

VEEVA SYSTEMS INC  
Form 10-Q  
September 07, 2017  
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended July 31, 2017

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 (IRS Employer  
incorporation or organization) Identification No.)

Edgar Filing: VEEVA SYSTEMS INC - Form 10-Q

4280 Hacienda Drive

Pleasanton, California 94588  
(Address of principal executive offices) (Zip Code)

(Registrant's telephone number, including area code) (925) 452-6500

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

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 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 No

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

(Do not check if a smaller reporting company) Smaller reporting company

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.

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

As of August 31, 2017, there were 114,505,348 shares of the Registrant's Class A common stock outstanding and 26,111,237 shares of the Registrant's Class B common stock outstanding.

VEEVA SYSTEMS INC.

FORM 10-Q

TABLE OF CONTENTS

<b><u>PART I. FINANCIAL INFORMATION</u></b>	<b>4</b>
Item 1. <u>Financial Statements.</u>	4
<u>Condensed Consolidated Balance Sheets</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income</u>	5
<u>Condensed Consolidated Statements of Cash Flows</u>	6
<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Note 1. Summary of Business and Significant Accounting Policies</u>	7
<u>Note 2. Short-Term Investments</u>	10
<u>Note 3. Property and Equipment, Net</u>	12
<u>Note 4. Intangible Assets</u>	12
<u>Note 5. Accrued Expenses</u>	13
<u>Note 6. Fair Value Measurements</u>	13
<u>Note 7. Income Taxes</u>	15
<u>Note 8. Stockholders' Equity</u>	15
<u>Note 9. Net Income per Share Attributable to Common Stockholders</u>	17
<u>Note 10. Commitments and Contingencies</u>	19
<u>Note 11. Information about Geographic Areas</u>	20
Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
<u>Overview</u>	21
<u>Key Factors Affecting Our Performance</u>	22
<u>Components of Results of Operations</u>	22
<u>Results of Operations</u>	27
<u>Operating Expenses and Operating Margin</u>	30
<u>Non-GAAP Financial Measures</u>	32
<u>Liquidity and Capital Resources</u>	34
<u>Commitments</u>	36
<u>Off-Balance Sheet Arrangements</u>	36
<u>Critical Accounting Policies and Estimates</u>	37
Item 3. <u>Quantitative and Qualitative Disclosures About Market Risk</u>	38
Item 4. <u>Controls and Procedures.</u>	39
<b><u>PART II. OTHER INFORMATION</u></b>	<b>40</b>
Item 1. <u>Legal Proceedings</u>	40
Item 1A <u>Risk Factors</u>	42
Item 2. <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	64
Item 3. <u>Defaults Upon Senior Securities</u>	64
Item 4. <u>Mine Safety Disclosures</u>	64
Item 5. <u>Other Information</u>	64

Item 6. <u>Exhibits</u>	65
<u>SIGNATURES</u>	66
<u>EXHIBIT INDEX</u>	67

Table of Contents

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 and product capabilities, 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,” “would,” “tracking to,” “on track” or similar 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,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” 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,” the “Company,” “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)

	July 31, 2017 (Unaudited)	January 31, 2017
<b>Assets</b>		
<b>Current assets:</b>		
Cash and cash equivalents	\$ 409,226	\$ 217,606
Short-term investments	315,425	301,266
Accounts receivable, net of allowance for doubtful accounts of \$404 and \$659, respectively	97,153	182,816
Prepaid expenses and other current assets	11,551	10,177
<b>Total current assets</b>	<b>833,355</b>	<b>711,865</b>
Property and equipment, net	53,528	49,907
Goodwill	95,804	95,804
Intangible assets, net	35,288	39,283
Deferred income taxes, noncurrent	12,957	16,460
Other long-term assets	4,938	4,057
<b>Total assets</b>	<b>\$ 1,035,870</b>	<b>\$ 917,376</b>
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 6,298	\$ 5,677
Accrued compensation and benefits	12,076	12,007
Accrued expenses and other current liabilities	12,291	12,310
Income tax payable	2,228	3,228
Deferred revenue	222,685	213,562
<b>Total current liabilities</b>	<b>255,578</b>	<b>246,784</b>
Deferred income taxes, noncurrent	7,561	12,974
Other long-term liabilities	6,128	4,964
<b>Total liabilities</b>	<b>269,267</b>	<b>264,722</b>
<b>Commitments and contingencies (Note 10)</b>		
<b>Stockholders' equity:</b>		
Class A common stock, \$0.00001 par value; 800,000,000 shares authorized, 114,287,488 and		
103,789,544 issued and outstanding at July 31, 2017 and January 31, 2017, respectively	1	1
Class B common stock, \$0.00001 par value; 190,000,000 shares authorized, 26,122,845 and		
34,097,075 issued and outstanding at July 31, 2017 and January 31, 2017, respectively	—	—
Additional paid-in capital	478,580	439,658
Accumulated other comprehensive income	1,271	111
Retained earnings	286,751	212,884

Total stockholders' equity	766,603	652,654
Total liabilities and stockholders' equity	\$1,035,870	\$917,376

See Notes to Condensed Consolidated Financial Statements.

4 Veeva Systems Inc. | Form 10-Q

---

Table of Contents

VEEVA SYSTEMS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands, except per share data)

	Three months ended		Six months ended	
	July 31, 2017 (Unaudited)	2016	July 31, 2017	2016
Revenues:				
Subscription services	\$ 134,340	\$ 105,211	\$ 261,617	\$ 201,243
Professional services and other	32,245	26,136	62,886	49,868
Total revenues	166,585	131,347	324,503	251,111
Cost of revenues <sup>(1)</sup> :				
Cost of subscription services	26,800	23,108	52,938	44,853
Cost of professional services and other	23,604	19,087	46,348	38,433
Total cost of revenues	50,404	42,195	99,286	83,286
Gross profit	116,181	89,152	225,217	167,825
Operating expenses <sup>(1)</sup> :				
Research and development	32,691	23,563	61,002	45,636
Sales and marketing	32,017	28,908	61,827	55,631
General and administrative	14,575	12,859	28,151	24,930
Total operating expenses	79,283	65,330	150,980	126,197
Operating income	36,898	23,822	74,237	41,628
Other income (expense), net	2,858	(1,362 )	3,449	1,385
Income before income taxes	39,756	22,460	77,686	43,013
Provision for income taxes	1,912	9,502	3,819	17,546
Net income	\$ 37,844	\$ 12,958	\$ 73,867	\$ 25,467
Net income attributable to Class A and Class B common stockholders,				
basic and diluted	\$ 37,844	\$ 12,957	\$ 73,867	\$ 25,465
Net income per share attributable to Class A and Class B common				
stockholders:				
Basic	\$ 0.27	\$ 0.10	\$ 0.53	\$ 0.19
Diluted	\$ 0.25	\$ 0.09	\$ 0.48	\$ 0.17
Weighted-average shares used to compute net income per share				
attributable to Class A and Class B common stockholders:				
Basic	140,010	135,126	139,351	134,531
Diluted	153,778	147,155	153,301	146,690
Other comprehensive income (loss):				
Net change in unrealized gains (losses) on available-for-sale investments	\$ 34	\$ 98	\$ (72 )	\$ 272
Net change in cumulative foreign currency translation gain (loss)	327	312	1,232	425



Comprehensive income	\$38,205	\$13,368	\$75,027	\$26,164
----------------------	----------	----------	----------	----------

- (1) Includes stock-based compensation as follows:

Cost of revenues:				
Cost of subscription services	\$376	\$288	\$718	\$497
Cost of professional services and other	2,133	1,507	3,822	2,685
Research and development	4,349	2,812	8,151	5,206
Sales and marketing	4,173	3,342	8,020	5,797
General and administrative	2,349	2,065	4,457	3,972
Total stock-based compensation	\$13,380	\$10,014	\$25,168	\$18,157

See Notes to Condensed Consolidated Financial Statements.

Veeva Systems Inc. | Form 10-Q 5

---

## VEEVA SYSTEMS INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

	Three months ended		Six months ended	
	July 31, 2017 (Unaudited)	2016	July 31, 2017	2016
<b>Cash flows from operating activities</b>				
Net income	\$37,844	\$12,958	\$73,867	\$25,467
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	3,571	3,470	7,020	6,875
Amortization of premiums on short-term investments	386	469	842	889
Stock-based compensation	13,380	10,014	25,168	18,157
Deferred income taxes	(708 )	36	(1,905 )	(802 )
Loss on foreign currency from market-to-market derivative	204	—	253	—
Bad debt expense	(198 )	90	(206 )	(115 )
Changes in operating assets and liabilities:				
Accounts receivable	16,169	(7,277 )	85,869	55,950
Income taxes	483	1,264	(2,062 )	1,644
Prepaid expenses and other current and long-term assets	332	(9,466 )	(1,159 )	(8,076 )
Accounts payable	700	1,805	244	1,871
Accrued expenses and other current liabilities	(361 )	1,800	544	(1,105 )
Deferred revenue	(15,410 )	(4,058 )	9,027	19,299
Other long-term liabilities	1,215	641	2,266	1,052
Net cash provided by operating activities <sup>(1)</sup>	57,607	11,746	199,768	121,106
<b>Cash flows from investing activities</b>				
Purchases of short-term investments	(87,202 )	(116,219)	(143,451)	(183,959)
Maturities and sales of short-term investments	69,681	58,151	128,377	128,176
Purchases of property and equipment	(2,535 )	(859 )	(6,495 )	(2,916 )
Capitalized internal-use software development costs	(242 )	(69 )	(1,033 )	(209 )
Changes in restricted cash and deposits	(201 )	109	(202 )	103
Net cash (used in) investing activities	(20,499 )	(58,887 )	(22,804 )	(58,805 )
<b>Cash flows from financing activities</b>				
Proceeds from exercise of common stock options	6,131	3,183	13,416	4,528
Restricted stock units acquired to settle employee tax withholding liability	—	(11 )	—	(12 )
Excess tax benefits from employee stock plans	—	8,079	—	10,940
Net cash provided by financing activities <sup>(1)</sup>	6,131	11,251	13,416	15,456
Effect of exchange rate changes on cash and cash equivalents	327	313	1,240	429
Net change in cash and cash equivalents	43,566	(35,577 )	191,620	78,186
Cash and cash equivalents at beginning of period	365,660	245,942	217,606	132,179
Cash and cash equivalents at end of period	\$409,226	\$210,365	\$409,226	\$210,365
Supplemental disclosures of other cash flow information:				

Edgar Filing: VEEVA SYSTEMS INC - Form 10-Q

Cash paid for income taxes, net of refunds	\$1,780	\$9,316	\$6,036	\$12,281
Non-cash investing and financing activities:				
Changes in accounts payable and accrued expenses related to				
property and equipment purchases	\$465	\$(98 )	\$(121 )	\$(787 )
Vesting of early exercised stock options	\$—	\$10	\$1	\$26

See Notes to Condensed Consolidated Financial Statements.

<sup>(1)</sup>During the six months ended July 31, 2017, the Company adopted Accounting Standards Update (“ASU”) 2016-09, “Compensation-Stock Compensation: Improvements to Employee Share-Based Payment.” Refer to note 1—New Accounting Pronouncements Adopted in Fiscal 2018 for further details. This adoption resulted in a \$14.8 million and \$28.7 million increase in net cash provided by operating activities and a corresponding decrease in net cash provided by financing activities for the three and six months ended July 31, 2017, respectively.

6 Veeva Systems Inc. | Form 10-Q

---

Table of Contents

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 industry cloud solutions for the global life sciences industry. We were founded in 2007 on the premise that industry-specific cloud solutions could best address the operating challenges and regulatory requirements of the life sciences industry. Our products are designed to meet the unique needs of life sciences companies for their most strategic business functions—from research and development to commercialization. Our products are designed to help life sciences companies bring products to market faster and more efficiently, market and sell more effectively, and maintain compliance with government regulations. Veeva’s industry cloud solutions provide data, software, and services that address a broad range of needs, including multichannel customer relationship management, content management, master data management, and customer data. Veeva is now extending certain of its solutions outside the life sciences industry in North America and Europe. Our solutions help companies manage critical regulated processes and content efficiently to meet compliance requirements and enable secure collaboration across internal and external stakeholders. 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, 2017, filed on March 30, 2017. 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, 2017 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, 2018 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 realizability of deferred income tax assets and liabilities;
- the fair value of our stock-based awards; and
- the capitalization and estimated useful life of internal-use software development costs.

Veeva Systems Inc. | Form 10-Q 7

---

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

### Revenue Recognition

We derive our revenues primarily from subscription services fees and professional services fees. Subscription services revenues consist of fees from customers accessing our cloud-based software solutions and subscription or license fees for our data solutions. In addition, our acquired Zinc Ahead business had a limited number of perpetual license agreements with accompanying maintenance and hosting fees. We have included such on-going maintenance and hosting fees in our subscription services revenues. Professional services and other revenues consist primarily of fees from implementation services, configuration, data services, training and managed services related to our solutions. 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-cancelable and do not provide for refunds to customers in the event of cancellations.

### 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. On-going maintenance and hosting fees for Zinc Ahead solutions are also recognized ratably over the accompanying maintenance and hosting term.

### Professional Services and Other Revenues

The majority of our professional services arrangements are recognized on a time and materials basis. Professional services revenues recognized on a time and materials 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 the proportional performance method. 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 (BESP) 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.

We enter into arrangements with multiple deliverables that generally include 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 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. If stand-alone value cannot be established for a delivered item in a multiple-element arrangement, the delivered item is accounted for as a combined unit of accounting with the undelivered item(s).

## Table of Contents

We have established stand-alone value with respect to all of our offerings except professional services for the acquired Zinc Ahead business. As a result, we account for multiple element arrangements that include Zinc Ahead professional services as a combined unit of accounting and recognize the revenues from such professional services ratably over the term of the associated 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 arrangement by considering multiple factors, including, but not limited to, stated subscription renewal rates 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 as well as the experience level and estimated location of the resources performing the services.

We allocate consideration proportionately based on established BESP and then recognize the allocated consideration as revenue over the respective delivery period for each element.

## Deferred Revenue

Deferred revenue includes amounts billed to customers for which the revenue recognition criteria have not been met. Deferred revenue primarily consists of billings or payments received in advance of revenue recognition from our subscription services and, to a lesser extent, professional services and other revenues described above, and is recognized as revenue recognition criteria are met. We generally invoice our customers in annual or quarterly installments for subscription services. 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 and the remaining portion is recorded as noncurrent, which is in other long-term liabilities on the consolidated balance sheet.

## Certain Risks and Concentrations of Credit Risk

Our revenues are derived from subscription services, professional services and other services delivered primarily to the 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 significantly 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, losses related to lack of collectibility have not been material.



Edgar Filing: VEEVA SYSTEMS INC - Form 10-Q

The following customers individually exceeded 10% of total accounts receivable as of the dates shown:

	July 31, 2017	January 31, 2017
Customer 1	11%	*
Customer 2 *		15%
Customer 3 *		15%

\*Does not exceed 10%.

Veeva Systems Inc. | Form 10-Q 9

---

No single customer represented over 10% of total revenues in the condensed consolidated statements of comprehensive income for the three and six months ended July 31, 2017 and 2016.

## New Accounting Pronouncements Adopted in Fiscal 2018

### Stock-Based Compensation

In March 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-09, "Compensation-Stock Compensation: Improvements to Employee Share-Based Payment." The guidance simplifies several aspects of the accounting for employee share-based transactions, including the income tax consequences on the statement of comprehensive income, accounting for forfeitures, the classification on the statement of cash flows, and the calculation of diluted shares. The new standard is effective for interim and annual periods beginning after December 15, 2016. We adopted this standard on February 1, 2017 and the impact of this adoption was as follows:

- The standard eliminates additional paid in capital (APIC) pools and requires excess tax benefits and deficiencies to be recorded in the income statement as a discrete item when restricted stock units vest or stock options are settled. The adoption of this guidance on a prospective basis resulted in the recognition of excess tax benefits in our provision for income taxes of \$14.8 million and \$28.7 million for the three and six months ended July 31, 2017.
- Upon adoption, we elected to account for forfeitures as they occur and to no longer estimate forfeitures using a modified retrospective transition method, which resulted in a net cumulative-effect adjustment of \$0.7 million to increase our February 1, 2017 opening retained earnings balance.
- In addition, ASU 2016-09 requires excess tax benefits and deficiencies to be classified as operating activities on the condensed consolidated statement of cash flows. Previously, these items were classified as financing activities. We have elected to present the cash flow impact using a prospective transition method. As a result, there were no adjustments to the condensed consolidated statement of cash flows for the three and six months ended July 31, 2016.
- Excess tax benefits and deficiencies must be prospectively excluded from assumed future proceeds in the calculation of diluted shares when using the treasury stock method. The effect of this change on the fully diluted net income per share was immaterial for the three and six months ended July 31, 2017.

## Note 2. Short-Term Investments

At July 31, 2017, 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	\$ 24,105	\$ —	\$ (17 )	\$ 24,088
Commercial paper	17,427	1	(3 )	17,425
Corporate notes and bonds	107,660	22	(68 )	107,614
U.S. agency obligations	83,939	—	(99 )	83,840
U.S. treasury securities	82,611	2	(155 )	82,458
Total available-for-sale securities	\$ 315,742	\$ 25	\$ (342 )	\$ 315,425

At January 31, 2017, 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	\$ 20,729	\$ 5	\$ (16 )	\$20,718
Commercial paper	20,567	4	(1 )	20,570
Corporate notes and bonds	92,843	14	(101 )	92,756
U.S. agency obligations	87,091	12	(51 )	87,052
U.S. treasury securities	80,277	4	(111 )	80,170
Total available-for-sale securities	\$ 301,507	\$ 39	\$ (280 )	\$301,266

Table of Contents

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):

	July 31, 2017	January 31, 2017
Due in one year or less	\$280,883	\$225,183
Due in greater than one year	34,542	76,083
Total	\$315,425	\$301,266

We have certain available-for-sale securities in a gross unrealized loss position, some of which have been in that position for more 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, our financial position and near-term prospects 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, we would write down the respective investment to fair value. For debt securities, the portion of the write-down related to credit loss would be recognized as 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 (loss). There were no impairments considered other-than-temporary as of July 31, 2017 and January 31, 2017.

The following table shows the fair values and the gross unrealized losses of these available-for-sale securities aggregated by investment category as of July 31, 2017 (in thousands):

	Fair value	Gross unrealized losses
Asset-backed securities	\$24,088	\$ (17 )
Commercial paper	13,139	(3 )
Corporate notes and bonds	73,568	(68 )
U.S. agency obligations	79,750	(99 )
U.S. treasury securities	76,124	(155 )

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, 2017 (in thousands):

	Fair value	Gross unrealized losses
Asset-backed securities	\$14,027	\$ (16 )
Commercial paper	5,694	(1 )
Corporate notes and bonds	67,220	(101 )
U.S. agency obligations	40,549	(51 )
U.S. treasury securities	68,704	(111 )

Note 3. Property and Equipment, Net

Property and equipment, net consists of the following as of the dates shown (in thousands):

	July 31, 2017	January 31, 2017
Land	\$3,040	\$3,040
Building	20,984	20,984
Land improvements and building improvements	19,730	14,731
Equipment and computers	7,453	7,197
Furniture and fixtures	9,379	7,322
Leasehold improvements	3,041	2,615
Construction in progress	553	2,889
	64,180	58,778
Less accumulated depreciation	(10,652)	(8,871)
Total property and equipment, net	\$53,528	\$49,907

Total depreciation expense was \$1.4 million and \$2.7 million for the three and six months ended July 31, 2017, respectively, and \$1.2 million and \$2.4 million for the three and six months ended July 31, 2016, respectively. Land is not depreciated.

Note 4. Intangible Assets

The following schedule presents the details of intangible assets as of July 31, 2017 (dollar amounts in thousands):

	July 31, 2017			Remaining useful life (in years)
	Gross carrying amount	Accumulated amortization	Net	
Existing technology	\$3,880	\$ (3,121 )	\$759	1.2
Database	4,939	(3,809 )	1,130	2.4
Customer contracts and relationships	33,643	(7,008 )	26,635	8.0
Software	10,867	(4,646 )	6,221	2.7
Brand	1,141	(598 )	543	1.7
	\$54,470	\$ (19,182 )	\$35,288	

The following schedule presents the details of intangible assets as of January 31, 2017 (dollar amounts in thousands):

	January 31, 2017			Remaining useful life (in years)
	Gross carrying amount	Accumulated amortization	Net	
Existing technology	\$3,880	\$ (2,733 )	\$1,147	1.6
Database	4,939	(3,291 )	1,648	2.5
Customer contracts and relationships	33,643	(5,245 )	28,398	8.5
Software	10,867	(3,481 )	7,386	3.2
Brand	1,141	(437 )	704	2.2
	\$54,470	\$ (15,187 )	\$39,283	

Amortization expense associated with intangible assets was \$2.0 million and \$4.0 million for the three and six months ended July 31, 2017, respectively, and \$2.1 million and \$4.1 million for the three and six months ended July 31, 2016, respectively.

