of adjustments (1) | (1,125) | 1,198 | (2,104) | (2,718) |
| Adjusted net income | \$ 3,737 | \$ 2,582 | \$ 7,577 | \$ 7,151 |

(1) Adjusted net income assumes a long-term projected tax rate of 40%

Reconciliation of GAAP earnings per diluted share to adjusted earnings per diluted share:

| | 3 months ended: | | 6 months ended: | |
|---------------------------------------------|-----------------|-----------|-----------------|-----------|
| | 6/30/2017 | 6/30/2016 | 6/30/2017 | 6/30/2016 |
| GAAP earnings per diluted share | \$ 0.05 | \$ 0.10 | \$ 0.10 | \$ 0.06 |
| Share-based compensation | 0.06 | (0.08) | 0.11 | 0.15 |
| Acquisition-related intangible amortization | — | 0.01 | — | 0.02 |
| Tax effect of adjustments (1) | (0.03) | 0.03 | (0.05) | (0.06) |
| Adjusted earnings per diluted share | \$ 0.08 | \$ 0.06 | \$ 0.17 | \$ 0.17 |
| Diluted share count | 44,957 | 42,703 | 44,842 | 42,703 |

(1) Adjusted earnings per diluted share assumes a long-term projected tax rate of 40%

Reconciliation of GAAP net cash provided by (used in) operating activities to free cash flow:

| | 3 months ended: | | 6 months ended: | |
|--------------------------------------------------------------|-----------------|-------------|-----------------|-------------|
| | 6/30/2017 | 6/30/2016 | 6/30/2017 | 6/30/2016 |
| Net cash provided by (used in) operating activities | \$ 7,110 | \$ (73,337) | \$ 20,681 | \$ (65,265) |
| Purchases of property and equipment | (257) | (1,845) | (949) | (4,136) |
| Additions to capitalized software | (353) | (1,321) | (984) | (3,504) |
| Free cash flow (1) | \$ 6,500 | \$ (76,503) | \$ 18,748 | \$ (72,905) |
| (1) Includes share-based compensation liability payments of: | \$ — | \$ (78,494) | \$ — | \$ (85,930) |