Table of Contents

The estimated amortization expense for intangible assets, for the next five years and thereafter is as follows as of July 31, 2017 (in thousands):

Period	Estimated amortization expense
Fiscal 2018	\$ 3,800
Fiscal 2019	6,966
Fiscal 2020	6,062
Fiscal 2021	3,629
Fiscal 2022	3,182
Thereafter	11,649
Total	\$ 35,288

## Note 5. Accrued Expenses

Accrued expenses consisted of the following as of the dates shown (in thousands):

	July 31, 2017	January 31, 2017
Accrued commissions	\$1,777	\$3,754
Accrued bonus	2,537	2,333
Deferred compensation associated with Zinc Ahead	484	333
Accrued vacation	2,727	1,866
Payroll tax payable	2,206	1,402
Accrued other compensation and benefits	2,345	2,319
Total accrued compensation and benefits	\$12,076	\$12,007
Accrued fees payable to salesforce.com	4,738	4,520
Accrued third-party professional services subcontractors' fees	948	953
Taxes payable	1,628	2,018
Other accrued expenses	4,977	4,819
Total accrued expenses and other current liabilities	\$12,291	\$12,310

## Note 6. Fair Value Measurements



The carrying amounts of accounts receivable and other current assets, accounts payable and accrued liabilities approximate their fair value due to their short-term nature.

Financial assets and liabilities recorded at fair value in the condensed consolidated financial statements are categorized based upon the level of judgment associated with the inputs used to measure their fair value. Hierarchical levels, which are directly related to the amount of subjectivity associated with the inputs to the valuation of these assets or liabilities are as follows:

Level 1—Observable inputs, such as quoted prices in active markets for identical assets or liabilities.

Level 2—Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Financial assets and liabilities measured at fair value are classified in their entirety based on the lowest level of input that is significant to the fair value measurement. Our assessment of the significance of a particular input to the fair value measurement requires management to make judgments and considers factors specific to the asset or liability.

Edgar Filing: VEEVA SYSTEMS INC - Form 10-Q

The following table presents the fair value hierarchy for financial assets and liabilities measured at fair value on a recurring basis as of July 31, 2017 (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets</b>				
<b>Cash equivalents:</b>				
Money market funds	\$9,116	\$—	\$ —	\$9,116
Commercial paper	—	3,747	—	3,747
Corporate notes and bonds	—	—	—	—
U.S. agency obligations	—	—	—	—
<b>Short-term investments:</b>				
Asset-backed securities	—	24,088	—	24,088
Commercial paper	—	17,425	—	17,425
Corporate notes and bonds	—	107,614	—	107,614
U.S. agency obligations	—	83,840	—	83,840
U.S. treasury securities	—	82,458	—	82,458
Foreign currency derivative contracts	—	46	—	46
<b>Total</b>	<b>\$9,116</b>	<b>\$319,218</b>	<b>\$ —</b>	<b>\$328,334</b>
<b>Liabilities</b>				
Foreign currency derivative contracts	—	253	—	253
<b>Total</b>	<b>\$—</b>	<b>\$253</b>	<b>\$ —</b>	<b>\$253</b>

The following table presents the fair value hierarchy for financial assets measured at fair value on a recurring basis as of January 31, 2017 (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Cash equivalents:</b>				
Money market funds	\$20,174	\$—	\$ —	\$20,174
Corporate notes and bonds	—	—	—	—
U.S. agency obligations	—	5,450	—	5,450
<b>Short-term investments:</b>				
Asset-backed securities	—	20,718	—	20,718
Commercial paper	—	20,570	—	20,570
Corporate notes and bonds	—	92,756	—	92,756
U.S. agency obligations	—	87,052	—	87,052
U.S. treasury securities	—	80,170	—	80,170
<b>Total</b>	<b>\$20,174</b>	<b>\$306,716</b>	<b>\$ —</b>	<b>\$326,890</b>

We determine the fair value of our security holdings based on pricing from our service providers and market prices from industry-standard independent data providers. The valuation techniques used to measure the fair value of financial instruments having Level 2 inputs were derived from non-binding consensus prices that are corroborated by

observable market data or quoted market prices for similar instruments. Such market prices may be quoted prices in active markets for identical assets (Level 1 inputs) or pricing determined using inputs other than quoted prices that are observable either directly or indirectly (Level 2 inputs). We perform procedures to ensure that appropriate fair values are recorded such as comparing prices obtained from other sources.

#### Balance Sheet Hedges

During the three and six months ended July 31, 2017, we entered into foreign currency forward contracts (the “Forward Contracts”) in order to hedge our foreign currency exposure. A foreign currency forward contract is a commitment to deliver a certain amount of currency at a certain price on a specific date in the future. By entering into the Forward Contract and holding it to maturity, we are locked into a future currency exchange rate in an amount equal to and for the term of the Forward Contract. We account for derivative instruments at fair value with changes in the fair value recorded as a component of other income, net in our condensed consolidated statements of comprehensive income. During the three and six months ended July 31, 2017, we recognized realized foreign currency losses on hedging of \$2.2 million and \$2.8 million, respectively.

Details on outstanding balance sheet hedges are presented below as of the date shown below (in thousands):

	July 31, 2017
Notional amount of foreign currency derivative contracts	\$41,400
Fair value of foreign currency derivative contracts	41,653

Table of Contents

The fair value of the Company's outstanding derivative instruments is summarized below (in thousands):

		July 31, 2017
Derivative Assets	Balance Sheet Location	
Derivatives not designated as hedging instruments:		
Foreign currency derivative contracts	Prepaid expenses and other current assets	\$46
Derivative Liabilities	Balance Sheet Location	
Derivatives not designated as hedging instruments:		
Foreign currency derivative contracts	Accrued expenses	\$253

## Note 7. Income Taxes

For the three months ended July 31, 2017 and 2016, our effective tax rates were 4.8% and 42.3%, respectively. During the three months ended July 31, 2017 as compared to the prior year period, our effective tax rate decreased primarily due to the adoption of ASU 2016-09 on February 1, 2017. The adoption of this guidance on a prospective basis resulted in the discrete recognition of excess tax benefits in our provision for income taxes of \$14.8 million, which lowered our effective tax rate by 39 percentage points for the three months ended July 31, 2017.

For the six months ended July 31, 2017 and 2016, our effective tax rates were 4.9% and 40.8%, respectively. During the six months ended July 31, 2017 as compared to the prior year period, our effective tax rate decreased primarily due to the adoption of ASU 2016-09 on February 1, 2017. The adoption of this guidance on a prospective basis resulted in the discrete recognition of excess tax benefits in our provision for income taxes of \$28.7 million, which lowered our effective tax rate by 38 percentage points for the six months ended July 31, 2017.

We are currently under audit by the Internal Revenue Service (IRS) for our fiscal year ended January 31, 2015. We believe that the return for the year under examination was prepared appropriately and was filed correctly with the IRS.

## Note 8. Stockholders' Equity

## Stock Option Activity

A summary of stock option activity for the six months ended July 31, 2017 is as follows:

	Number of shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
Options outstanding at January 31, 2017	16,282,343	\$ 7.48	6.3	\$567,491,532
Options granted	13,000	57.37		
Options exercised	(1,918,647 )	7.06		
Options forfeited/cancelled	(108,201 )	21.87		
Options outstanding at July 31, 2017	14,268,495	\$ 7.47	5.8	\$803,181,095
Options vested and exercisable at July 31, 2017	5,648,977	\$ 5.19	5.3	\$330,863,470
Options vested and exercisable at July 31, 2017 and expected to vest  thereafter	14,268,495	\$ 7.47	5.8	\$803,181,095

During the three and six months ended July 31, 2017, we granted 6,500 and 13,000 stock options, respectively, under the 2013 Equity Incentive Plan (EIP). The weighted average grant-date fair value of options granted was \$29.11 and \$25.89 for the three and six months ended July 31, 2017 and \$11.99 for the six months ended July 31, 2016. We did not grant any stock options during the three months ended July 31, 2016.

As of July 31, 2017, there was \$32.8 million in unrecognized compensation cost related to unvested stock options granted under the 2007 Stock Plan (2007 Plan), 2012 Equity Incentive Plan and 2013 EIP. This cost is expected to be recognized over a weighted average period of 3.1 years.

As of July 31, 2017, we had authorized and unissued shares of common stock sufficient to satisfy exercises of stock options.

The total intrinsic value of options exercised was approximately \$40.7 million and \$88.8 million for the three and six months ended July 31, 2017.

#### Restricted Stock Units

A summary of restricted stock unit (RSU) activity for the six months ended July 31, 2017 is as follows:

	Unreleased restricted stock units	Weighted average grant date fair value
Balance at January 31, 2017	3,362,650	\$ 29.33
RSUs granted	876,244	51.96
RSUs vested	(605,180 )	29.73
RSUs forfeited/cancelled	(246,247 )	30.71
Balance at July 31, 2017	3,387,467	\$ 35.03

During the three and six months ended July 31, 2017, we granted 297,959 and 876,244 RSUs under the 2013 EIP with a weighted-average grant date fair value of \$59.55 and \$51.96, respectively.

As of July 31, 2017, there was a total of \$112.0 million in unrecognized compensation cost related to unvested RSUs. This cost is expected to be recognized over a weighted-average period of approximately 2.7 years.

#### Stock-Based Compensation

Compensation expense related to share-based transactions, including equity awards to employees, consultants, and non-employee directors, is measured and recognized in the condensed consolidated financial statements based on fair value. The fair value of each option award is estimated on the grant date using the Black-Scholes option-pricing model. The stock-based compensation expense, net of forfeitures, is recognized using a straight-line basis over the requisite service periods of the awards, which is generally four to nine years. For RSUs, fair value is based on the closing price of our common stock on the grant date. We adopted ASU 2016-09 on February 1, 2017. Upon adoption, we have elected to account for forfeitures as they occur and to no longer estimate for forfeitures. As such, we recorded a net cumulative-effect adjustment of \$0.7 million to increase our February 1, 2017 opening retained earnings balance. See notes 1 and 7 for additional information on the tax impact.

Our option-pricing model requires the input of subjective assumptions, including the fair value of the underlying common stock, the expected term of the option, the expected volatility of the price of our common stock, risk-free interest rates, and the expected dividend yield of our common stock. The assumptions used in our option-pricing model represent management's best estimates. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future.

The following table presents the weighted-average assumptions used to estimate the grant date fair value of options granted during the periods presented:

	Three Months Ended		Six Months Ended	
	July 31, 2017	2016	July 31, 2017	2016
Volatility	43%	—	43% – 44%	45% – 46%
Expected term (in years)	6.35	—	6.31 – 6.35	7.56
Risk-free interest rate	1.89%	—	1.89% – 2.17%	1.48% – 1.67%
Dividend yield	0%	—	0%	0%

For the three and six months ended July 31, 2017 and 2016, we capitalized an immaterial amount of stock-based compensation as part of our internal-use software capitalization.

Table of Contents

Early Exercise of Employee Options

We historically have allowed for the early exercise of options granted under the 2007 Plan prior to vesting. Historically, all such early exercises have been through cash payment. The unvested shares are subject to our repurchase right at the original purchase price. The proceeds initially are recorded as an accrued liability from the early exercise of stock options, and reclassified to common stock as our repurchase right lapses. At July 31, 2017, there were no unvested shares which were subject to repurchase. At January 31, 2017, there were 2,500 unvested shares which were subject to repurchase at an aggregate price of an immaterial amount.

Note 9. Net Income per Share Attributable to Common Stockholders

We compute net income per share of our Class A and Class B common stock using the two-class method required for participating securities. We consider unvested shares issued upon the early exercise of options to be participating securities as the holders of these shares have a non-forfeitable right to dividends in the event of our declaration of a dividend for common shares.

Under the two-class method, net income attributable to common stockholders is determined by allocating undistributed earnings, calculated as net income, less earnings attributable to participating securities.

The net income per share attributable to common stockholders is allocated based on the contractual participation rights of the Class A common stock and Class B common stock as if the income for the year has been distributed. As the liquidation and dividend rights are identical, the net loss attributable to common stockholders is allocated on a proportionate basis.

Basic net income per share of common stock is computed by dividing the net income attributable to common stockholders by the weighted-average number of shares of common stock outstanding during the period. All participating securities are excluded from the basic weighted-average shares of common stock outstanding. Unvested shares of common stock resulting from the early exercises of stock options are excluded from the calculation of the weighted-average shares of common stock until they vest as they are subject to repurchase until they are vested. The unvested shares of common stock resulting from early exercises of stock options accounted for all of our participating securities.

Diluted net income per share attributable to common stockholders is computed by dividing net income attributable to common stockholders by the weighted-average shares outstanding, including potentially dilutive shares of common equivalents outstanding during the period. The dilutive effect of potential shares of common stock are determined using the treasury stock method.

Undistributed net income for a given period is apportioned to participating securities based on the weighted-average shares of each class of common stock outstanding during the applicable period as a percentage of the total weighted-average shares outstanding during the same period.

For purposes of the diluted net income per share attributable to common stockholders calculation, unvested shares of common stock resulting from the early exercises of stock options and unvested options to purchase common stock are considered to be potentially dilutive shares of common stock. In addition, the computation of the fully diluted net income per share of Class A common stock assumes the conversion from Class B common stock, while the fully diluted net income per share of Class B common stock does not assume the conversion of those shares.





Edgar Filing: VEEVA SYSTEMS INC - Form 10-Q

The numerators and denominators of the basic and diluted EPS computations for our common stock are calculated as follows (in thousands, except per share data):

	Three months ended July 31,				Six Months Ended July 31,			
	2017		2016		2017		2016	
	Class A	Class B	Class A	Class B	Class A	Class B	Class A	Class B
<b>Basic</b>								
<b>Numerator</b>								
Net income	\$30,215	\$7,629	\$9,381	\$3,577	\$57,887	\$15,980	\$17,787	\$7,680
Undistributed earnings allocated to								
participating securities	—	—	(1 )	—	—	—	(1 )	(1 )
Net income attributable to common								
stockholders, basic	\$30,215	\$7,629	\$9,380	\$3,577	\$57,887	\$15,980	\$17,786	\$7,679
<b>Denominator</b>								
<b>Weighted average shares used in</b>								
<b>computing net income per share</b>								
<b>attributable to common</b>								
stockholders, basic	111,786	28,224	97,823	37,303	109,204	30,147	93,961	40,570
Net income per share attributable to common								
stockholders, basic	\$0.27	\$0.27	\$0.10	\$0.10	\$0.53	\$0.53	\$0.19	\$0.19
<b>Diluted</b>								
<b>Numerator</b>								
Net income attributable to common								
stockholders, basic	\$30,215	\$7,629	\$9,380	\$3,577	\$57,887	\$15,980	\$17,786	\$7,679
Reallocation as a result of conversion								
of Class B to Class A common stock:								
Net income attributable to common								
stockholders, basic	7,629	—	3,577	—	15,980	—	7,679	—
Reallocation of net income to Class B	—	2,705	—	767	—	5,268	—	1,474

Edgar Filing: VEEVA SYSTEMS INC - Form 10-Q

common stock								
Net income attributable to common								
stockholders, diluted	\$37,844	\$10,334	\$12,957	\$4,344	\$73,867	\$21,248	\$25,465	\$9,153
Denominator								
Number of shares used for basic EPS								
computation	111,786	28,224	97,823	37,303	109,204	30,147	93,961	40,570
Conversion of Class B to Class A								
common stock	28,224	—	37,303	—	30,147	—	40,570	—
Effect of potentially dilutive common								
shares	13,768	13,768	12,029	12,029	13,950	13,950	12,159	12,159
Weighted average shares used in								
computing net income per share								
attributable to common								
stockholders, diluted	153,778	41,992	147,155	49,332	153,301	44,097	146,690	52,729
Net income per share attributable to								
common stockholders, diluted	\$0.25	\$0.25	\$0.09	\$0.09	\$0.48	\$0.48	\$0.17	\$0.17

Potential common share equivalents excluded where the inclusion would be anti-dilutive are as follows:

	Three Months Ended		Six Months Ended	
	July 31, 2017	2016	July 31, 2017	2016
Options and awards to purchase shares not included in the computation of				
diluted net income per share because their inclusion would be anti-dilutive	337,503	2,031,160	558,126	1,757,681



Table of Contents

Note 10. Commitments and Contingencies

Litigation

IMS Litigation Matter.

IMS's Complaint Alleging Theft of Trade Secrets. On January 10, 2017, Quintiles IMS Incorporated and IMS Software Services, Ltd. (collectively, "IMS") filed a complaint against us in the U.S. District Court for the District of New Jersey (Quintiles IMS Inc. v. Veeva Systems Inc. (No. 2:17-cv-00177)). In the complaint, IMS alleges that we have used unauthorized access to proprietary IMS data to improve our software and data products, and that our software is designed to steal IMS trade secrets. IMS further alleges that we have intentionally gained unauthorized access to IMS proprietary information to gain an unfair advantage in marketing our products, and that we have made false statements concerning IMS's conduct and our data security capabilities. IMS asserts claims under both federal and state theft of trade secret laws, federal false advertising law, and common law claims for unjust enrichment, tortious interference, and unfair trade practices. The complaint seeks declaratory and injunctive relief and unspecified monetary damages.

On March 13, 2017, we filed our Answer and Counterclaims to IMS's complaint, a motion to dismiss all of IMS's claims except for those asserted under the Lanham Act, and a motion to transfer the case to the U.S. District Court for the Northern District of California. IMS's oppositions to each of those motions were filed on April 3, 2017, and our replies to IMS's oppositions were filed on April 10, 2017. On June 23, 2017, the Court denied our motion to transfer the case. The court has not yet ruled on our motion to dismiss.

While it is not possible at this time to predict with any degree of certainty the ultimate outcome of this action, and we are unable to make a meaningful estimate of the amount or range of loss, if any, that could result from any unfavorable outcome, we believe that IMS's claims lack merit.

Veeva's Counterclaim Complaint Alleging Violations of Federal and State Antitrust Laws. On March 13, 2017, we filed counterclaims in the action instituted by IMS in the U.S. District Court for the District of New Jersey. Our counterclaims allege that IMS has abused monopoly power as the dominant provider of data products for life sciences companies to exclude Veeva OpenData and Veeva Network from their respective markets. The counterclaims allege that IMS has engaged in various tactics to prevent customers from using our applications and has deliberately raised costs and difficulty for customers attempting to switch from IMS to our data products. The counterclaims assert federal and state antitrust claims, as well as claims under California's Unfair Practices Act and common law claims for intentional interference with contractual relations and intentional interference with prospective economic advantage. The counterclaims seek injunctive relief, monetary damages exceeding \$200 million, and attorneys' fees. On May 3, 2017, in lieu of filing an Answer, IMS filed a motion to dismiss our counterclaims. Our opposition to IMS's motion to dismiss was filed on June 5, 2017, and IMS's reply to our opposition was filed on June 19, 2017.

Discovery in the IMS litigation is ongoing, and a case management schedule was entered on August 18, 2017, with fact discovery scheduled to close on July 27, 2018. No trial date has yet been set.

Medidata Litigation Matter.

On January 26, 2017, Medidata Solutions, Inc. filed a complaint in the U.S. District Court for the Southern District of New York (Medidata Solutions, Inc. v. Veeva Systems Inc. et al. (No. 1:17-cv-00589)) against us and five individual Veeva employees who previously worked for Medidata ("Individual Employees"). The Complaint alleged that we induced and conspired with the Individual Employees to breach their employment agreements, including non-compete and confidentiality provisions, and to misappropriate Medidata's confidential and trade secret information. The

Complaint sought declaratory and injunctive relief, unspecified monetary damages, and attorneys' fees. On February 21, 2017, Medidata and its subsidiary MDSOL Europe Limited (collectively, "Medidata") filed a First Amended Complaint asserting the same allegations and claims. On March 1, 2017, Medidata voluntarily dismissed the Individual Defendants without prejudice. On March 3, 2017, we filed a motion to compel the entire matter to private arbitration, which Medidata opposed.

On August 16, 2017, the court issued an order denying Veeva's motion to compel arbitration. On August 24, 2017, Veeva appealed the court's order to the U.S. Court of Appeals for the Second Circuit, along with a separate request to stay the district court proceedings pending a decision from the Second Circuit. On August 30, 2017, with the stay request still pending, Veeva filed a motion to dismiss Medidata's entire complaint for failure to state a claim upon which relief may be granted. The initial pretrial conference with the court is scheduled for September 28, 2017, at which time the court will address, among other things, our motion to stay the proceedings pending the outcome of the appeal.

While it is not possible at this time to predict with any degree of certainty the ultimate outcome of this action, and we are unable to make a meaningful estimate of the amount or range of loss, if any, that could result from any unfavorable outcome, we deny Medidata’s allegations and will continue to vigorously defend ourselves against Medidata’s lawsuit.

#### Other Litigation Matters

From time to time, we may be involved in other legal proceedings and subject to claims incident to the ordinary course of business. Although the results of such legal proceedings and claims cannot be predicted with certainty, we believe we are not currently a party to any other legal proceedings, the outcome of which, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, cash flows or financial position. Regardless of the outcome, such proceedings can have an adverse impact on us because of defense and settlement costs, diversion of resources and other factors, and there can be no assurances that favorable outcomes will be obtained.

Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment or remediation can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

#### Value-Added Reseller Agreement

We have a value-added reseller agreement with salesforce.com, inc. for our use of the Salesforce1 Platform in combination with our developed technology to deliver certain of our multichannel customer relationship management applications, including hosting infrastructure and data center operations provided by salesforce.com. The agreement, as amended, requires that we meet minimum order commitments of \$500 million over the term of the agreement, which ends on September 1, 2025, including “true-up” payments if the orders we place with salesforce.com have not equaled or exceeded the following aggregate amounts within the timeframes indicated: (i) \$250 million for the period from March 1, 2014 to September 1, 2020 and (ii) the full amount of \$500 million by September 1, 2025. As of July 31, 2017, we remained obligated to pay fees of at least \$319.5 million prior to September 1, 2025 in connection with this agreement.

#### Note 11. Information about Geographic Areas

We track and allocate revenues by the principal geographic region of our customers’ end users rather than by individual country, which makes it impractical to disclose revenues for the United States or other specific foreign countries. Revenues by geographic area, which is primarily measured by the estimated location of the end users for subscription services revenues and the estimated location of the resources performing the services for professional services, were as follows for the periods shown below (in thousands):

	Three Months Ended		Six Months Ended	
	July 31, 2017	2016	July 31, 2017	2016
Revenues by geography				
North America	\$90,809	\$71,540	\$177,490	\$136,979

Edgar Filing: VEEVA SYSTEMS INC - Form 10-Q

Europe and other	50,269	39,120	97,353	73,934
Asia Pacific	25,507	20,687	49,660	40,198
Total revenues	\$166,585	\$131,347	\$324,503	\$251,111

Long-lived assets by geographic area are as follows as of the periods shown below (in thousands):

	July 31, 2017	January 31, 2017
Long-lived assets by geography		
North America	\$50,732	\$47,096
Europe and other	1,820	1,762
Asia Pacific	976	1,049
Total long-lived assets	\$53,528	\$49,907



Table of Contents

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

You should read the following discussion and analysis of our financial condition and results of operations in conjunction with our condensed consolidated financial statements and notes thereto appearing elsewhere in this report. In addition to historical condensed consolidated financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those anticipated by these forward-looking statements as a result of many factors. We discuss factors that we believe could cause or contribute to these differences below and elsewhere in this report, including those set forth under "Risk Factors" and "Special Note Regarding Forward-Looking Statements."

Overview

Veeva is a leading provider of industry cloud solutions for the global life sciences industry. We were founded in 2007 on the premise that industry-specific cloud solutions could best address the operating challenges and regulatory requirements of the life sciences industry. Our products are designed to meet the unique needs of life sciences companies for their most strategic business functions—from research and development to commercialization. Our products are designed to help life sciences companies bring products to market faster and more efficiently, market and sell more effectively, and maintain compliance with government regulations.

Veeva Commercial Cloud, and in particular Veeva CRM, has made up the vast majority of our revenue historically. In our fiscal year ended January 31, 2017, we derived approximately 71% of our subscription services revenues and 68% of our total revenues from our Veeva Commercial Cloud solutions. The contribution of subscription services revenues and total revenues associated with our Veeva Vault solutions are expected to increase as a percentage of subscription services revenues and total revenues going forward. However, as compared to Veeva CRM, we have less experience selling Veeva Vault and certain applications within Veeva Commercial Cloud, including Veeva Network, our data offerings, and our newer multichannel customer relationship management applications. We are now extending certain of our solutions outside the life sciences industry in North America and Europe. Although certain of our Veeva Vault applications have begun to achieve meaningful market acceptance within the life sciences industry, to the extent that our more recently introduced solutions do not continue to achieve significant market acceptance, our business and results of operations may be adversely affected.

For our fiscal years ended January 31, 2017, 2016 and 2015, our total revenues were \$544.0 million, \$409.2 million and \$313.2 million, respectively, representing year-over-year growth in total revenues of 33% in fiscal year ended January 31, 2017 and 31% in fiscal year ended January 31, 2016. For our fiscal years ended January 31, 2017, 2016 and 2015, our subscription services revenues were \$434.3 million, \$316.3 million and \$233.1 million, respectively, representing year-over-year growth in subscription services revenues of 37% in fiscal year ended January 31, 2017 and 36% in fiscal year ended January 31, 2016. We expect the growth rate of our total revenues and subscription services revenues to decline in future periods. We generated net income of \$68.8 million, \$54.5 million and \$40.4 million for our fiscal years ended January 31, 2017, 2016 and 2015, respectively. As of January 31, 2017, 2016 and 2015, we served 517, 400 and 276 customers, respectively. Our customer totals for each of our major solutions as of January 31, 2017, were 259 for Veeva CRM, 334 for Veeva Vault, 90 for Veeva OpenData, and 47 for Veeva Network. A single customer may be counted in more than one solution category if the customer has purchased multiple solutions. Many of our Veeva Vault applications are used by smaller, earlier stage pre-commercial companies, some of which may not reach the commercialization stage. Thus, the potential number of Veeva Vault customers is significantly higher than the potential number of customers that use our Commercial Cloud solutions.

For the six months ended July 31, 2017 and 2016, our total revenues were \$324.5 million and \$251.1 million, respectively, representing period-over-period growth in total revenues of 29%. For the six months ended July 31, 2017 and 2016, our subscription services revenues were \$261.6 million and \$201.2 million, respectively, representing

period-over-period growth in subscription services revenues of 30%. In the six months ended July 31, 2017, we derived approximately 66% of our subscription services revenues and 63% of our total revenues from our Veeva Commercial Cloud solutions. We generated net income of \$73.9 million and \$25.5 million for the six months ended July 31, 2017 and 2016, respectively.

Additionally, in September 2015, we completed our acquisition of the companies referred to as “Zinc Ahead” in an all-cash transaction. We are incorporating functionality from the Zinc Ahead products into our Veeva Vault PromoMats application. We have begun to and will seek to continue to convert the end users of the Zinc Ahead solutions to our Vault PromoMats application over time. However, we may not retain and convert existing Zinc Ahead customers to our Vault PromoMats application to the extent we previously planned, which could adversely affect our business. Customers who elect to use Zinc Ahead’s Zinc MAPS product will be supported through at least 2020.

### Key Factors Affecting Our Performance

**Investment in Growth.** We have invested and intend to continue to invest aggressively in expanding the breadth and depth of our product portfolio. We expect to continue to invest in research and development, to expand existing solutions and build new solutions; in sales and marketing, to promote our solutions to new and existing customers and in existing and expanded geographies and industries; in professional services to ensure the success of our customers’ implementations of our solutions; and in other operational and administrative functions to support our expected growth. We anticipate that our headcount will increase as a result of these investments. We also expect our total operating expenses will continue to increase over time, which could have a negative impact on our operating margin.

**Adoption of Our Solutions by Existing and New Customers.** Most of our customers initially deploy our solutions to a limited number of end users within a division or geography and may only initially deploy a limited set of our available solutions. Our future growth is dependent upon our existing customers’ continued success and their renewals of subscriptions to our solutions, expanded deployment of our solutions within their organizations, and their purchase of subscriptions to additional solutions. Our growth is also dependent on the adoption of our solutions by new customers.

**Subscription Services Revenue Retention Rate.** A key factor to our success is the renewal and expansion of our existing subscription agreements with our customers. We calculate our annual subscription services revenue retention rate for a particular fiscal year by dividing (i) annualized subscription revenue as of the last day of that fiscal year from those customers that were also customers as of the last day of the prior fiscal year by (ii) the annualized subscription revenue from all customers as of the last day of the prior fiscal year. Annualized subscription revenue is calculated by multiplying the daily subscription revenue recognized on the last day of the fiscal year by 365. This calculation includes the impact on our revenues from customer non-renewals, expanded deployment of our solutions within their organizations, deployments of additional solutions or discontinued use of solutions by our customers, and price changes for our solutions. Historically, the impact of price changes on our subscription services revenue retention rate has been minimal. For our fiscal years ended January 31, 2017, 2016 and 2015, our subscription services revenue retention rate was 127%, 125% and 138%, respectively.

**Mix of Subscription and Professional Services Revenues.** We believe our investments in professional services have driven customer success and facilitated the further adoption of our solutions by our customers. During the initial period of deployment by a customer, we generally provide a greater amount of configuration, implementation and training than later in the deployment. At the same time, many of our customers have historically purchased subscriptions for a limited set of their total potential end users or less than full adoption during their initial deployments. As a result of these factors, the proportion of total revenues for a customer associated with professional services is relatively high during the initial deployment period. Over time, we have observed and continue to expect the mix of total revenues to shift more toward subscription services revenues. As a result, we expect the proportion of our total revenues from subscription services to increase over time.

### Components of Results of Operations

#### Revenues

We derive our revenues primarily from subscription services fees and professional services fees. Subscription services revenues consist of fees from customers accessing our cloud-based software solutions and subscription or license fees

for our data solutions. In addition, our acquired Zinc Ahead business had a limited number of perpetual license agreements with accompanying maintenance and hosting fees. We have included such on-going maintenance and hosting fees in our subscription services revenues. Professional services and other revenues consist primarily of fees from implementation services, configuration, data services, training and managed services related to our solutions. For the six months ended July 31, 2017, subscription services revenues constituted 81% of total revenues and professional services and other revenues constituted 19% of total revenues.

## Table of Contents

We enter into master subscription agreements with our customers and count each distinct master subscription agreement that has not been terminated or expired and that has orders for which we have recognized revenue in the quarter as a distinct customer for purposes of determining our total number of current customers as of the end of that quarter. We generally enter into a single master subscription agreement with each customer, although in some instances, affiliated legal entities within the same corporate family may enter into separate master subscription agreements. Divisions, subsidiaries and operating units of our customers often place distinct orders for our subscription services under the same master subscription agreement, and we do not count such distinct orders as new customers for purposes of determining our total customer count. With respect to data services customers that have not purchased one of our software solutions, we count as a distinct customer the party with a master subscription agreement and that has a known and recurring payment obligation. For purposes of determining our total customer count, we count each entity that uses a legacy Zinc Ahead product as a distinct customer if such entity is not otherwise a customer of ours.

New subscription orders typically have a one-year term and automatically renew unless notice of cancellation is provided in advance. If a customer adds end users or solutions to an existing order, such additional orders will generally be coterminus with the anniversary date of the initial order, and as a result, orders for additional end users or solutions will commonly have an initial term of less than one year. Subscription orders are generally billed at the beginning of the subscription commencement date in annual or quarterly increments. Because the term of orders for additional end users or solutions is commonly less than one year and payment terms may also be quarterly, the annualized value of such orders that we enter into with our customers will not be completely reflected in deferred revenue at any single point in time. We have also agreed from time to time, and may agree in the future, to allow customers to change the renewal dates of their orders to, for example, align more closely with a customer's annual budget process or to align with the renewal dates of other orders placed by other entities within the same corporate control group, or to change payment terms from annual to quarterly, or vice versa. Such changes typically result in an order of less than one year as necessary to align all orders to the desired renewal date and, thus, may result in a lesser increase to deferred revenue than if the adjustment had not occurred. Additionally, if a coterminus order of less than one year renews in the same fiscal year in which it was originally signed and has annual billing terms, the order will generate more deferred revenue in that fiscal year than the annual contract value of that order. Accordingly, we do not believe that change in deferred revenue or calculated billings, a metric commonly cited by financial analysts that is the sum of the change in deferred revenue plus revenue, are accurate indicators of future revenues for any given period of time.

With respect to solutions other than our core sales automation solution and particularly with respect to our Vault applications, we have entered into a number of orders with terms of up to five years. The fees associated with such orders are typically not based on the number of end-users and typically escalate over the term of such orders at a pre-agreed rate to account for, among other factors, implementation and adoption timing and planned increased usage by the customer. Such multi-year orders are billed in annual or quarterly increments.

Subscription services revenues are recognized ratably over the order term beginning when the solution has been provisioned to the customer. Our subscription services agreements are generally non-cancelable during the term, although customers typically have the right to terminate their agreements for cause in the event of material breach. Subscription services revenues are affected primarily by the number of customers, the number of end users (or other subscription usage metric) at each customer that uses our solutions and the number of solutions subscribed to by each customer.

We utilize our own professional services personnel and, in certain cases, third-party subcontractors to perform our professional services engagements with customers. Our professional services engagements are primarily billed on a time and materials basis and revenues are typically recognized as the services are rendered. Certain professional services revenues are based on fixed fee arrangements and revenues are recognized based on the proportional

performance method. 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. In those circumstances, revenue recognition may be sporadic, based upon the achievement of such contractual conditions. Professional services revenues are affected primarily by our customers' demands for implementation services, configuration, data services, training and managed services in connection with our solutions.

With respect to our acquired Zinc Ahead business, we have not established stand-alone value for professional services and, therefore, we account for multiple element arrangements as a combined unit of accounting. As a result, professional services revenues for our Zinc Ahead business, when delivered as part of a multiple-element arrangement, are generally recognized ratably over the term of the associated subscription services.

## Cost of Revenues

Cost of subscription services revenues for all of our solutions consists of expenses related to our computing infrastructure provided by third parties, including salesforce.com and Amazon Web Services, personnel related costs associated with hosting our subscription services and providing support, including our data stewards, operating lease expense associated with computer equipment and software and allocated overhead, amortization expense associated with capitalized internal-use software related to our subscription services and amortization expense associated with purchased intangibles related to our subscription services. Cost of subscription services revenues for Veeva CRM and certain of our multichannel customer relationship management applications includes fees paid to salesforce.com for our use of the Salesforce1 Platform and the associated hosting infrastructure and data center operations that are provided by salesforce.com. We intend to continue to invest additional resources in our subscription services to enhance our product offerings and increase our delivery capacity. We may add or expand computing infrastructure capacity in the future, migrate to new computing infrastructure service providers, and make additional investments in the availability and security of our solutions. For example, we will be migrating a greater proportion of our computing infrastructure needs to Amazon Web Services through the remainder of fiscal 2018. The timing of when we incur these additional expenses will affect our cost of revenues in absolute dollars in the affected periods.

Cost of professional services and other revenues consists primarily of employee-related expenses associated with providing these services, including salaries, benefits and stock-based compensation expense, the cost of third-party subcontractors, travel costs and allocated overhead. The cost of providing professional services is significantly higher as a percentage of the related revenues than for our subscription services due to the direct labor costs and costs of third-party subcontractors.

## Operating Expenses

We accumulate certain costs such as building depreciation, office rent, utilities and other facilities costs and allocate them across the various departments based on headcount. We refer to these costs as “allocated overhead.”

**Research and Development.** Research and development expenses consist primarily of employee-related expenses, third-party consulting fees and hosted infrastructure costs, and allocated overhead, offset by any internal-use software development costs capitalized during the same period. We continue to focus our research and development efforts on adding new features and applications, increasing the functionality and enhancing the ease of use of our cloud-based applications.

**Sales and Marketing.** Sales and marketing expenses consist primarily of employee-related expenses, sales commissions, marketing program costs, amortization expense associated with purchased intangibles related to our customer contracts, customer relationships and brand, travel-related expenses, and allocated overhead. Sales commissions and other program spend costs are expensed as incurred. Consequently, the recognition of this expense on our income statement generally precedes the recognition of the related revenue.

**General and Administrative.** General and administrative expenses consist of employee-related expenses for our executive, finance and accounting, legal, employee success, management information systems personnel and other administrative employees. In addition, general and administrative expenses include fees related to third-party legal counsel, fees related to third-party accounting, tax and audit services, other corporate expenses, and allocated overhead.

## Other Income (Expense), Net

Other income (expense), net consists primarily of transaction gains or losses on foreign currency, net of interest income and amortization of premiums paid on investments.

Provision for Income Taxes

Provision for income taxes consists of federal and state income taxes in the United States and income taxes in certain foreign jurisdictions. See note 7 of the notes to our condensed consolidated financial statements.

New Accounting Pronouncements Adopted in Fiscal 2018

Refer to note 1 of the condensed consolidated financial statements for a full description of the recent accounting pronouncements adopted during the fiscal year ending January 31, 2018.



## Table of Contents

### Recent Accounting Pronouncements

#### Stock-Based Compensation

In May 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2017-09, "Compensation—Stock Compensation (Topic 718): Scope of Modification Accounting," which provides guidance about which changes to the terms or conditions of a share-based payment award require an entity to apply modification accounting in Topic 718. This new standard is effective for our interim and annual periods beginning January 1, 2018, and early adoption is permitted. We do not anticipate that the adoption of this standard will have a material impact on our consolidated financial statements.

#### Intangibles and Goodwill

In January 2017, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2017-04, "Intangibles—Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment," which eliminates Step 2 from the goodwill impairment test. Under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. Additionally, an entity should consider income tax effects from any tax deductible goodwill on the carrying amount of the reporting unit when measuring the goodwill impairment loss, if applicable. ASU 2017-04 is effective for annual or any interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and early adoption is permitted for impairment tests performed on testing dates after January 1, 2017. ASU 2017-04 is to be applied on a prospective basis. We are currently evaluating the timing of adoption and do not expect the adoption of ASU 2017-04 to have a material impact on our consolidated financial statements.

#### Restricted Cash

In November 2016, the FASB issued ASU 2016-18, "Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)," which requires that amounts generally described as restricted cash or restricted cash equivalents be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This standard is effective for our interim and annual reporting periods beginning after December 15, 2017, and early adoption is permitted. We do not anticipate this standard will have a material impact on our consolidated financial statements as we do not have any material restricted cash arrangements.

#### Income Taxes

In October 2016, the FASB issued ASU 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory," which includes a revision of the accounting for the income tax consequences of intra-entity transfers of assets other than inventory to reduce the complexity in accounting standards. This standard is effective for our interim and annual reporting periods beginning after December 15, 2017, and early adoption is permitted. We are currently evaluating the impact of this standard on our consolidated financial statements.

#### Leases

In February 2016, the FASB issued ASU 2016-02, "Leases," which requires that lease arrangements longer than 12 months result in an entity recognizing an asset and liability. The updated guidance is effective for interim and annual periods beginning after December 15, 2018, and early adoption is permitted. We are evaluating the impact of this new

accounting standard on our consolidated financial statements and expect the adoption to materially increase our long-term assets and liabilities, but we have not yet determined whether we will early adopt.

## Financial Instruments

In January 2016, the FASB issued ASU 2016-01, “Financial Instruments,” which outlines the classification and measurement of financial instruments. The requirement to disclose the methods and significant assumptions used to estimate fair value is removed. In addition, financial assets and liabilities are to be presented separately in the notes to the financial statements, grouped by measurement category and form of financial asset. This standard is effective for our interim and annual reporting periods beginning after December 15, 2017, and early adoption is permitted. We do not expect this standard to have a material impact on our consolidated financial statements.

## Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers” (Topic 606). This guidance outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model 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)”. The two permitted transition methods under the new standard are the full retrospective method, in which case the standard would be applied to each prior reporting period presented and the cumulative effect of applying the standard would be recognized at the earliest period shown, or the modified (cumulative effect) retrospective method, in which case the cumulative effect of applying the standard would be recognized at the date of initial application. In August 2015, the FASB issued ASU 2015-14, “Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date.” This update deferred the effective date of ASU 2014-09 for all entities by one year, although companies still have the option to begin applying the new guidance as of the original effective date. In accordance with the deferral, this guidance will be effective for our fiscal year beginning February 1, 2018. In May 2016, the FASB issued ASU 2016-12, “Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients,” which clarifies implementation guidance in ASU 2014-09 on assessing collectibility, noncash consideration, presentation of sales tax and completed contracts and contract modifications at transition. We will adopt the requirements of the new standard as of February 1, 2018 and anticipate using the full retrospective transition method. Our ability to adopt using the full retrospective method is dependent upon system readiness for both revenue and commissions and the completion of the analysis of information necessary to restate prior period financial statements.

We expect the impact of adoption will include the deferral of costs to obtain customer contracts, which is comprised of commissions on our subscription services arrangements and the other associated fringe benefits. Such costs are expensed as incurred under the current standard, whereas under the new standard, they will generally be capitalized and amortized over the costs’ associated term of economic benefit. We have not yet determined the term of economic benefit of our costs to obtain customer contracts which will affect our operating margin as well as the classification and magnitude of the deferred costs for each reporting period.

Revenue for the majority of our subscription services customer contracts will continue to be recognized over time because of the continuous transfer of control to the customer; however, we expect some impact to revenue primarily driven by (i) accounting for non-cancelable multi-year contracts (ii) the removal of the current limitation on contingent revenue, which may result in revenue being recognized earlier for certain contracts, and (iii) potential changes to our approach to allocating revenue between subscription services and professional services.

We are continuing to evaluate the effect that the new standard will have on our consolidated financial statements and our preliminary assessments remain subject to change.



Table of Contents

## Results of Operations

The following tables set forth selected condensed consolidated statements of operations data and such data as a percentage of total revenues for each of the periods indicated:

	Three months ended		Six months ended	
	July 31,		July 31,	
	2017	2016	2017	2016
(in thousands)				
<b>Consolidated Statements of Comprehensive Income Data:</b>				
<b>Revenues:</b>				
Subscription services	\$ 134,340	\$ 105,211	\$ 261,617	\$ 201,243
Professional services and other	32,245	26,136	62,886	49,868
<b>Total revenues</b>	<b>166,585</b>	<b>131,347</b>	<b>324,503</b>	<b>251,111</b>
<b>Cost of revenues<sup>(1)</sup>:</b>				
Cost of subscription services	26,800	23,108	52,938	44,853
Cost of professional services and other	23,604	19,087	46,348	38,433
<b>Total cost of revenues</b>	<b>50,404</b>	<b>42,195</b>	<b>99,286</b>	<b>83,286</b>
<b>Gross profit</b>	<b>116,181</b>	<b>89,152</b>	<b>225,217</b>	<b>167,825</b>
<b>Operating expenses<sup>(1)</sup>:</b>				
Research and development	32,691	23,563	61,002	45,636
Sales and marketing	32,017	28,908	61,827	55,631
General and administrative	14,575	12,859	28,151	24,930
<b>Total operating expenses</b>	<b>79,283</b>	<b>65,330</b>	<b>150,980</b>	<b>126,197</b>
<b>Operating income</b>	<b>36,898</b>	<b>23,822</b>	<b>74,237</b>	<b>41,628</b>
Other income (expense), net	2,858	(1,362)	3,449	1,385
<b>Income before income taxes</b>	<b>39,756</b>	<b>22,460</b>	<b>77,686</b>	<b>43,013</b>
Provision for income taxes	1,912	9,502	3,819	17,546
<b>Net income</b>	<b>\$ 37,844</b>	<b>\$ 12,958</b>	<b>\$ 73,867</b>	<b>\$ 25,467</b>

(1) Includes stock-based compensation as follows:

<b>Cost of revenues:</b>				
Cost of subscription services	\$ 376	\$ 288	\$ 718	\$ 497
Cost of professional services and other	2,133	1,507	3,822	2,685
Research and development	4,349	2,812	8,151	5,206
Sales and marketing	4,173	3,342	8,020	5,797
General and administrative	2,349	2,065	4,457	3,972
<b>Total stock-based compensation</b>	<b>\$ 13,380</b>	<b>\$ 10,014</b>	<b>\$ 25,168</b>	<b>\$ 18,157</b>

Edgar Filing: VEEVA SYSTEMS INC - Form 10-Q

	Three months ended		Six months ended	
	July 31, 2017	2016	July 31, 2017	2016
<b>Consolidated Statements of Comprehensive Income Data:</b>				
<b>Revenues:</b>				
Subscription services	80.6 %	80.1 %	80.6 %	80.1 %
Professional services and other	19.4	19.9	19.4	19.9
Total revenues	100.0	100.0	100.0	100.0
<b>Cost of revenues:</b>				
Cost of subscription services	16.1	17.6	16.3	17.9
Cost of professional services and other	14.2	14.5	14.3	15.3
Total cost of revenues	30.3	32.1	30.6	33.2
Gross profit	69.7	67.9	69.4	66.8
<b>Operating expenses:</b>				
Research and development	19.6	17.9	18.8	18.2
Sales and marketing	19.2	22.0	19.1	22.2
General and administrative	8.8	9.9	8.7	9.9
Total operating expenses	47.6	49.8	46.6	50.3
Operating income	22.1	18.1	22.8	16.5
Other income (expense), net	1.7	(1.0 )	1.2	0.6
Income before income taxes	23.8	17.1	24.0	17.1
Provision for income taxes	1.1	7.2	1.2	7.0
Net income	22.7 %	9.9 %	22.8 %	10.1 %

## Revenues

	Three months ended			Six months ended		
	July 31,			July 31,		
	2017	2016	% Change	2017	2016	% Change
(dollar amounts in thousands)						
<b>Revenues:</b>						
Subscription services	\$ 134,340	\$ 105,211	28%	\$ 261,617	\$ 201,243	30%
Professional services and other	32,245	26,136	23	62,886	49,868	26
Total revenues	\$ 166,585	\$ 131,347	27	\$ 324,503	\$ 251,111	29
<b>Percentage of revenues:</b>						
Subscription services	81	% 80	%	81	% 80	%
Professional services and other	19	20		19	20	
Total revenues	100	% 100	%	100	% 100	%

Total revenues for the three months ended July 31, 2017 increased \$35.2 million from the same period in the prior year, of which \$29.1 million was from growth in subscription services revenues. The increase in subscription services revenues consisted of \$17.5 million of subscription services revenue attributable to Veeva Vault solutions, and \$11.6 million of subscription services revenue attributable to Veeva Commercial Cloud solutions. The geographic mix of subscription services revenues, which is primarily measured by the estimated location of the end users of our subscription services, was 54% from North America, 30% from Europe and other and 16% from Asia for the three months ended July 31, 2017 as compared to 53% from North America, 30% from Europe and other and 17% from Asia for the three months ended July 31, 2016.

Professional services and other revenues for the three months ended July 31, 2017 increased \$6.1 million from the same period in the prior year. The increase in professional services revenues was due primarily to new customers requesting implementation and deployment related professional services and existing customers requesting professional services related to expanding deployments or the deployment of newly purchased solutions. The geographic mix of professional services and other revenues, as measured by the estimated location of the resources performing the services, was 59% from North America, 30% from Europe and other and 11% from Asia for the three months ended July 31, 2017 as compared to 60% from North America, 29% from Europe and other and 11% from Asia for the three months ended July 31, 2016.

Subscription services revenues were 81% of total revenues for the three months ended July 31, 2017, compared to 80% of total revenues for the three months ended July 31, 2016, reflecting the slightly faster growth rate of our subscription services revenues as compared to the growth rate of our professional services revenues.

Total revenues for the six months ended July 31, 2017 increased \$73.4 million from the same period in the prior year, of which \$60.4 million was from growth in subscription services revenues. The increase in subscription services revenues consisted of \$34.5 million of subscription services revenue attributable to Veeva Vault solutions, and \$25.9 million of subscription services revenue attributable to Veeva Commercial Cloud solutions. The geographic mix of subscription services revenues, which is primarily measured by the estimated location of the end users of our subscription services, was 53% from North America, 30% from Europe and other and 17% from Asia for the six months ended July 31, 2017 as compared to 53% from North America, 30% from Europe and other and 17% from Asia for the six months ended July 31, 2016.

Professional services and other revenues for the six months ended July 31, 2017 increased \$13.0 million from the same period in the prior year. The increase in professional services revenues was due primarily to new customers requesting implementation and deployment related professional services and existing customers requesting professional services related to expanding deployments or the deployment of newly purchased solutions. The geographic mix of professional services and other revenues, as measured by the estimated location of the resources performing the services, was 61% from North America, 29% from Europe and other and 10% from Asia for the six months ended July 31, 2017 as compared to 61% from North America, 28% from Europe and other and 11% from Asia for the six months ended July 31, 2016.

Subscription services revenues were 81% of total revenues for the six months ended July 31, 2017, compared to 80% of total revenues for the six months ended July 31, 2016, reflecting the slightly faster growth rate of our subscription services revenues as compared to the growth rate of our professional services revenues.

Over time, we expect the proportion of our total revenues from subscription services to increase.



Table of Contents

## Cost of Revenues and Gross Profit

	Three months ended			Six months ended		
	July 31,			July 31,		
	2017	2016	% Change	2017	2016	% Change
	(dollars in thousands)					
Cost of revenues:						
Cost of subscription services	\$26,800	\$23,108	16%	\$52,938	\$44,853	18%
Cost of professional services and other	23,604	19,087	24	46,348	38,433	21
Total cost of revenues	\$50,404	\$42,195	19	\$99,286	\$83,286	19
Gross margin percentage:						
Subscription services	80	% 78	%	80	% 78	%
Professional services and other	27	27		26	23	
Total gross margin percentage	70	% 68	%	69	% 67	%
Gross profit	\$116,181	\$89,152	30%	\$225,217	\$167,825	34%

Cost of revenues for the three months ended July 31, 2017 increased \$8.2 million from the same period in the prior year, of which \$3.7 million was related to cost of subscription services. The increase in cost of subscription services was primarily due to an increase in the number of end users of our subscription services, which drove an increase of \$1.6 million in fees paid to salesforce.com, a \$1.1 million increase in third-party data center costs, and an increase of \$0.7 million in employee compensation-related costs (includes an increase of \$0.1 million in stock-based compensation). We expect cost of subscription services revenues to increase in absolute dollars in the near term, as we renew existing orders and enter into new orders for our subscription services. In addition, we expect to incur temporary duplicate infrastructure costs associated with the migration of our computing infrastructure for our Veeva Vault applications, Veeva Network applications and certain other Veeva Commercial Cloud applications to Amazon Web Services.

Cost of professional services and other revenues for the three months ended July 31, 2017 increased \$4.5 million from the same period in the prior year, primarily due to a \$4.0 million increase in employee compensation-related costs (includes an increase of \$0.6 million in stock-based compensation). The increase in employee compensation-related costs is primarily driven by the increase in headcount during the period. We expect cost of professional services and other revenues to increase as a percentage of professional services revenue as we add personnel to our global professional services organization.

Gross profit as a percentage of total revenues for the three months ended July 31, 2017 and 2016 was 70% and 68%, respectively. The increase compared to the prior periods is largely due to an increase in the proportion of total revenues attributable to subscription services revenues, which have higher gross margins, as compared to professional services and other revenues, as well as the continued growth of our Veeva Vault, Veeva Network master data management solutions, and our newer multichannel customer relationship management applications that compliment Veeva CRM, all of which have slightly higher subscription services gross margins than our core Veeva CRM application.

Cost of revenues for the six months ended July 31, 2017 increased \$16.0 million from the same period in the prior year, of which \$8.1 million was related to cost of subscription services. The increase in cost of subscription services was primarily due to an increase in the number of end users of our subscription services, which drove an increase of \$3.3 million in fees paid to salesforce.com, a \$2.2 million increase in third-party data center costs, and an increase of \$1.6 million in employee compensation-related costs (includes an increase of \$0.2 million in stock-based compensation).

Cost of professional services and other revenues for the six months ended July 31, 2017 increased \$7.9 million from the same period in the prior year, primarily due to a \$7.2 million increase in employee compensation-related costs (includes an increase of \$1.1 million in stock-based compensation). The increase in employee compensation-related costs is primarily driven by the increase in headcount during the period.

Gross profit as a percentage of total revenues for the six months ended July 31, 2017 and 2016 was 69% and 67%, respectively. The increase compared to the prior periods is largely due to an increase in the proportion of total revenues attributable to subscription services revenues, which have higher gross margins, as compared to professional services and other revenues, as well as the continued growth of our Veeva Vault, Veeva Network master data management solutions, and our newer multichannel customer relationship management applications that compliment Veeva CRM, all of which have slightly higher subscription services gross margins than our core Veeva CRM application.

## Operating Expenses and Operating Margin

Operating expenses include research and development, sales and marketing and general and administrative expenses. As we continue to invest in our growth through hiring and as we approach our seasonally highest period of operating expenses in the fourth quarter of our fiscal year, we expect operating expenses to increase in absolute dollars and as a percentage of revenue, resulting in a decrease in our operating margin over the remaining two quarters of this fiscal year ending January 31, 2018.

## Research and Development

	Three months ended			Six months ended		
	July 31,			July 31,		
	2017	2016	% Change	2017	2016	% Change
	(dollars in thousands)					
Research and development	\$32,691	\$23,563	39%	\$61,002	\$45,636	34%
Percentage of total revenues	20	% 18	%	19	% 18	%

Research and development expenses for the three months ended July 31, 2017 increased \$9.1 million from the same period in the prior year, primarily due to an increase of \$7.8 million in employee compensation-related costs (includes an increase of \$1.5 million in stock-based compensation) resulting from increased headcount during the period. The expansion of our headcount in this area is to support the increased number of products that we offer. There was also an increase of \$0.8 million associated with our migration to Amazon Web Services to support the development and testing of our product infrastructure, platform and applications.

Research and development expenses for the six months ended July 31, 2017 increased \$15.4 million from the same period in the prior year, primarily due to an increase of \$14.5 million in employee compensation-related costs (includes an increase of \$2.9 million in stock-based compensation) resulting from increased headcount during the period. The expansion of our headcount in this area is to support the increased number of products that we offer. There was also an increase of \$0.9 million associated with our migration to Amazon Web Services to support the development and testing of our product infrastructure, platform and applications. This increase was partially offset by \$0.8 million in research and development expenses that were capitalized as internal use software during the period.

We expect research and development expenses to increase in absolute dollars in the near term, primarily due to higher headcount as we continue to add research and development personnel and invest in our solutions.

## Sales and Marketing

	Three months ended			Six months ended		
	July 31,			July 31,		
	2017	2016	% Change	2017	2016	% Change
	(dollars in thousands)					

	(dollars in thousands)						% Change
Sales and marketing	\$32,017	\$28,908	11%	\$61,827	\$55,631	11%	
Percentage of total revenues	19	%	22	%	19	%	22

Sales and marketing expenses for the three months ended July 31, 2017 increased \$3.1 million from the same period in the prior year, primarily due to an increase of \$2.6 million in employee compensation-related costs (includes an increase of \$0.8 million in stock-based compensation and a decrease of \$0.6 million in sales commissions). The increase in employee compensation-related costs is primarily driven by increase in headcount during the period.

Sales and marketing expenses for the six months ended July 31, 2017 increased \$6.2 million from the same period in the prior year, primarily due to an increase of \$6.1 million in employee compensation-related costs (includes an increase of \$2.2 million in stock-based compensation and a decrease of \$0.4 million in sales commissions). The increase in employee compensation-related costs is primarily driven by increase in headcount during the period.

We expect sales and marketing expenses to continue to grow in absolute dollars and as a percentage of revenue in the remaining two quarters of this fiscal year, and in particular the fourth quarter. This is primarily due to increasing employee-related expenses as we expand our sales capacity across all our solutions, both inside and outside of the life sciences industry, and due to the fact that our seasonally highest level of expense for sales and marketing events is in the fourth quarter.

Table of Contents

## General and Administrative

	Three months ended			Six months ended		
	July 31,			July 31,		
	2017	2016	% Change	2017	2016	% Change
	(dollars in thousands)					
General and administrative	\$14,575	\$12,859	13%	\$28,151	\$24,930	13%
Percentage of total revenues	9	% 10	%	9	% 10	%

General and administrative expenses for the three months ended July 31, 2017 increased \$1.7 million from the same period in the prior year, primarily due to an increase of \$1.1 million in legal fees related to litigation activity during the period and an increase of \$1.0 million in employee compensation-related costs (includes an increase of \$0.3 million in stock-based compensation). The increase in employee compensation-related costs is primarily driven by increase in headcount during the period. The increases were partially offset by a decrease of \$0.6 million in deferred compensation costs due to the termination of employees from the acquired Zinc Ahead business.

General and administrative expenses for the six months ended July 31, 2017 increased \$3.2 million from the same period in the prior year, primarily due to an increase of \$2.9 million in legal fees related to litigation activity during the period and an increase of \$1.7 million in employee compensation-related costs (includes an increase of \$0.5 million in stock-based compensation). The increase in employee compensation-related costs is primarily driven by increase in headcount during the period. The increases were partially offset by a decrease of \$1.9 million in deferred compensation costs due to the termination of employees from the acquired Zinc Ahead business.

We expect general and administrative expenses to continue to grow in absolute dollars in the near term, primarily due to higher headcount as we continue to invest in our business, increased third-party legal fees related to the matters described in Part II, Item 1. "Legal Proceedings," and increased accounting, tax and audit fees related to compliance with new accounting guidance.

## Other Income (Expense), Net

	Three months ended			Six months ended		
	July 31,			July 31,		
	2017	2016	% Change	2017	2016	% Change
	(dollars in thousands)					
Other income (expense), net	\$2,858	\$(1,362)	310%	\$3,449	\$1,385	149%

Other income (expense), net for the three months ended July 31, 2017 increased \$4.2 million from the prior year period, primarily due to foreign currency losses in the prior period combined with \$1.3 million in foreign currency gains in the current period. The increase in other income (expense), net was also attributable to an increase in interest and other income of \$0.9 million due to higher cash and cash equivalents balances and higher yield in the current period. Other income (expense), net for the six months ended July 31, 2017 increased \$2.1 million from the prior year period, primarily due to an increase in interest and other income of \$1.6 million due to higher cash and cash equivalents and higher yield balances in the current period. This increase was also attributable to \$0.8 million in foreign currency gains in the current period. We continue to experience foreign currency fluctuations primarily due to the volatility in the value of the U.S. Dollar against the Euro and British Pound Sterling and the impact resulting from the periodic re-measurement of our foreign currency balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. Our results of operations are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro, British Pound Sterling, Japanese Yen and Chinese Yuan. We may continue to experience favorable or adverse foreign currency impacts due to continued volatility in these currencies.

#### Provision for Income Taxes

	Three months ended			Six months ended		
	July 31,			July 31,		
	2017	2016	% Change	2017	2016	% Change
	(dollars in thousands)					
Income before income taxes	\$39,756	\$22,460	77%	\$77,686	\$43,013	81%
Provision for income taxes	1,912	9,502	-80%	3,819	17,546	-78%
Effective tax rate	4.8 %	42.3 %		4.9 %	40.8 %	

Our effective tax rate is the result of the mix of income earned in various tax jurisdictions that are subject to a broad range of income tax rates. The provision for income taxes differs from the tax computed at the U.S. federal statutory income tax rate due primarily to earnings considered as indefinitely reinvested in foreign operations, state taxes, the U.S. research and development tax credit, equity compensation and the U.S. domestic production activity deduction. Future effective tax rates could be adversely affected if earnings are lower than anticipated in countries where we have lower statutory tax rates, by unfavorable changes in tax laws and regulations or by adverse rulings in tax related litigation, as may be applicable. Differing tax rates in various jurisdictions could harm our results of operations and financial condition by increasing our overall tax rate. As discussed in notes 1 and 7, we adopted ASU 2016-09 on February 1, 2017. We recorded all income tax effects of share-based awards in the provision for income taxes in the condensed consolidated statement of comprehensive income on a prospective basis. Prior to adoption, we did not recognize excess tax benefits from stock-based compensation as a charge to capital in excess of par value to the extent that the related tax deduction did not reduce income taxes payable. We are currently under audit by the Internal Revenue Service (IRS) for our fiscal year ended January 31, 2015. We believe that the return for the year under examination was prepared appropriately and was filed correctly with the IRS. Currently, tax years from 2013 forward remain open for IRS audit.

For the three months ended July 31, 2017 and 2016, our effective tax rates were 4.8% and 42.3%, respectively. During the three months ended July 31, 2017 as compared to the prior year period, our effective tax rate decreased primarily due to the adoption of ASU 2016-09 on February 1, 2017. The adoption of this guidance on a prospective basis resulted in the discrete recognition of excess tax benefits in our provision for income taxes of \$14.8 million, which lowered our effective tax rate by 39 percentage points for the three months ended July 31, 2017.

For the six months ended July 31, 2017 and 2016, our effective tax rates were 4.9% and 40.8%, respectively. During the six months ended July 31, 2017 as compared to the prior year period, our effective tax rate decreased primarily due to the adoption of ASU 2016-09 on February 1, 2017. The adoption of this guidance on a prospective basis resulted in the discrete recognition of excess tax benefits in our provision for income taxes of \$28.7 million, which lowered our effective tax rate by 38 percentage points for the six months ended July 31, 2017.

#### Non-GAAP Financial Measures

In our public disclosures, we have provided non-GAAP measures, which we define as financial information that has not been prepared in accordance with generally accepted accounting principles in the United States, or GAAP. In addition to our GAAP measures, we use these non-GAAP measures internally for budgeting and resource allocation purposes and in analyzing our financial results.

For the reasons set forth below, we believe that excluding the following items from our non-GAAP financial measures provides information that is helpful in understanding our operating results, evaluating our future prospects, comparing our financial results across accounting periods, and comparing our financial results to our peers, many of which provide similar non-GAAP financial measures.

- Stock-based compensation expenses. We exclude stock-based compensation expenses from our non-GAAP measures primarily because they are non-cash expenses that we exclude from our internal management reporting processes. We also find it useful to exclude these expenses when we assess the appropriate level of various operating expenses and resource allocations when budgeting, planning and forecasting future periods. Moreover, because of varying available valuation methodologies, subjective assumptions and the variety of award types that companies can use under FASB ASC Topic 718, we believe excluding stock-based compensation expenses allows investors to make meaningful comparisons between our recurring core business operating results and those of other companies.

Amortization of purchased intangibles. We incur amortization expense for purchased intangible assets in connection with acquisitions of certain businesses and technologies. Amortization of intangible assets is a non-cash expense and is inconsistent in amount and frequency because it is significantly affected by the timing, size of acquisitions and the inherent subjective nature of purchase price allocations. Because these costs have already been incurred and cannot be recovered, and are non-cash expenses, we exclude these expenses for internal management reporting processes. We also find it useful to exclude these charges when assessing the appropriate level of various operating expenses and resource allocations when budgeting, planning and forecasting future periods. Investors should note that the use of intangible assets contributed to our revenues earned during the periods presented and will contribute to our future period revenues as well.

Capitalization of internal-use software development expenses and the subsequent amortization of the capitalized expenses. We capitalize certain costs incurred for the development of computer software for

32 Veeva Systems Inc. | Form 10-Q

---



Table of Contents

internal use and then amortize those costs over the estimated useful life. Capitalization and amortization of software development costs can vary significantly depending on the timing of products reaching technological feasibility and being made generally available. Our internal management reporting processes exclude both the capitalization of software (which would otherwise result in a reduction in net research and development operating expenses) and the amortization of capitalized software (which would otherwise result in an increase in cost of subscription revenues) when preparing budgets, plans and reviewing internal performance. Moreover, because of the variety of approaches taken and the subjective assumptions made by other companies in this area, we believe that excluding the effects of capitalized software costs allows investors to make more meaningful comparisons between our operating results and those of other companies.

Deferred compensation associated with the Zinc Ahead acquisition. The Zinc Ahead share purchase agreement, as revised, called for share purchase consideration to be deferred and paid at a rate of one-third of the deferred consideration amount per year to certain former Zinc Ahead employee shareholders and option holders who remain employed with us on each deferred consideration payment date. In accordance with GAAP, these payments are being accounted for as deferred compensation and the expense is recognized over the requisite service period. We view this deferred compensation expense as an unusual acquisition cost associated with the Zinc Ahead acquisition and find it useful to exclude it in order to assess the appropriate level of various operating expenses to assist in budgeting, planning and forecasting future periods. We believe excluding this deferred compensation expense from our non-GAAP measures may allow investors to make more meaningful comparisons between our recurring operating results and those of other companies.

Income tax effects on the difference between GAAP and non-GAAP costs and expenses. The income tax effects that are excluded from the non-GAAP measures relate to the imputed tax impact on the difference between GAAP and non-GAAP costs and expenses due to stock-based compensation, purchased intangibles, capitalized internal-use software and deferred compensation associated with the Zinc Ahead acquisition for GAAP and non-GAAP measures. Limitations on the use of Non-GAAP financial measures

There are limitations to using non-GAAP financial measures because non-GAAP financial measures are not prepared in accordance with GAAP and may be different from non-GAAP financial measures provided by other companies.

The non-GAAP financial measures are limited in value because they exclude certain items that may have a material impact upon our reported financial results. In addition, they are subject to inherent limitations as they reflect the exercise of judgments by management about which items are adjusted to calculate our non-GAAP financial measures. We compensate for these limitations by analyzing current and future results on a GAAP basis as well as a non-GAAP basis and also by providing GAAP measures in our public disclosures.

Non-GAAP financial measures should not be considered in isolation from, or as a substitute for, financial information prepared in accordance with GAAP. We encourage investors and others to review our financial information in its entirety, not to rely on any single financial measure to evaluate our business, and to view our non-GAAP financial measures in conjunction with the most directly comparable GAAP financial measures.

Edgar Filing: VEEVA SYSTEMS INC - Form 10-Q

The following table reconciles the specific items excluded from GAAP metrics in the calculation of non-GAAP metrics for the periods shown below:

	Three months ended		Six months ended	
	July 31, 2017	2016	July 31, 2017	2016
Operating income on a GAAP basis	\$36,898	\$23,822	\$74,237	\$41,628
Stock-based compensation expense	13,380	10,014	25,168	18,157
Amortization of purchased intangibles	1,986	2,059	3,988	4,110
Capitalization of internal-use software	(243 )	(69 )	(1,033 )	(209 )
Amortization of internal-use software	159	185	280	362
Deferred compensation associated with Zinc Ahead acquisition	130	730	267	2,143
Operating income on a non-GAAP basis	\$52,310	\$36,741	\$102,907	\$66,191
Net income on a GAAP basis	\$37,844	\$12,958	\$73,867	\$25,467
Stock-based compensation expense	13,380	10,014	25,168	18,157
Amortization of purchased intangibles	1,986	2,059	3,988	4,110
Capitalization of internal-use software	(243 )	(69 )	(1,033 )	(209 )
Amortization of internal-use software	159	185	280	362
Deferred compensation associated with Zinc Ahead acquisition	130	730	267	2,143
Income tax effect on non-GAAP adjustments	(17,397)	(3,549)	(33,406 )	(6,529 )
Net income on a non-GAAP basis	\$35,859	\$22,328	\$69,131	\$43,501
Net income allocated to participating securities on a GAAP basis	\$—	\$(1 )	\$—	\$(2 )
Net income allocated to participating securities from non-GAAP adjustments	—	(1 )	—	(1 )
Net income allocated to participating securities on a non-GAAP basis	—	(2 )	—	(3 )
Net income attributable to common stockholders on a non-GAAP basis	\$35,859	\$22,326	\$69,131	\$43,498
Diluted net income per share on a GAAP basis	\$0.25	\$0.09	\$0.48	\$0.17
Stock-based compensation expense	0.09	0.07	0.16	0.12
Amortization of purchased intangibles	—	0.01	0.03	0.03
Capitalization of internal-use software	—	—	(0.01 )	—
Amortization of internal-use software	—	—	—	—
Deferred compensation associated with Zinc Ahead acquisition	—	—	—	0.02
Income tax effect on non-GAAP adjustments	(0.11 )	(0.02 )	(0.21 )	(0.04 )
Diluted net income per share on a non-GAAP basis	\$0.23	\$0.15	\$0.45	\$0.30

Liquidity and Capital Resources

	Three months ended		Six months ended	
	July 31, 2017	2016	July 31, 2017	2016

	(in thousands)			
Net cash provided by operating activities <sup>(1)</sup>	\$57,607	\$11,746	\$199,768	\$121,106
Net cash used in investing activities	(20,499)	(58,887)	(22,804)	(58,805)
Net cash provided by financing activities <sup>(1)</sup>	6,131	11,251	13,416	15,456
Effect of exchange rate changes on cash and cash equivalents	327	313	1,240	429
Net change in cash and cash equivalents	\$43,566	\$(35,577)	\$191,620	\$78,186

<sup>(1)</sup>During the six months ended July 31, 2017, the Company adopted ASU 2016-09, “Compensation-Stock Compensation: Improvements to Employee Share-Based Payment.” Refer to note 1—New Accounting Pronouncements Adopted in Fiscal 2018 for further details. This adoption resulted in a \$14.8 million and \$28.7 million increase in net cash provided by operating activities and a corresponding decrease in net cash provided by financing activities for the three and six months ended July 31, 2017, respectively.

Our principal sources of liquidity continue to be comprised of our cash, cash equivalents and short-term investments, as well as cash flows generated from our operations. As of July 31, 2017, our cash, cash equivalents and short-term investments totaled \$724.7 million, of which \$36.5 million represented cash and cash equivalents held outside of the United States. Non-U.S. cash and cash equivalents have been earmarked for indefinite reinvestment in our operations outside the United States and, therefore, no U.S. current or deferred taxes have been accrued related to these balances. We believe our U.S. sources of cash and liquidity are sufficient to meet our business needs in the United States and do not expect that we will need to repatriate the funds we have designated as indefinitely reinvested outside the United States. Under current tax laws, should our plans change and we were to choose to repatriate some or all of the funds we have designated as indefinitely reinvested outside the United States, such amounts would be subject to U.S. income taxes and applicable non-U.S. income and withholding taxes.

## Table of Contents

We have financed our operations primarily through cash generated from operations. We believe our existing cash, cash equivalents and short-term investments generated from operations will be sufficient to meet our working capital and capital expenditure needs over at least the next 12 months. Our future capital requirements will depend on many factors including our growth rate, subscription renewal activity, the timing and extent of spending to support product development efforts, the expansion of sales and marketing activities, the ongoing investments in technology infrastructure, the introduction of new and enhanced solutions and the continuing market acceptance of our solutions. We may in the future enter into arrangements to acquire or invest in complementary businesses, services and technologies and intellectual property rights. We may be required to seek additional equity or debt financing. In the event that additional financing is required from outside sources, we may not be able to raise it on terms acceptable to us or at all. If we are unable to raise additional capital when desired, our business, operating results and financial condition would be adversely affected.

### Cash Flows from Operating Activities

Our largest source of operating cash inflows is cash collections from our customers for subscription services. We also generate significant cash flows from our professional services arrangements. The first quarter of the fiscal year is seasonally the strongest quarter for cash inflows due to the timing of our billings and collections. Our primary uses of cash from operating activities are for employee-related expenditures, fees to salesforce.com, third-party professional services costs, employee travel costs, and leases for office space.

Net cash provided by operating activities was \$57.6 million for the three months ended July 31, 2017. Our cash provided by operating activities during the three months ended July 31, 2017 primarily reflected our net income of \$37.8 million, adjustments for non-cash items of \$16.6 million, and a net increase in our operating assets and liabilities of \$3.1 million. Non-cash charges included \$13.4 million of stock-based compensation expense and \$3.6 million of depreciation and amortization expense. The net changes in operating assets and liabilities included a \$16.2 million decrease in accounts receivable which was primarily driven by increased collections during the period, including the early collection of a significant amount of July invoices, and a \$15.4 million decrease in deferred revenue due to the timing of renewal billings.

Net cash provided by operating activities was \$199.8 million for the six months ended July 31, 2017. Our cash provided by operating activities during the six months ended July 31, 2017 primarily reflected our net income of \$73.9 million, adjustments for non-cash items of \$31.2 million, and a net increase in our operating assets and liabilities of \$94.7 million. Non-cash charges included \$25.2 million of stock-based compensation expense and \$7.0 million of depreciation and amortization expense. The net changes in operating assets and liabilities included a \$85.9 million decrease in accounts receivable which was primarily driven by increased collections during the period, including the early collection of a significant amount of July invoices, and a \$9.0 million increase in deferred revenue which was primarily driven by increased billings from new and existing customers during the period.

The cash flow from operating activities for the six months ended July 31, 2017 represents the majority of the cash flows from operating activities that we expect for the remainder of the fiscal year ending January 31, 2018. As a result, we expect cash flows from operating activities to be substantially less in the remaining two quarters of this fiscal year.

### Cash Flows from Investing Activities

The cash flows from investing activities primarily relate to cash used for the purchase of marketable securities, net of maturities. We also use cash to invest in capital assets to support our growth, including the continuing build-out of our corporate headquarters located in Pleasanton, California, which is substantially complete as of the end of the three months ended July 31, 2017.

Edgar Filing: VEEVA SYSTEMS INC - Form 10-Q

Net cash used in investing activities was \$20.5 million for the three months ended July 31, 2017 resulting primarily from \$17.5 million in net purchases of marketable securities and \$2.5 million in purchases of property and equipment to support the growth of our business, including the build-out of our corporate headquarters.

Net cash used in investing activities was \$22.8 million for the six months ended July 31, 2017 resulting primarily from \$15.1 million in net purchases of marketable securities, \$6.5 million in purchases of property and equipment to support the growth of our business, including the build-out of our corporate headquarters, and \$1.0 million of capitalized internal-use software development costs during the period for new product releases.

Veeva Systems Inc. | Form 10-Q 35

---

### Cash Flows from Financing Activities

The cash flows from financing activities relates to stock option exercises.

Net cash provided by financing activities was \$6.1 million for the three months ended July 31, 2017 related to the proceeds from employee stock option exercises.

Net cash provided by financing activities was \$13.4 million for the six months ended July 31, 2017 related to the proceeds from employee stock option exercises.

Please note that in the fiscal year ended January 31, 2017, cash flows from financing activities also included excess tax benefits from stock option exercises.

### Commitments

Our principal commitments primarily consist of obligations for minimum payment commitments to salesforce.com and leases for office space. On March 3, 2014, we amended our agreement with salesforce.com. The agreement, as amended, requires that we meet minimum order commitments of \$500 million over the term of the agreement, which ends on September 1, 2025, including “true-up” payments if the orders we place with salesforce.com have not equaled or exceeded the following aggregate amounts within the timeframes indicated: (i) \$250 million for the period from March 1, 2014 to September 1, 2020 and (ii) the full amount of \$500 million by September 1, 2025. As of July 31, 2017, the future non-cancelable minimum payments under these commitments were as follows:

	Payments due by period				
	Total (in thousands)	Less than 1 year	1-3 Years	3-5 Years	More than 5 years
Purchase commitments	\$319,534	\$5,475	\$—	\$64,060	\$250,000
Operating lease obligations	16,597	4,069	7,258	3,944	1,326
Total	\$336,131	\$9,544	\$7,258	\$68,004	\$251,326

The amounts in the table above are associated with agreements that are enforceable and legally binding, which specify significant terms including payment terms, related services and the approximate timing of the transaction. Obligations under agreements that we can cancel without a significant penalty are not included in the table.

We anticipate leasing additional office space in various locations around the world to support our growth. In addition, our existing lease agreements often provide us with an option to renew. We expect our future operating lease obligations will increase as we expand our operations.

### Off-Balance Sheet Arrangements

We do not have any relationships with unconsolidated organizations or financial partnerships, such as structured finance or special purpose entities that would have been established for the purpose of facilitating off-balance sheet arrangements or other contractually narrow or limited purposes.



Table of Contents

Critical Accounting Policies and Estimates

Our consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (GAAP). In the preparation of these consolidated financial statements, we are required to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures. On an ongoing basis, we evaluate our estimates and assumptions. Our actual results may differ from these estimates under different assumptions or conditions.

We believe that our significant accounting policies are described in note 1 of the notes to our condensed consolidated financial statements. In addition, we highlighted certain accounting policies that involve a greater degree of judgment and complexity in Item 7, “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in our Annual Report on Form 10-K for the fiscal year ended January 31, 2017, filed on March 30, 2017. We believe that those policies are the most critical to aid in fully understanding and evaluating our consolidated financial condition and results of operations. There have been no material changes to our critical accounting policies and estimates during the three and six months ended July 31, 2017 as compared to the those disclosed in our Form 10-K for the fiscal year ended January 31, 2017.



ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

Foreign currency exchange risk

Our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the British Pound Sterling, Euro and Japanese Yen, and may be adversely affected in the future due to changes in foreign currency exchange rates, particularly in light of recent political developments. We continue to experience foreign currency fluctuations primarily due to the volatility in the value of the U.S. Dollar against the Euro and British Pound Sterling and the impact resulting from the periodic re-measurement of our foreign currency balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. Changes in exchange rates may negatively affect our revenues and other operating results as expressed in U.S. dollars. For the three months ended July 31, 2017 and 2016, we had a foreign currency gain of \$1.3 million and foreign currency loss of \$2.0 million, respectively.

We have experienced and will continue to experience fluctuations in our net income as a result of transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded. We have recently initiated a program during our fiscal year ending January 31, 2018 to engage in the hedging of our foreign currency transactions and may, in the future, hedge selected significant transactions or net monetary exposure positions denominated in currencies other than the U.S. dollar.

Interest rate sensitivity

We had cash, cash equivalents and short-term investments totaling \$724.7 million as of July 31, 2017. This amount was invested primarily in U.S. agency obligations, U.S. treasury securities, corporate notes and bonds, commercial paper, asset-backed securities, and money market funds. The cash and cash equivalents are held for working capital purposes. We do not enter into investments for trading or speculative purposes.

Our cash equivalents and our portfolio of marketable securities are subject to market risk due to changes in interest rates, which could affect our results of operations. Fixed rate securities may have their market value adversely affected due to a rise in interest rates, while floating rate securities may produce less income than expected if interest rates fall. Due in part to these factors, our future investment income may fluctuate due to changes in interest rates or we may suffer losses in principal if we are forced to sell securities that decline in market value due to changes in interest rates. However, because we classify our marketable securities as “available for sale,” no gains or losses are recognized due to changes in interest rates unless such securities are sold prior to maturity or declines in fair value are determined to be other-than-temporary. Our fixed-income portfolio is subject to interest rate risk.

An immediate increase of 100-basis points in interest rates would have resulted in a \$2.0 million market value reduction in our investment portfolio as of July 31, 2017. An immediate decrease of 100-basis points in interest rates would have increased the market value by \$2.0 million as of July 31, 2017. This estimate is based on a sensitivity model that measures market value changes when changes in interest rates occur. Fluctuations in the value of our investment securities caused by a change in interest rates (gains or losses on the carrying value) are recorded in other comprehensive income, and are realized only if we sell the underlying securities.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES.

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of July 31, 2017. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (Exchange Act), means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Securities and Exchange Commission’s (SEC) rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure.

Based on our management’s evaluation, our Chief Executive Officer and Chief Financial Officer concluded that, as of July 31, 2017, our disclosure controls and procedures were designed at a reasonable assurance level and were effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the fiscal quarter ended July 31, 2017 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Inherent Limitations on Effectiveness of Controls

Our management, including our Chief Executive Officer and Chief Financial Officer, do not expect that our disclosure controls or our internal control over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the Company have been or would be detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of a simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people or by management override of the controls. The design of any system of controls is also based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, controls may become inadequate because of changes in conditions, or the degree of compliance with policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.



PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

Criterion Capital Section 16(b) Matter Seeking Disgorgement Short-Swing Profits on Behalf of Veeva.

On June 24, 2015, a purported stockholder filed a complaint pursuant to Section 16(b) of the Securities Exchange Act of 1934 (the “Exchange Act”) in the U.S. District Court for the Southern District of New York against Criterion Capital Management, LLC, Criterion Capital Partners Master Fund, L.P., Criterion Capital Partners Master Fund GP, Ltd., Criterion Horizons Master Fund, L.P., Criterion Horizons Master Fund GP, Ltd., Criterion Vista Master Fund GP, L.P., Christopher H. Lord, David Riley, Tomoko Fortune (the “Criterion Defendants”), and Veeva Systems Inc. as nominal defendant (Greenfield v. Criterion Capital Mgmt., LLC et al. (15-CV-4937)). Thereafter, on August 3, 2015, the case was transferred to the U.S. District Court for the Northern District of California (15-CV-3583).

The action is purportedly brought on behalf of us and alleges that between March and December 2014 and in 2015, the Criterion Defendants purchased and sold our securities which resulted in illicit profits that are allegedly subject to disgorgement under the short-swing trading proscriptions in Section 16(b) of the Exchange Act. Due to the alleged failure by the Criterion Defendants to comply with their reporting obligations under the Exchange Act, the complaint does not specify the precise amount of alleged trades subject to disgorgement, other than estimating that the amount of profits in 2014 subject to disgorgement is “in excess of \$10 million.” The complaint seeks disgorgement of any and all short-swing profits on behalf of us, plus attorneys’ fees and expenses. The complaint does not seek damages of any kind from us.

On December 9, 2015, the purported stockholder filed an amended complaint. On February 1, 2016, the Criterion Defendants filed a motion to dismiss the amended complaint, which the Court granted in part on July 5, 2016. On July 29, 2016, the purported stockholder filed a second amended complaint. On September 21, 2016, the Criterion Defendants moved to dismiss the second amended complaint and a hearing on the motion to dismiss was held on December 7, 2016. The Court granted the Criterion Defendants’ motion to dismiss with prejudice on June 23, 2017. On July 20, 2017, the case settled.

IMS Litigation Matter.

IMS’s Complaint Alleging Theft of Trade Secrets. On January 10, 2017, Quintiles IMS Incorporated and IMS Software Services, Ltd. (collectively, “IMS”) filed a complaint against us in the U.S. District Court for the District of New Jersey (Quintiles IMS Inc. v. Veeva Systems Inc. (No. 2:17-cv-00177)). In the complaint, IMS alleges that we have used unauthorized access to proprietary IMS data to improve our software and data products, and that our software is designed to steal IMS trade secrets. IMS further alleges that we have intentionally gained unauthorized access to IMS proprietary information to gain an unfair advantage in marketing our products, and that we have made false statements concerning IMS’s conduct and our data security capabilities. IMS asserts claims under both federal and state theft of trade secret laws, federal false advertising law, and common law claims for unjust enrichment, tortious interference, and unfair trade practices. The complaint seeks declaratory and injunctive relief and unspecified monetary damages.

On March 13, 2017, we filed our Answer and Counterclaims to IMS’s complaint, a motion to dismiss all of IMS’s claims except for those asserted under the Lanham Act, and a motion to transfer the case to the U.S. District Court for the Northern District of California. IMS’s oppositions to each of those motions were filed on April 3, 2017, and our replies to IMS’s oppositions were filed on April 10, 2017. On June 23, 2017, the Court denied our motion to transfer the case. The court has not yet ruled on our motion to dismiss.

While it is not possible at this time to predict with any degree of certainty the ultimate outcome of this action, and we are unable to make a meaningful estimate of the amount or range of loss, if any, that could result from any unfavorable outcome, we believe that IMS's claims lack merit.

## Table of Contents

Veeva's Counterclaim Complaint Alleging Violations of Federal and State Antitrust Laws. On March 13, 2017, we filed counterclaims in the action instituted by IMS in the U.S. District Court for the District of New Jersey. Our counterclaims allege that IMS has abused monopoly power as the dominant provider of data products for life sciences companies to exclude Veeva OpenData and Veeva Network from their respective markets. The counterclaims allege that IMS has engaged in various tactics to prevent customers from using our applications and has deliberately raised costs and difficulty for customers attempting to switch from IMS to our data products. The counterclaims assert federal and state antitrust claims, as well as claims under California's Unfair Practices Act and common law claims for intentional interference with contractual relations and intentional interference with prospective economic advantage. The counterclaims seek injunctive relief, monetary damages exceeding \$200 million, and attorneys' fees. On May 3, 2017, in lieu of filing an Answer, IMS filed a motion to dismiss our counterclaims. Our opposition to IMS's motion to dismiss was filed on June 5, 2017, and IMS's reply to our opposition was filed on June 19, 2017.

Discovery in the IMS litigation is ongoing, and a case management schedule was entered on August 18, 2017, with fact discovery scheduled to close on July 27, 2018. No trial date has yet been set.

### Medidata Litigation Matter.

On January 26, 2017, Medidata Solutions, Inc. filed a complaint in the U.S. District Court for the Southern District of New York (Medidata Solutions, Inc. v. Veeva Systems Inc. et al. (No. 1:17-cv-00589)) against us and five individual Veeva employees who previously worked for Medidata ("Individual Employees"). The Complaint alleged that we induced and conspired with the Individual Employees to breach their employment agreements, including non-compete and confidentiality provisions, and to misappropriate Medidata's confidential and trade secret information. The Complaint sought declaratory and injunctive relief, unspecified monetary damages, and attorneys' fees. On February 21, 2017, Medidata and its subsidiary MDSOL Europe Limited (collectively, "Medidata") filed a First Amended Complaint asserting the same allegations and claims. On March 1, 2017, Medidata voluntarily dismissed the Individual Defendants without prejudice. On March 3, 2017, we filed a motion to compel the entire matter to private arbitration, which Medidata opposed.

On August 16, 2017, the court issued an order denying Veeva's motion to compel arbitration. On August 24, 2017, Veeva appealed the court's order to the U.S. Court of Appeals for the Second Circuit, along with a separate request to stay the district court proceedings pending a decision from the Second Circuit. On August 30, 2017, with the stay request still pending, Veeva filed a motion to dismiss Medidata's entire complaint for failure to state a claim upon which relief may be granted. The initial pretrial conference with the court is scheduled for September 28, 2017, at which time the court will address, among other things, our motion to stay the proceedings pending the outcome of the appeal.

While it is not possible at this time to predict with any degree of certainty the ultimate outcome of this action, and we are unable to make a meaningful estimate of the amount or range of loss, if any, that could result from any unfavorable outcome, we deny Medidata's allegations and will continue to vigorously defend ourselves against Medidata's lawsuit.

### California Non-Compete Matter.

On July 17, 2017, we filed a complaint in the Superior Court of the State of California in the County of Alameda against Medidata, IMS, and Sparta Systems, Inc. (Veeva Systems Inc. v. Medidata Solutions, Inc., Quintiles IMS Incorporated, IMS Software Services, LTD., and Sparta Systems, Inc., Case No. RG17868081.) Our Complaint seeks declaratory and injunctive relief concerning the use of non-compete, confidentiality, and non-disparagement agreements by these companies. On August 23, 2017, Medidata filed the equivalent of state court motion to dismiss (termed a "demurrer"), as well as an "anti-slapp" motion under California law alleging its conduct is protected by the first

amendment. On August 28, 2017, QuintilesIMS also filed a demurrer. Sparta has yet to respond to the Complaint.

#### Other Litigation Matters

From time to time, we may be involved in other legal proceedings and subject to claims incident to the ordinary course of business. Although the results of such legal proceedings and claims cannot be predicted with certainty, we believe we are not currently a party to any other legal proceedings, the outcome of which, if determined adversely to us, would individually or taken together have a material adverse effect on our business, operating results, cash flows or financial position. Regardless of the outcome, such proceedings can have an adverse impact on us because of defense and settlement costs, diversion of resources and other factors, and there can be no assurances that favorable outcomes will be obtained.

## ITEM 1A. RISK FACTORS.

Investing in our Class A common stock involves a high degree of risk. You should consider carefully the risks and uncertainties described below and in “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” together with all of the other information in this report, including our condensed consolidated financial statements and related notes, before investing in our Class A common stock. The risks and uncertainties described below are not the only ones we face. If any of the following risks actually occurs, our business, financial condition, results of operations and prospects could be materially and adversely affected. In that event, the price of our Class A common stock could decline and you could lose part or all of your investment.

### Risks Related to Our Business and Industry

Our quarterly results may fluctuate significantly, which make it difficult to predict our future operating results and could prevent us from meeting investor expectations, or our own guidance, and which could adversely impact the value of our Class A common stock.

Our quarterly results of operations, including our revenues, gross margin, operating margin, profitability, cash flows and deferred revenue, may vary significantly in the future for a variety of reasons, including those listed elsewhere in this “Risk Factors” section, and period-to-period comparisons of our operating results may not be meaningful.

Accordingly, our quarterly results should not be relied upon as an indication of future performance. Additionally, we issue guidance or provide commentary quarterly regarding our expectations for certain future financial results. Our ability to forecast our future operating results, including revenues, gross margin, operating margin, profitability, cash flows and deferred revenue, is limited given our relatively limited operating history and inability to control future events. Our guidance may prove to be incorrect and actual results may differ materially from our guidance.

Fluctuations in our results or failure to achieve our forecasts or guidance may adversely impact the market price of our Class A common stock.

We expect the future growth rate of our revenues to decline.

In our fiscal years ended January 31, 2015, 2016 and 2017, our total revenues grew by 49%, 31% and 33%, respectively, as compared to total revenues from the prior fiscal years. Please note that our total revenues for the fiscal year ended January 31, 2017 included a full year of revenue contribution from the Zinc Ahead business, which we acquired in September 2015. In our fiscal quarter ended July 31, 2017, our total revenues grew by 27% as compared to the same quarterly period from our prior fiscal year. We expect the growth rate of our revenues to decline in future periods, which may adversely impact the value of our Class A common stock.

As our costs increase, we may not be able to sustain the level of profitability we have achieved in the past.

We expect our future expenses to increase as we continue to invest in and grow our business. We expect to incur significant future expenditures related to:

- developing new solutions, enhancing our existing solutions (including adapting certain of our Veeva Vault applications for companies outside the life sciences industry);
- improving the technology infrastructure, scalability, availability, security and support for our solutions;
- expanding and deepening our relationships with our existing customer base, including expenditures related to increasing the adoption of our solutions by the research and development departments of life sciences companies;
- sales and marketing, including expansion of our direct sales organization and global marketing programs;
- expansion of our professional services organization;
- international expansion;
- integrating the business of Zinc Ahead;
- employee compensation, including stock based compensation;
-



pending, threatened, or future legal proceedings, certain of which are described in Part II, Item 1. “Legal Proceedings” and which we expect to continue to result in significant expense for the foreseeable future; and  
general operations, IT systems and administration, including legal and accounting expenses related to being a public company.

## Table of Contents

If our efforts to increase revenues and manage our expenses are not successful, or if we incur costs, damages, fines, settlements or judgments as a result of other risks and uncertainties described in this report, we may not be able to sustain or increase our historical levels of profitability.

If our security measures are breached or unauthorized access to customer data is otherwise obtained, our solutions may be perceived as not being secure, customers may reduce the use of or stop using our solutions and we may incur significant liabilities.

Our solutions involve the storage and transmission of our customers' proprietary information, including personal or identifying information regarding their employees and the medical professionals whom their sales personnel contact, sensitive proprietary data related to the regulatory submission process for new medical treatments, and other sensitive information, which may include personal health information. As a result, unauthorized access or security breaches as a result of third-party action, employee error, malfeasance or otherwise could result in the loss of information, litigation, indemnity obligations, damage to our reputation and other liability. Because the techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, we may be unable to anticipate these techniques or to implement adequate preventative measures. Any or all of these issues could adversely affect our ability to attract new customers, cause existing customers to elect to not renew their subscriptions, result in reputational damage or subject us to third-party lawsuits, regulatory fines or other action or liability, which could adversely affect our operating results. Our insurance may not be adequate to cover losses associated with such events, and in any case, such insurance may not cover all of the types of costs, expenses and losses we could incur to respond to and remediate a security breach. A security breach of another significant provider of cloud-based solutions may also negatively impact the demand for our solutions.

The markets in which we participate are highly competitive, and if we do not compete effectively, our business and operating results could be adversely affected.

The markets for our solutions are highly competitive. Our multichannel customer relationship management applications compete with offerings from large global enterprise software vendors, such as Oracle Corporation and Microsoft Corporation, and also compete with life sciences-specific customer relationship management providers, such as QuintilesIMS. We also compete with a number of vendors of cloud-based and on-premise customer relationship management applications that address only a portion of the functionality of our customer relationship management solutions. Veeva Vault, our regulated content and information management solutions, competes with offerings from large global content management platform vendors such as Microsoft, OpenText Corporation and Oracle, and with offerings from life sciences specific providers, such as Medidata Solutions, Inc., PAREXEL International Corporation, BioClinica, Inc., and Sparta Technologies Ltd. We also compete with professional services companies that provide solutions on these platforms, such as DXC Technology Company. In the future, providers of horizontal cloud-based solutions and platforms, such as Box.com, Amazon Web Services or Microsoft, and third parties that build on their platforms, may seek to compete with us. In addition, we have begun selling certain of our Veeva Vault to companies outside the life sciences industry. We have limited experience selling certain of our Veeva Vault applications to companies outside the life sciences industry, and, therefore, we anticipate having to compete with many existing solutions, including those listed above, custom-built software developed by third-party vendors or in-house by our potential customers and niche software providers. Our master data management solutions compete with master data software offerings from vendors such as IBM Corporation, Informatica Corporation, and other smaller providers such as Reltio, Inc. Our data and data services offerings compete with QuintilesIMS and many other data providers. We may also face competition from custom-built software developed by third-party vendors or developed in-house by our potential customers, or from applications built by our customers or by third parties on behalf of our customers using commercially available software platforms that are provided by third parties. We may

also face competition from companies that provide cloud-based solutions in different target or horizontal markets that may develop applications or work with companies that operate in our target markets. With the introduction of new technologies, we expect competition to intensify in the future, and we may face competition from new market entrants as well.

In some cases, our competitors are well-established providers of competitive solutions and have long-standing relationships with many of our current and potential customers, including large pharmaceutical and emerging biopharmaceutical companies. Oracle and QuintilesIMS, for example, have greater name recognition, much longer operating histories, larger marketing budgets and significantly greater resources than we do.

Many of our competitors may be able to devote greater resources to the development, promotion and sale of their products and services than we are able. Such competitors may be able to initiate or withstand substantial price competition, and may offer solutions competitive to certain of our solutions on a standalone basis at a lower price or bundled as part of a larger product sale, including the bundling of software solutions and data. In addition, many of our competitors have established marketing relationships, access to larger customer bases and distribution agreements with consultants, system integrators and resellers that we do not have. Our competitors may also establish cooperative relationships among themselves or with third parties that may further enhance their product offerings or resources. In addition, in order to take advantage of customer demand for cloud-based solutions, such competitors may expand their cloud-based solutions through acquisitions and organic development or may seek to partner with other leading cloud providers. For instance, in October 2016, IMS Health Holding, Inc. and Quintiles Transnational Holdings Inc., a contract research organization, combined in an all-stock merger of equals to form Quintiles IMS Holdings, Inc., which operates under the name QuintilesIMS. The impact of this transaction on our competitive environment is uncertain but increased competition from QuintilesIMS could negatively impact our business.

If our competitors' products, services or technologies become more accepted than our solutions, if they are successful in bringing their products or services to market earlier than we are, if their products or services are more technologically capable than ours, or if customers replace our solutions with custom-built software, then our revenues could be adversely affected. Pricing pressures and increased competition could result in reduced sales, reduced margins, losses or a failure to maintain or improve our competitive market position, any of which could adversely affect our business.

In our fiscal year ended January 31, 2017, we derived approximately 71% of our subscription services revenues and 68% of our total revenues from our Veeva Commercial Cloud solutions. Within Veeva Commercial Cloud, our core Veeva CRM application has achieved substantial penetration within the sales teams of pharmaceutical and biotechnology companies. If our efforts to sustain or further increase the use and adoption of our customer relationship management applications do not succeed, the growth rate of our revenues may decline.

In our fiscal year ended January 31, 2017, we derived approximately 71% of our subscription services revenues and 68% of our total revenues from our Veeva Commercial Cloud solutions. In the six months ended July 31, 2017, we derived approximately 66% of our subscription services revenues and 63% of our total revenues from our Veeva Commercial Cloud solutions. We have realized substantial sales penetration of the available market for our core Veeva CRM application among pharmaceutical and biotechnology companies. A critical factor for our continued growth is our ability to sell additional user subscriptions for Veeva CRM and the other applications within Veeva Commercial Cloud to our existing and new customers. Any factor adversely affecting sales of these applications—including substantial penetration of the available market for our core Veeva CRM application, reductions in user subscriptions due to acquisitions of or business combinations between our customers, or increased purchasing scrutiny, which may result in reductions in user subscription or increased pricing pressure, could adversely affect the growth rate of our sales, revenues, operating results, and business.

If our newer solutions, including certain Veeva Vault applications, Veeva Network Customer Master, Veeva Network Product Master, Veeva's data offerings and our newer multichannel customer relationship management applications that complement Veeva CRM, are not successfully adopted by new and existing customers, the growth rate of our revenues and operating results will be adversely affected.

Our continued growth and profitability will depend on our ability to successfully develop and sell new solutions, including our Veeva Vault applications, Veeva Network Customer Master, Veeva Network Product Master, Veeva's data offerings and our newer multichannel customer relationship management applications that complement Veeva CRM. These solutions were introduced relatively recently. Although certain Veeva Vault applications have begun to achieve meaningful market acceptance, it is uncertain whether these solutions will continue to grow as a percentage of revenues at a pace significant enough to support our expected growth. For instance, we have recently begun selling certain of our Veeva Vault applications to companies outside the life sciences industry, and we have begun selling

new Veeva Vault applications, such as Veeva Vault EDC and Veeva Vault CTMS. We cannot be certain that our initiatives with respect to newer solutions and newer markets for our solutions will be successful. It may take us significant time, and we may incur significant expense, to effectively market and sell these solutions or to develop other new solutions and make enhancements to our existing solutions. If our newer solutions do not continue to gain traction in the market, or other solutions that we may develop and introduce in the future do not achieve market acceptance in a timely manner, the growth rate of our revenues and operating results may be adversely affected.

## Table of Contents

Our revenues, gross margin and operating margin from professional services fees are volatile and may not increase from quarter to quarter or at all.

We derive a significant portion of our revenue from professional services fees. Our professional services revenues fluctuate from quarter to quarter as a result of the achievement of payment milestones in our professional services arrangements, and the requirements, complexity and timing of our customers' implementation projects. Generally, a customer's ongoing need for professional services decreases as the implementation and full deployment of such solutions is completed. Our customers may also choose to use third parties rather than us for certain professional services related to our solutions. As a result of these and other factors, our professional services revenues may not increase on a quarterly basis in the future or at all. Additionally, the gross margin and operating margin generated from professional services fees fluctuates based on a number of factors which may be variable from period to period, including the average billable hours worked by our billable professional services personnel, our hourly rates for professional services, and the achievement of payment milestones in a period for which a portion of the associated professional services was delivered in a prior period. As a result of these and other factors, the gross margin and operating margin from our professional services may not increase on a quarterly basis in the future or at all.

Our subscription agreements with our customers are typically for a term of one year. If our existing customers do not renew their subscriptions annually, or do not buy additional solutions and user subscriptions from us, or renew at lower aggregate fee levels, our business and operating results will suffer.

We derive a significant portion of our revenues from the renewal of existing subscription orders. Our customers' orders for subscription services typically have a one-year term. However, more recently and with respect to solutions other than our core sales automation solution and particularly with respect to our Vault applications, we have entered into a number of orders with terms of up to five years. Our customers have no obligation to renew their subscriptions for our solutions after their orders expire. Thus, securing the renewal of our subscription orders and selling additional solutions and user subscriptions is critical to our future operating results. Factors that may affect the renewal rate for our solutions and our ability to sell additional solutions and user subscriptions include:

- the price, performance and functionality of our solutions;
- the availability, price, performance and functionality of competing solutions and services;
- the effectiveness of our professional services;
- our ability to develop complementary solutions, applications and services;
  - the stability, performance and security of our hosting infrastructure and hosting services; and
  - the business environment of our customers and, in particular, acquisitions of or business combinations between our customers or other business developments may result in reductions in user subscriptions.

In addition, our customers may negotiate terms less advantageous to us upon renewal, which could reduce our revenues from these customers. As a customer's total spend on Veeva solutions increases, we expect purchasing scrutiny at renewal to increase as well, which may result in reductions in user subscriptions or increased pricing pressure. Other factors that are not within our control may contribute to a reduction in our subscription services revenues. For instance, our customers may reduce their number of sales representatives, which would result in a corresponding reduction in the number of user subscriptions needed for some of our solutions and thus a lower aggregate renewal fee, or our customers may discontinue clinical trials for which our solutions were being used. If our customers fail to renew their subscription orders, renew their subscription orders with less favorable terms or at lower fee levels or fail to purchase new solutions, applications and professional services from us, our revenues may decline or our future revenues may be constrained.

Our revenues are relatively concentrated within a small number of key customers, and the loss of one or more of such key customers, or their failure to renew or expand user subscriptions, could slow the growth rate of our revenues or

cause our revenues to decline.

In our fiscal years ended January 31, 2015, 2016 and 2017, our top 10 customers accounted for 54%, 50% and 45% of our total revenues, respectively. We rely on our reputation and recommendations from key customers in order to promote our solutions to potential customers. The loss of any of our key customers, or a failure of one or more of them to renew or expand user subscriptions, could have a significant impact on the growth rate of our revenues, our reputation and our ability to obtain new customers. In the event of an acquisition of one of our largest customers or a business combination between two of our largest customers, we may suffer reductions in user subscriptions or non-renewal of their subscription orders. We are also likely to face increasing purchasing scrutiny at the renewal of these large customer subscription orders, which may result in reductions in user subscriptions or increased pricing pressure. The business impact of any of these negative events is particularly pronounced with respect to our largest customers.

Veeva Systems Inc. | Form 10-Q 45

---

An inability to attract and retain highly skilled employees could adversely affect our business.

To execute our growth plan, we must attract and retain highly qualified employees. Competition for these employees is intense, especially with respect to sales and marketing personnel and engineers with high levels of experience in enterprise software and internet-related services. We have, from time to time, experienced, and we expect to continue to experience, difficulty in hiring and retaining employees with the appropriate level of qualifications. With respect to sales professionals, even if we are successful in attracting highly qualified personnel, it may take six to nine months or longer before they are fully trained and productive. Many of the companies with which we compete for experienced employees have greater resources than we have and may offer compensation packages that are perceived to be better than ours. For instance, job candidates and existing employees often consider the value of the equity awards they receive in connection with their employment. If the perceived value of our equity awards declines, including as a result of declines in the market price of our Class A common stock or changes in perception about our future prospects, it may adversely affect our ability to recruit and retain highly skilled employees. If we fail to attract new employees or fail to retain and motivate our current employees, our business and future growth prospects could be adversely affected.

Defects or disruptions in our solutions could result in diminished demand for our solutions, a reduction in our revenues and subject us to substantial liability.

We generally release updates to our solutions three times per year. These updates may contain undetected errors when first introduced or released. We have from time to time found defects in our solutions, and new errors in our existing solutions may be detected in the future. Since our customers use our solutions for important aspects of their business, any errors, defects, disruptions, service degradations or other performance problems with our solutions could hurt our reputation and may damage our customers' businesses. If that occurs, our customers may delay or withhold payment to us, cancel their agreements with us, elect not to renew, or make service credit claims, warranty claims or other claims against us, and we could lose future sales. The occurrence of any of these events could result in diminishing demand for our solutions, a reduction of our revenues, an increase in our bad debt expense or an increase in collection cycles for accounts receivable, or could require us to increase our warranty provisions or incur the expense of litigation or substantial liability.

We rely on third-party providers—including salesforce.com and Amazon Web Services—for computing infrastructure, network connectivity and other technology-related services needed to deliver our cloud solutions. We intend to migrate to Amazon Web Services for more of these services over time, particularly with respect to our solutions other than Veeva CRM. Any disruption in the services provided by such third-party providers could adversely affect our business and subject us to liability.

Our solutions are hosted from and use computing infrastructure provided by third parties, including salesforce.com with respect to our solutions related to Veeva CRM, Amazon Web Services, and other computing infrastructure service providers. Through the remainder of fiscal 2018, we will be migrating a greater proportion of our computing infrastructure needs to Amazon Web Services. Specifically, the computing infrastructure for our Veeva Vault applications, Veeva Network applications and certain other Veeva Commercial Cloud applications and functionality will be migrated to Amazon Web Services. Such migrations are risky and may cause disruptions to our cloud solutions, service outages, downtime, or other problems.

We do not own or control the operation of any of the third-party facilities or equipment used to provide the services described above. Our computing infrastructure service providers other than salesforce.com, including Amazon Web Services, have no obligation to renew their agreements with us on commercially reasonable terms or at all. If we are unable to renew these agreements on commercially reasonable terms, or if one of our computing infrastructure service providers is acquired, we may be required to transition to a new provider, and we may incur significant costs and possible service interruption in connection with doing so. In addition, such service providers could decide to close their facilities or change or suspend their service offerings without adequate notice to us. Moreover, any financial



difficulties, such as bankruptcy, faced by such service providers may have negative effects on our business, the nature and extent of which are difficult to predict. Since we cannot easily switch our computing infrastructure service providers, any disruption with respect to our current providers would impact our operations and our business could be adversely impacted.

## Table of Contents

Problems faced by our computing infrastructure service providers, including those operated by salesforce.com, Amazon Web Services, or other providers could adversely affect the experience of our customers. For example, in May 2016, salesforce.com, inc. suffered a significant service outage with respect to a group of servers that hosts the Veeva CRM solution for certain of our Veeva CRM customers, which resulted in unplanned system unavailability and potential data loss. Certain customers claimed service level credits under their contracts with us, and the impact was not material to our financial results for our fiscal year ended January 31, 2017. Amazon Web Services has also and may in the future experience significant service outages. Additionally, if our computing infrastructure service providers are unable to keep up with our growing needs for capacity, this could have an adverse effect on our business. For example, a rapid expansion of our business could affect our service levels or cause such systems to fail. Any changes in third-party service levels at our computing infrastructure service providers or any disruptions or related performance problems with our solutions could adversely affect our reputation and may damage our customers' stored files or result in lengthy interruptions in our services or potential losses of customer data. Interruptions in our services might reduce our revenues, cause us to issue refunds to customers for prepaid and unused subscriptions, subject us to service level credit claims and potential liability or adversely affect our renewal rates. Our agreements with third-party computing infrastructure service providers may not entitle us to corresponding service level credits to those we offer to our customers.

If we fail to effectively manage our technical operations infrastructure, our existing customers may experience service outages and our new customers may experience delays in the deployment of our solutions.

We have experienced significant growth in the number of end users, transactions and data that our operations infrastructure supports. We seek to maintain sufficient excess capacity in our operations infrastructure to meet the needs of all of our customers. We also seek to maintain excess capacity to facilitate the rapid provision of new customer deployments and the expansion of existing customer deployments. In addition, we need to properly manage our technological operations infrastructure in order to support version control, changes in hardware and software parameters and the evolution of our solutions. However, the provision of new hosting infrastructure requires adequate lead-time. We have experienced, and may in the future experience, service disruptions, degradations, outages and other performance problems. These types of problems may be caused by a variety of factors, including infrastructure changes, human or software errors, viruses, security attacks, fraud, spikes in customer usage, problems associated with our third-party data center and network providers and denial of service issues. In some instances, we may not be able to identify the cause or causes of these performance problems within an acceptable period of time. It is also possible that such problems could result in losses of customer data. If we do not accurately predict our infrastructure requirements, our existing customers may experience delays in the deployment of our solutions or service outages that may subject us to financial penalties, financial liabilities and customer losses. For instance, our customer agreements typically provide service level commitments on a quarterly basis. If we are unable to meet the stated service level commitments or suffer extended periods of unavailability for our solutions, we may be contractually obligated to provide these customers with service level credits or our customers may terminate their agreements.

We have experienced rapid growth, and if we fail to manage our growth effectively, we may be unable to execute our business plan.

Since we were founded, we have experienced rapid growth and expansion of our operations. Our revenues, customer count, product and service offerings, countries of operation, facilities and computing infrastructure needs have all increased significantly, and we expect them to increase in the future. We have also experienced rapid growth in our employee base, and as we continue to grow, we must effectively integrate, develop and motivate a large number of new employees, while executing our growth plan and maintaining the beneficial aspects of our culture. Our rapid growth has placed, and will continue to place, a significant strain on our management capabilities, administrative and operational infrastructure, facilities and other resources. We anticipate that additional investments in our facilities and computing infrastructure will be required to scale our operations. To effectively manage growth, we must continue to

improve our key business applications, processes and computing infrastructure; enhance information and communication systems; and ensure that our policies and procedures evolve to reflect our current operations and are appropriately communicated to and observed by employees. These enhancements and improvements will require additional investments and allocation of valuable management and employee time and resources. Failure to effectively manage growth could result in difficulty or delays in deploying our solutions, declines in quality or customer satisfaction, increases in costs, difficulties in introducing new features or other operational difficulties, and any of these difficulties could adversely impact our business performance and results of operations.

Our agreement with salesforce.com imposes significant financial commitments on us which we may not be able to meet and which could negatively impact our financial results and liquidity in the future.

Our Veeva CRM application, and certain portions of the multichannel customer relationship management applications that complement our Veeva CRM application, are developed on and/or utilize the Salesforce1 Platform of salesforce.com. Under our agreement, salesforce.com provides the hosting infrastructure and data center for portions of our multichannel customer relationship management applications, as well as the system administration, configuration, reporting and other platform level functionality. In exchange, we pay salesforce.com a fee. Our agreement with salesforce.com requires that we meet minimum order commitments of \$500 million over the term of the agreement, which ends on September 1, 2025, including “true-up” payments if the orders we place with salesforce.com have not equaled or exceeded the following aggregate amounts within the timeframes indicated: (i) \$250 million from March 1, 2014 to September 1, 2020 and (ii) the full amount of \$500 million by September 1, 2025. If we are not able to meet the minimum order commitments, the required true-up payments will negatively impact our margins, cash flows, cash balance and financial condition, and our stock price may decline.

Substantially all of our revenues are generated by sales to customers in the life sciences industry, and factors that adversely affect this industry, including mergers within the life sciences industry or regulatory changes, could also adversely affect us.

Substantially all of our sales are to customers in the life sciences industry. Demand for our solutions could be affected by factors that adversely affect the life sciences industry, including:

- ◆The consolidation of companies or bankruptcies within the life sciences industry—Consolidation within the life sciences industry has accelerated in recent years, and this trend could continue. We may lose customers due to industry consolidation, and we may not be able to expand sales of our solutions and services to new customers to replace lost customers. In addition, new companies that result from such consolidation may decide that our solutions are no longer needed because of their own internal processes or alternative solutions. As these entities consolidate, competition to provide solutions and services to industry participants will become more intense and the importance of establishing relationships with large industry participants will become greater. These industry participants may try to use their market power to negotiate price reductions for our solutions. If consolidation of our larger current customers occurs, the combined company may represent a larger percentage of business for us and, as a result, we are likely to rely more significantly on the combined company’s revenues to continue to achieve growth. In addition, if large life sciences merge, it would have the potential to reduce per unit pricing for our solutions for the merged companies or to reduce demand for one or more of our solutions as a result of potential personnel reductions over time. Additionally, our customers with potential treatments in clinical trials may be unsuccessful and may subsequently declare bankruptcy.
- ◆The changing regulatory environment of the life sciences industry—Changes in regulations could negatively impact the business environment for our life sciences customers or could require us to expend significant resources in order to ensure that our solutions continue to meet the compliance needs of our customers or could prevent our customers from using certain of our solutions or certain functionality of our solutions. Healthcare laws and regulations are rapidly evolving and may change significantly in the future. In particular, legislation has been introduced in the United States that has led to uncertainty as to the future of certain healthcare laws and regulations regarding coverage for healthcare expenses, and legislation or regulatory changes regarding the pricing of healthcare treatments sold by life sciences companies has also recently been a topic of discussion by political leaders and regulators in the United States and elsewhere.
- ◆Changes in market conditions and practices within the life sciences industry—The expiration of key patents, changes in the practices of prescribing physicians, changes with respect to payer relationships, the policies and preferences of healthcare professionals and healthcare organizations with respect to the sales and marketing efforts of life sciences companies, changes in the regulation of the sales and marketing efforts and pricing practices of life sciences companies, and other factors could lead to a significant reduction in sales representatives that use our solutions or otherwise change the demand for our solutions. Changes in public perception regarding the practices of the life

sciences industry may result in political pressure to increase the regulation of life sciences companies in one or more of the areas described above, which may negatively impact demand for our solutions.

Changes in global economic conditions and changes in the global availability of healthcare treatments provided by the life sciences companies to which we sell—Our business depends on the overall economic health of our existing and prospective customers. The purchase of our solutions may involve a significant commitment of capital and other resources. If economic conditions, including the ability to market life sciences products in key markets or the demand for life sciences products globally deteriorates, many of our customers may delay or reduce their IT spending. This could result in reductions in sales of our solutions, longer sales cycles, reductions in subscription duration and value, slower adoption of new technologies and increased price competition.

48 Veeva Systems Inc. | Form 10-Q

---

## Table of Contents

Accordingly, our operating results and our ability to efficiently provide our solutions to life sciences companies and to grow or maintain our customer base could be adversely affected as a result of factors that affect the life sciences industry generally.

If the third-party providers of healthcare reference data and prescription drug sales data do not allow our customers to upload and use such data in our solutions, our business may be negatively impacted.

Many of our customers license healthcare professional and healthcare organization data and data regarding the sales of prescription drugs from third parties such as QuintilesIMS. In order for our customers to upload such data to the Veeva CRM and Veeva Network Customer Master solution, such third-party data providers typically must consent to such uploads and often require that we enter into agreements regarding our obligations with respect to such data, which include confidentiality obligations and intellectual property rights with respect to such third-party data. We have experienced delays and difficulties in our negotiations with such third-party data providers in the past, and we expect to experience difficulties in the future. For instance, QuintilesIMS currently will not consent to its healthcare professional or healthcare organization data being uploaded to Veeva Network Customer Master and this has negatively affected sales and customer adoption of Veeva Network Customer Master. Similarly, sales and customer adoption of Veeva OpenData has been negatively impacted by certain restrictions on the use of QuintilesIMS data during customer transitions from QuintilesIMS data to Veeva OpenData. If such third-party data providers do not consent to the uploading and use of their data in our solutions, delay consent or fail to offer reasonable conditions for the upload and use of such data in our solutions, our sales efforts, solution implementations and productive use of our solutions by customers may be harmed, and our business, in turn, may be negatively impacted.

We may be sued by third parties for alleged infringement of their proprietary rights or misappropriation of intellectual property.

There is considerable patent and other intellectual property development activity in our industry. Our competitors, as well as a number of other entities and individuals, including so-called non-practicing entities, or NPEs, may own or claim to own intellectual property relating to our solutions. From time to time, third parties may claim that we are infringing upon their intellectual property rights or that we have misappropriated their intellectual property. For example, in 2014, we settled a lawsuit with Prolifiq Software, Inc. in exchange for a license to certain asserted patents, and we are currently defending against assertions of trade secret misappropriation made by our competitors, Medidata and QuintilesIMS, as described in Part II, Item 1. "Legal Proceedings." As competition in our market grows, the possibility of patent infringement and other intellectual property claims against us increases. In the future, we expect others to claim that our solutions and underlying technology infringe or violate their intellectual property rights. We may be unaware of the intellectual property rights that others may claim cover some or all of our technology or services. Any claims or litigation could cause us to incur significant expenses and, if successfully asserted against us, could require that we pay substantial damages or ongoing royalty payments, prevent us from offering our services, or require that we comply with other unfavorable terms. We may also be obligated to indemnify our customers or business partners or pay substantial settlement costs, including royalty payments, in connection with any such claim or litigation and to obtain licenses, modify applications or refund fees, which could be costly. Even if we were to prevail in such a dispute, any litigation regarding our intellectual property could be costly and time-consuming and divert the attention of our management and key personnel from our business operations.

We may acquire other companies or technologies, which could divert our management's attention, result in additional dilution to our stockholders and otherwise disrupt our operations and adversely affect our operating results.

We have in the past acquired and may in the future seek to acquire or invest in businesses, solutions or technologies that we believe could complement or expand our solutions, enhance our technical capabilities or otherwise offer growth opportunities. For instance, in 2015, we acquired the key opinion leader business and products of Qforma,

Inc., Mederi AG and other affiliated entities through a combination of stock and asset purchases. In 2015, we also acquired Zinc Ahead, a provider of commercial content management solutions. Additionally, the pursuit of potential acquisitions may divert the attention of management and cause us to incur various expenses in identifying, investigating and pursuing suitable acquisitions, whether or not they are consummated.

We have limited experience in acquiring other businesses. We may not be able to successfully integrate the acquired personnel, operations and technologies, or effectively manage the combined business following the acquisition. We also may not achieve the anticipated benefits from the acquired business due to a number of factors, including:

- inability to integrate or benefit from acquired technologies or services in a profitable manner;
- costs, liabilities or accounting charges associated with the acquisition;

Veeva Systems Inc. | Form 10-Q 49

---

- difficulty integrating the accounting systems, operations and personnel of the acquired business;
- problems arising from differences in applicable accounting standards or practices of the acquired business (for instance, non-U.S. businesses, like the Zinc Ahead business, may not be accustomed to preparing their financial statements in accordance with U.S. GAAP) or difficulty identifying and correcting deficiencies in the internal controls over financial reporting of the acquired business;
- difficulties and additional expenses associated with supporting legacy products and hosting infrastructure of the acquired business;
- difficulty converting the customers of the acquired business onto our solutions and contract terms, including due to disparities in the revenues, licensing, support or professional services model of the acquired company;
- diversion of management's attention from other business concerns;
- adverse effects to business relationships with our existing business partners and customers as a result of the acquisition;
- difficulty in retaining key personnel of the acquired business;
- the possibility of investigation by, or the failure to obtain required approvals from, governmental authorities on a timely basis, if at all, under various regulatory schemes, including competition laws, which could, among other things, delay or prevent us from completing a transaction, subject the transaction to divestiture after the fact or otherwise restrict our ability to realize the expected financial or strategic goals of the acquisition;
- use of resources that are needed in other parts of our business; and
- use of substantial portions of our available cash to consummate the acquisition.

In addition, a significant portion of the purchase price of companies we acquire may be allocated to acquired goodwill and other intangible assets, which we must assess for impairment at least annually. In the future, if our acquisitions do not yield expected returns, we may be required to take charges to our operating results based on this impairment assessment process, which could adversely affect our results of operations. Acquisitions may also result in purchase accounting adjustments, write-offs or restructuring charges, which may negatively affect our results.

Acquisitions could also result in dilutive issuances of equity securities or the incurrence of debt, which could adversely affect our operating results. In addition, if an acquired business fails to meet our expectations, our operating results, business and financial position may suffer.

Our solutions address heavily regulated functions within the life sciences industry, and failure to comply with applicable laws and regulations could lessen the demand for our solutions or subject us to significant claims and losses.

Our customers use our solutions for business activities that are subject to a complex regime of global laws and regulations, including requirements for maintenance of electronic records and electronic signatures (as set forth in 21 CFR Part 11, EU Annex 11, and Japan PFSB Notification No. 0401022), requirements regarding drug sample tracking and distribution (as set forth in 21 CFR Part 203, EU Directive 201/83/EC Article 96), requirements regarding system validations (as set forth in 21 CFR Part 802.75 and 21 CFR Part 211.68), and other laws and regulations. Our solutions are expected to be capable of use by our customers in compliance with such laws and regulations. Our efforts to provide solutions that comply with such laws and regulations are time-consuming and costly, and include validation procedures that may delay the release of new versions of our solutions. As these laws and regulations change over time, we may find it difficult to adjust our solutions to comply with such changes. For example, on June 23, 2016, the United Kingdom held a referendum in which voters approved an exit from the European Union, commonly referred to as "Brexit." Since a significant proportion of the regulatory framework in the United Kingdom is derived from EU directives and regulations, Brexit could materially affect the regulatory regime applicable to our customers with operations in the United Kingdom. Any such changes to the regulatory regime could have a material adverse effect on the life sciences industry generally and on our ability to adjust our solutions to comply with such changes.

As we increase the number of products we offer, the complexity of adjusting our solutions to comply with legal and regulatory changes will increase. If we are unable to effectively manage this increase or if we are not able to provide



solutions that can be used in compliance with applicable laws and regulations, customers may be unwilling to use our solutions and any such non-compliance could result in the termination of our customer agreements or claims arising from such agreements with our customers.

Table of Contents

Additionally, any failure of our customers to comply with laws and regulations applicable to the functions for which our solutions are used could result in fines, penalties or claims for substantial damages against our customers that may harm our business or reputation. If such failure were allegedly caused by our solutions or services, our customers may make a claim for damages against us, regardless of our responsibility for the failure. We may be subject to lawsuits that, even if unsuccessful, could divert our resources and our management's attention and adversely affect our business, and our insurance coverage may not be sufficient to cover such claims against us.

Our sales cycles can be long and unpredictable, and our sales efforts require considerable investment of time and expense. If our sales cycle lengthens or we invest substantial resources pursuing unsuccessful sales opportunities, our operating results and growth would be harmed.

Our sales process entails planning discussions with prospective customers, analyzing their existing solutions and identifying how these potential customers can use and benefit from our solutions. The sales cycle for a new customer, from the time of prospect qualification to the completion of the first sale, may span over 12 months or longer. In particular, we have limited history selling certain of our more recently announced Veeva Vault applications, such as Veeva Vault EDC and Veeva Vault CTMS, to the research and development departments of life sciences companies. As a result, our sales cycle for these applications may be lengthy and difficult to predict. In addition, we have only recently begun selling certain of our Veeva Vault applications to companies outside the life sciences industry. We spend substantial time, effort and money in our sales efforts without any assurance that our efforts will result in the sale of our solutions. In addition, our sales cycle can vary substantially from customer to customer because of various factors, including the discretionary nature of potential customers' purchasing and budget decisions, the announcement or planned introduction of new solutions by us or our competitors and the purchasing approval processes of potential customers. If our sales cycle lengthens or we invest substantial resources pursuing unsuccessful sales opportunities, our operating results and growth would be harmed.

Catastrophic events could disrupt our business and adversely affect our operating results.

Our corporate headquarters are located in Pleasanton, California and our third-party hosted data centers are located in the United States, the European Union and Japan. The west coast of the United States and Japan each contain active earthquake zones. Additionally, we rely on our network and third-party infrastructure and enterprise applications, internal technology systems and our website for our development, marketing, operational support, hosted services and sales activities. In the event of a major earthquake, hurricane or catastrophic event such as fire, power loss, telecommunications failure, cyber-attack, war or terrorist attack, we may be unable to continue our operations and may endure system interruptions, reputational harm, delays in our solution development, lengthy interruptions in our services, breaches of data security and loss of critical data, all of which could have an adverse effect on our future operating results.

Because key and substantial portions of our multichannel customer relationship management applications are built on salesforce.com's Salesforce1 Platform, we are dependent upon our agreement with salesforce.com to provide these solutions to our customers, and we are bound by the restrictions of this agreement which limits the companies to which we may sell our Veeva CRM solution.

Our Veeva CRM application and certain portions of the multichannel customer relationship management applications that complement our Veeva CRM application are developed on or utilize the Salesforce1 Platform of salesforce.com, inc., and we rely on our agreement with salesforce.com to continue to use the Salesforce1 Platform as combined with the proprietary aspects of our multichannel customer relationship management applications.

Our agreement with salesforce.com expires on September 1, 2025. However, salesforce.com has the right to terminate the agreement in certain circumstances, including in the event of a material breach of the agreement by us, or that

salesforce.com is subjected to third-party intellectual property infringement claims based on our solutions (except to the extent based on the Salesforce1 Platform) or our trademarks and we do not remedy such infringement in accordance with the agreement. Also, if we are acquired by specified companies, salesforce.com may terminate the agreement upon notice of not less than 12 months. If salesforce.com terminates our agreement under these circumstances, our customers will be unable to access Veeva CRM and certain other of our multichannel customer relationship management applications. A termination of the agreement would cause us to incur significant time and expense to acquire rights to, or develop, a replacement customer relationship management platform, and we may not be successful in these efforts. Even if we were to successfully acquire or develop a replacement customer relationship management platform, some customers may decide not to adopt the replacement platform and may decide to use a different customer relationship management solution. If we were unsuccessful in acquiring or developing a replacement customer relationship management platform or acquired or developed a replacement customer relationship management platform that our customers do not adopt, our business, operating results and brand may be adversely affected.

Also, if either party elects not to renew the agreement at the end of its September 1, 2025 term or if the agreement is terminated by us as a result of salesforce.com's breach, the agreement provides for a five-year wind-down period in which we would be able to continue providing the Salesforce1 Platform as combined with the proprietary aspects of our solutions to our existing customers but would be limited with respect to the number of additional subscriptions we could sell to our existing customers. After the wind-down period, we would no longer be able to use the Salesforce1 Platform.

Our agreement with salesforce.com provides that we can use the Salesforce1 Platform as combined with our proprietary Veeva CRM application to sell sales automation solutions only to drug makers in the pharmaceutical and biotechnology industries for human and animal treatments, which does not include the medical devices industry or products for non-drug departments of pharmaceutical and biotechnology companies. Sales of the Salesforce1 Platform in combination with our Veeva CRM application to additional industries would require the review and approval of salesforce.com. Our inability to freely sell our Veeva CRM application outside of drug makers in the pharmaceutical and biotechnology industries may adversely impact our growth.

While our agreement with salesforce.com, subject to certain exceptions, including pre-existing arrangements, provides that salesforce.com will not position, develop, promote, invest in or acquire applications directly competitive to the Veeva CRM application for sales automation that directly target drug makers in the pharmaceutical and biotechnology industry, or the pharma/biotech industry, our remedy for a breach of this commitment by salesforce.com would be to terminate the agreement, or continue the agreement but be released from our minimum order commitments from the date of salesforce.com's breach forward. While our agreement with salesforce.com also restricts salesforce.com from competing with us with respect to sales opportunities for sales automation solutions for the pharma/biotech industry unless such competition has been pre-approved by salesforce.com's senior management based on certain criteria specified in the agreement, and imposes certain limits on salesforce.com from entering into new arrangements after March 3, 2014 that are similar to ours with other parties with respect to sales automation applications for the pharma/biotech industry, it does not restrict a salesforce.com customer's ability (or the ability of salesforce.com on behalf of a specific salesforce.com customer) to customize or configure the Salesforce1 Platform, and our remedy for a breach of these restrictions by salesforce.com would be to terminate the agreement, or continue the agreement but be released from our minimum order commitments from the date of salesforce.com's breach forward. Some current or potential customers of ours may choose to build custom solutions using the Salesforce1 Platform rather than buying our solutions.

We employ third-party licensed software and software components for use in or with our solutions, and the inability to maintain these licenses or the presence of errors in the software we license could limit the functionality of our products and result in increased costs or reduced service levels, which would adversely affect our business.

In addition to our employment of the Salesforce1 Platform through our agreement with salesforce.com, our solutions incorporate or utilize certain third-party software and software components obtained under licenses from other companies. We anticipate that we will continue to rely on such third-party software and development tools from third parties in the future. Although we believe that there are commercially reasonable alternatives to the third-party software we currently license, this may not always be the case, or it may be difficult or costly to replace. Our use of additional or alternative third-party software would require us to enter into license agreements with third parties. In addition, if the third-party software we utilize has errors or otherwise malfunctions, the functionality of our solutions may be negatively impacted and our business may suffer.

Increasingly complex data protection and privacy regulations are burdensome, may reduce demand for our solutions, and non-compliance may impose significant liabilities.

Our customers use our solutions to collect, use, process and store personal data or identifying information regarding their employees and the medical professionals with whom our customers have contact, and, potentially, personal data (including potentially sensitive data such as health information) regarding patients maintained by our customers

pursuant to clinical, operational or compliance processes. In this capacity, we act as the data processor. We also collect and sell a database, via our OpenData and KOL Data solutions, for which we are the data controller. In many countries, national and local governmental bodies have adopted, are considering adopting, or may adopt laws and regulations regarding the collection, use, processing, storage and disclosure of personal information obtained from individuals, making compliance a complex task.

Table of Contents

In the United States, for instance, the U.S. Department of Health and Human Services promulgated patient privacy rules under the Health Insurance Portability and Accountability Act (HIPAA) of 1996, that protect medical records and other personal health information by limiting their use and disclosure, giving individuals the right to access, amend, and seek accounting of their own health information and limiting most use and disclosures of health information to the minimum amount reasonably necessary to accomplish the intended purposes. Operating under one of the world's strictest data privacy regimes, Veeva is a registered Data Controller and Data Processor under EU Data Protection Directive 95/46/EC. We are in the process of significant data compliance and change management undertaking in order to prepare for the General Data Protection Regulation (GDPR) reform, which will enter into force on May 25, 2018. In light of the Brexit vote, there may be some overlap between the GDPR coming into force and the United Kingdom leaving the European Union; however, the United Kingdom's Information Commissioner's Office (ICO) has publicly stated that the UK will adopt GDPR into national law. We currently operate a data center in the United Kingdom that is used to deliver our solutions to many of our European customers. Despite the ICO's statements which decrease this risk, potential regulatory changes regarding the transfer of EU data to the United Kingdom could adversely affect our customers' ability or desire to collect, use, process and store personal or health-related information using our data center in the United Kingdom, which could reduce demand for our solutions.

In addition, we routinely utilize the EU Standard Contractual Clauses, often also referred to as Model Clauses, to ensure that our European customers have adequate assurance of our technical and organization controls on privacy, although this legal mechanism is currently under review by the European Court of Justice. In parallel, we self-certified with the U.S. Department of Commerce under the EU-U.S. Privacy Shield as of December 12, 2016 as a replacement to the now invalid EU-U.S. Safe Harbor framework as another means to legally facilitate international data transfers. There is also a trend toward countries enacting data localization requirements which are not particularly compatible with the cloud computing model. For example, Russia's localization law (Federal Law No. 242-FZ) requires that the source of data for Russian nationals collected on Russian territory must be stored in Russia. We are also monitoring the impact of China's new cyber security law and its related implementation rules that are not yet finalized. Depending on the final enacted implementation rules, localization of certain types of data and restrictions on cross-border transfers may apply.

Customers expect that our solutions can be used in compliance with such laws and regulations. The functional and operational requirements and costs of compliance with such laws and regulations may adversely impact our business, and failure to enable our solutions to comply with such laws and regulations could lead to significant fines and penalties imposed by regulators, as well as claims by our customers or third parties. Additionally, all of these domestic and international legislative and regulatory initiatives could adversely affect our customers' ability or desire to collect, use, process and store personal or health-related information using our solutions or to license data products from us, which could reduce demand for our solutions.

Deferred revenue and change in deferred revenue may not be an accurate indicator of our future financial results.

Our subscription orders are generally billed beginning at the subscription commencement date in annual or quarterly increments. Many of our customers, including many of our large customers, are billed on a quarterly basis and therefore a substantial portion of the value of contracts billed on a quarterly basis will not be reflected in our deferred revenue at the end of any given quarter. Also, because the terms of orders for additional end users or solutions are typically coterminus with the anniversary date of the initial order for a related solution, the terms of such orders for additional end users or solutions can be for relatively short periods of time, often less than one year and payment terms may also be quarterly. Therefore, the annualized value of such orders that we enter into with our customers will not be completely reflected in deferred revenue at any single point in time. We have also agreed from time to time and may agree in the future to allow customers to change the renewal dates of their orders to, for example, align more closely with a customer's annual budget process or to align with the renewal dates of other orders placed by other entities within the same corporate control group, or to change payment terms from annual to quarterly, or vice versa.

Such changes typically result in an order of less than one year as necessary to align all orders to the desired renewal date and, thus, may result in a lesser increase to deferred revenue than if the renewal date adjustment had not occurred. Additionally, if a coterminus order of less than one year renews in the same fiscal year in which it was originally signed and has annual billing terms, the order will generate more deferred revenue in that fiscal year than the annual contract value of that order. Accordingly, we do not believe that change in deferred revenue or calculated billings, a metric commonly cited by financial analysts that is the sum of the change in deferred revenue plus revenue, are accurate indicators of future revenues for any given period of time. However, many companies that provide cloud-based software report changes in deferred revenue or calculated billings as key operating or financial metrics, and it is possible that analysts or investors may view these metrics as important. Thus, any changes in our deferred revenue balances or deferred revenue trends could adversely affect the market price of our Class A common stock.

Because we recognize subscription services revenues ratably over the term of the order for our subscription services, a significant downturn in our business may not be reflected immediately in our operating results, which increases the difficulty of evaluating our future financial performance.

We generally recognize subscription services revenues ratably over the term of an order under our subscription agreements. As a result, a substantial majority of our quarterly subscription services revenues are generated from subscription agreements entered into during prior periods. Consequently, a decline in new subscriptions in any quarter may not affect our results of operations in that quarter, but could reduce our revenues in future quarters. Additionally, the timing of renewals or non-renewals of a subscription agreement during any quarter may only affect our financial performance in future quarters. For example, the non-renewal of a subscription agreement late in a quarter will have minimal impact on revenues for that quarter but will reduce our revenues in future quarters. Accordingly, the effect of significant declines in sales and customer acceptance of our solutions may not be reflected in our short-term results of operations, which would make these reported results less indicative of our future financial results. By contrast, a non-renewal occurring early in a quarter may have a significant negative impact on revenues for that quarter and we may not be able to offset a decline in revenues due to non-renewal with revenues from new subscription agreements entered into in the same quarter. In addition, we may be unable to adjust our costs in response to reduced revenues.

Changes in accounting principles may cause previously unanticipated fluctuations in our financial results, and the implementation of such changes may impact our ability to meet our financial reporting obligations.

We prepare our financial statements in accordance with U.S. GAAP which are subject to interpretation or changes by the Financial Accounting Standards Board, or FASB, the Securities and Exchange Commission, or SEC, and other various bodies formed to promulgate and interpret appropriate accounting principles. New accounting pronouncements and changes in accounting principles have occurred in the past and are expected to occur in the future which may have a significant effect on our financial results. For example, in May 2014, the FASB issued Accounting Standards Update 2014-09, "Revenue from Contracts with Customers" ("Topic 606"), which supersedes most current revenue recognition guidance, including industry-specific guidance. We will be required to implement this new revenue standard for our fiscal year beginning February 1, 2018. The impact of adoption of Topic 606 will include a requirement to capitalize the costs to obtain a customer contract (e.g., sales commissions) and amortize these costs over the estimated life of the underlying contract. We currently do not capitalize such costs. Additionally, we expect the timing of revenue recognition for certain of our revenue arrangements to be impacted by the changes imposed by Topic 606. Please see Part I, Item 2 "Management's Discussion and Analysis of Financial Condition and Results of Operation"—"Components of Results of Operations" for more information. We are continuing to evaluate the effect that the new standard will have on our consolidated financial statements and our preliminary assessments remain subject to change. Any difficulties in implementation of changes in accounting principles, including the ability to modify our accounting systems, could cause us to fail to meet our financial reporting obligations, which could result in regulatory discipline and harm investors' confidence in us.

Sales to customers outside the United States or with international operations expose us to risks inherent in international sales.

In our fiscal quarter ended July 31, 2017, sales to customers outside North America, which is primarily measured by the estimated location of the end users for subscription services revenues and the estimated location of the resources performing the services for professional services, accounted for approximately 45% of our total revenues. A key element of our growth strategy is to further expand our international operations and worldwide customer base. Operating in international markets requires significant resources and management attention and subjects us to regulatory, economic and political risks that are different from those in the United States. We have limited operating experience in some international markets, and we cannot assure you that our expansion efforts into other international markets will be successful. Our experience in the United States and other international markets in which we already have a presence may not be relevant to our ability to expand in other emerging markets. Our international expansion efforts may not be successful in creating further demand for our solutions outside of the United States or in effectively



selling our solutions in the international markets we enter. In addition, we face risks in doing business internationally that could adversely affect our business, including:

- the need and expense to localize and adapt our solutions for specific countries, including translation into foreign languages, and ensuring that our solutions enable our customers to comply with local life sciences industry laws and regulations;
  - data privacy laws which require that customer data be stored and processed in a designated territory;
  - difficulties in staffing and managing foreign operations, including employee laws and regulations;
- 54 Veeva Systems Inc. | Form 10-Q
-

## Table of Contents

- different pricing environments, longer sales cycles and longer accounts receivable payment cycles and collections issues;
- new and different sources of competition;
- weaker protection for intellectual property and other legal rights than in the United States and practical difficulties in enforcing intellectual property and other rights outside of the United States;
- laws and business practices favoring local competitors;
- compliance challenges related to the complexity of multiple, conflicting and changing governmental laws and regulations, including employment, tax, privacy and data protection and anti-bribery laws and regulations;
- increased financial accounting and reporting burdens and complexities;
- restrictions on the transfer of funds;
- our ability to repatriate funds from abroad without adverse tax consequences;
- adverse tax consequences, including the potential for required withholding taxes;
- fluctuations in the exchange rates of foreign currency in which our foreign revenues or expenses may be denominated;
- changes in trade relations and trade policy, including implementation of or changes to trade sanctions, tariffs, and embargos; and
- unstable regional and economic political conditions in the markets in which we operate.

Some of our business partners also have international operations and are subject to the risks described above. Even if we are able to successfully manage the risks of international operations, our business may be adversely affected if our business partners are not able to successfully manage these risks, which could adversely affect our business.

We are subject to governmental export and import controls that could impair our ability to compete in international markets in which our products may not be sold or subject us to liability if we violate the controls.

Our products are subject to U.S. export controls, including the U.S. economic sanctions laws and regulations that prohibit the shipment of certain products and services without the required export authorizations or export to countries, governments, and persons targeted by U.S. sanctions. Under current U.S. export restrictions, our products may not be sold in certain jurisdictions in which certain of our non-U.S. based customers have operations. As a result, such customers may choose to use solutions other than ours. While we take precautions to prevent our products and services from being exported in violation of these laws, we cannot guarantee that the precautions we take will prevent violations of export control and sanctions laws. Violations of U.S. sanctions or export control laws can result in fines or penalties. In the event of criminal knowing and willful violations of these laws, fines and possible incarceration for responsible employees and managers could be imposed.

If we lose the services of our founder and Chief Executive Officer or other members of our senior management team, we may not be able to execute our business strategy.

Our success depends in a large part upon the continued service of our senior management team. In particular, our founder and Chief Executive Officer, Peter P. Gassner, is critical to our vision, strategic direction, culture, products and technology. We do not maintain key-man insurance for Mr. Gassner or any other member of our senior management team. We do not have employment agreements with members of our senior management team or other key personnel that require them to continue to work for us for any specified period and, therefore, they could terminate their employment with us at any time. The loss of our founder and Chief Executive Officer or one or more other members of our senior management team could have an adverse effect on our business.

Our business could be adversely affected if our customers are not satisfied with the professional services provided by us or our partners, or with our technical support services.

Our business depends on our ability to satisfy our customers, both with respect to our solutions and the professional services that are performed in connection with the implementation of our solutions. Professional services may be performed by us, by a third party, or by a combination of the two. If a customer is not satisfied with the quality of work performed by us or a third party or with the solutions delivered or professional services rendered, then we could incur additional costs to address the situation, we may be required to issue credits or refunds for pre-paid amounts related to unused services, the profitability of that work might be impaired and the customer's dissatisfaction with our services could damage our ability to expand the number of solutions subscribed to by that customer. Moreover, negative publicity related to our customer relationships, regardless of its accuracy, may further damage our business by affecting our ability to compete for new business with current and prospective customers.

Once our solutions are deployed, our customers depend on our support organization to resolve technical issues relating to our solutions. We may be unable to respond quickly enough to accommodate short-term increases in customer demand for technical support services. Increased customer demand for our services, without corresponding revenues, could increase costs and adversely affect our operating results. In addition, our sales process is highly dependent on the reputation of our solutions and business and on positive recommendations from our existing customers. Any failure to maintain high-quality technical support, or a market perception that we do not maintain high-quality support, could adversely affect our reputation, our ability to sell our solutions to existing and prospective customers and our business and operating results.

Any failure to protect our intellectual property rights could impair our ability to protect our proprietary technology and our brand.

Our success and ability to compete depend in part upon our intellectual property. As of July 31, 2017, we had filed applications for a number of patents, and we have ten issued U.S. and two Japanese patents. We also rely on copyright, trade secret and trademark laws, trade secret protection and confidentiality or license agreements with our employees, customers, partners and others to protect our intellectual property rights. However, the steps we take to protect our intellectual property rights may be inadequate.

In order to protect our intellectual property rights, we may be required to spend significant resources to monitor and protect these rights. Litigation brought to protect and enforce our intellectual property rights could be costly, time-consuming and distracting to management and could result in the impairment or loss of portions of our intellectual property. Furthermore, our efforts to enforce our intellectual property rights may be met with defenses, counterclaims and countersuits attacking the validity and enforceability of our intellectual property rights. Negative publicity related to a decision by us to initiate such enforcement actions against a customer or former customer, regardless of its accuracy, may adversely impact our other customer relationships or prospective customer relationships, harm our brand and business and could cause the market price of our Class A common stock to decline. Our failure to secure, protect and enforce our intellectual property rights could adversely affect our brand and our business.

Our solutions utilize open source software, and any failure to comply with the terms of one or more of these open source licenses could adversely affect our business.

Our solutions include software covered by open source licenses. The terms of various open source licenses have not been interpreted by U.S. courts, and there is a risk that such licenses could be construed in a manner that imposes unanticipated conditions or restrictions on our ability to market our solutions. By the terms of certain open source licenses, we could be required to release the source code of our proprietary software, and to make our proprietary software available under open source licenses, if we combine our proprietary software with open source software in a certain manner. In the event that portions of our proprietary software are determined to be subject to an open source

license, we could be required to publicly release the affected portions of our source code, re-engineer all or a portion of our solutions, or otherwise be limited in the licensing of our solutions, each of which could reduce or eliminate the value of our solutions and services. In addition to risks related to license requirements, usage of open source software can lead to greater risks than use of third-party commercial software, as open source licensors generally do not provide warranties or controls on the origin of the software. Many of the risks associated with usage of open source software cannot be eliminated and could adversely affect our business.

Table of Contents

Our estimate of the market size for our solutions we have provided publicly may prove to be inaccurate, and even if the market size is accurate, we cannot assure you our business will serve a significant portion of the market.

Our estimate of the market size for our solutions that we have provided publicly, sometimes referred to as total addressable market or TAM, is subject to significant uncertainty and is based on assumptions and estimates, including our internal analysis and industry experience, which may not prove to be accurate. These estimates are, in part, based upon the size of the general application areas in which our solutions are targeted. Our ability to serve a significant portion of this estimated market is subject to many factors, including our success in implementing our business strategy, which is subject to many risks and uncertainties. For example, in order to address the entire TAM we have identified, we must continue to enhance and add functionality to our existing solutions and introduce new solutions. Accordingly, even if our estimate of the market size is accurate, we cannot assure you that our business will serve a significant portion of this estimated market for our solutions.

If we are unable to implement and maintain effective internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Class A common stock could be adversely affected.

As a public company, we are required to maintain internal controls over financial reporting and to report any material weaknesses in such internal controls. Section 404 of the Sarbanes-Oxley Act of 2002 (Sarbanes-Oxley Act) requires that we evaluate and determine the effectiveness of our internal controls over financial reporting and provide a management report on internal controls over financial reporting. The Sarbanes-Oxley Act also requires that our management report on internal controls over financial reporting be attested to by our independent registered public accounting firm.

Many of the internal controls we have implemented pursuant to the Sarbanes-Oxley Act are process controls with respect to which a material weakness may be found whether or not any error has been identified in our reported financial statements. This may be confusing to investors and result in damage to our reputation, which may harm our business. Additionally, the proper design and assessment of internal controls over financial reporting are subject to varying interpretations, and, as a result, application in practice may evolve over time as new guidance is provided by regulatory and governing bodies and as common practices evolve. This could result in continuing uncertainty regarding the proper design and assessment of internal controls over financial reporting and higher costs necessitated by ongoing revisions to internal controls.

We must continue to monitor and assess our internal control over financial reporting. As disclosed in Item 9B of our annual report on Form 10-K for the fiscal year ended January 31, 2017, our management concluded that our internal control over financial reporting is effective as of January 31, 2017, which report has been attested to by our independent registered public accounting firm. If in the future we have any material weaknesses, we may not detect errors on a timely basis and our financial statements may be materially misstated. Additionally, if in the future we are unable to comply with the requirements of Section 404 of the Sarbanes-Oxley Act in a timely manner, are unable to assert that our internal controls over financial reporting are effective, identify material weaknesses in our internal controls over financial reporting, or if our independent registered public accounting firm is unable to express an opinion as to the effectiveness of our internal controls over financial reporting, investors may lose confidence in the accuracy and completeness of our financial reports and the market price of our Class A common stock could be adversely affected, and we could become subject to investigations by the stock exchange on which our securities are listed, the SEC, or other regulatory authorities, which could require additional financial and management resources.

Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use, value added or similar transactional taxes, and we could be subject to liability with respect to past or future sales, which could adversely affect our results of operations.

We do not collect sales and use, value added and similar transactional taxes in all jurisdictions in which we have sales, based on our belief that such taxes are not applicable or that we are not required to collect such taxes with respect to the jurisdiction. Sales and use, value added and similar tax laws and rates vary greatly by jurisdiction. Certain jurisdictions in which we do not collect such taxes may assert that such taxes are applicable, which could result in tax assessments, penalties and interest, and we may be required to collect such taxes in the future. Such tax assessments, penalties and interest or future requirements may adversely affect our results of operations. We believe that our financial statements reflect adequate reserves to cover such a contingency, but there can be no assurances in that regard.

Unanticipated changes in our effective tax rate, including as a result of our international operations, could harm our future results.

We are subject to income taxes in the United States and various foreign jurisdictions (including Australia, Belgium, Brazil, Canada, China, France, Germany, Hungary, India, Israel, Italy, Japan, Mexico, Singapore, South Korea, Spain, Switzerland, Thailand, Ukraine and the United Kingdom) and our domestic and international tax liabilities are subject to the allocation of expenses in differing jurisdictions and complex transfer pricing regulations administered by taxing authorities in various jurisdictions. Tax rates in the jurisdictions in which we operate may change as a result of factors outside of our control or relevant taxing authorities may disagree with our determinations as to the income and expenses attributable to specific jurisdictions. In addition, changes in tax and trade laws, treaties or regulations, or their interpretation or enforcement, have become more unpredictable and may become more stringent, which could materially adversely affect our tax position. Forecasting our estimated annual effective tax rate is complex and subject to uncertainty, and there may be material differences between our forecasted and actual tax rates. Our effective tax rate could be adversely affected by changes in the mix of earnings and losses in countries with differing statutory tax rates, certain non-deductible expenses as a result of acquisitions, the valuation of deferred tax assets and liabilities, adjustments to income taxes upon finalization of tax returns, changes in available tax credits, decision to repatriate non-U.S. earnings for which we have not previously provided for U.S. taxes, and changes in federal, state or international tax laws and accounting principles. In addition, because substantially all of our intellectual property resides in the United States and is licensed through our parent U.S. entity, our effective tax rate may be higher than other companies that maintain and license intellectual property from outside the United States. Increases in our effective tax rate would reduce our profitability or in some cases increase our losses.

The overall tax environment has made it increasingly challenging for multinational corporations to operate with certainty about taxation in many jurisdictions. The Organization for Economic Co-operation and Development, which represents a coalition of member countries, is supporting changes to numerous long-standing tax, including changes to the practice of shifting profits among affiliated entities located in different tax jurisdictions. Furthermore, a number of countries where we do business, including the United States and many countries in the European Union, are considering changes in relevant tax, accounting and other laws, regulations and interpretations, including changes to tax laws applicable to multinational corporations. The increasingly complex global tax environment could have a material adverse effect on our effective tax rate, results of operations, cash flows and financial condition.

In addition, we may be subject to income tax audits by many tax jurisdictions throughout the world. For example, we are currently under audit by the IRS for our fiscal year ended January 31, 2015. Although we believe our income tax liabilities are reasonably estimated and accounted for in accordance with applicable laws and principles, an adverse resolution of one or more uncertain tax positions in any period could have a material impact on the results of operations for that period.

If we fail to develop widespread brand awareness cost-effectively, our business may suffer.

We believe that developing and maintaining widespread awareness of our brand in a cost-effective manner is critical to achieving widespread acceptance of our solutions, attracting new customers, and generating and maintaining profitability. Currently, our brand may be less recognized by the key decision makers at the potential customers for our more recently announced solutions, including Veeva Vault CTMS, Veeva Vault EDC and our solutions for companies in industries other than life sciences. Brand promotion activities may not generate customer awareness or increase revenues, and even if they do, any increase in revenues may not offset the expenses we incur in building our brand. If we fail to successfully promote and maintain our brand, or incur substantial expenses attempting to promote and maintain our brand, we may fail to attract or retain customers necessary to realize a sufficient return on our brand-building efforts or to achieve the widespread brand awareness that is critical for broad customer adoption of our solutions.





Table of Contents

We have incurred and will continue to incur significantly increased costs and devote substantial management time as a result of operating as a public company.

As a public company, we have incurred and will continue to incur significant legal, accounting and other expenses that we did not incur as a private company. For example, we are subject to the reporting requirements of the Securities Exchange Act of 1934, as amended, and are required to comply with the applicable requirements of the Sarbanes-Oxley Act and the Dodd-Frank Wall Street Reform and Consumer Protection Act, as well as rules and regulations subsequently implemented by the SEC and the New York Stock Exchange, including the establishment and maintenance of effective disclosure and financial controls and changes in corporate governance practices. Compliance with these requirements has increased our legal and financial compliance costs and has made some activities more time consuming and costly. In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. Our management and other personnel may need to divert attention from operational and other business matters to devote substantial time to these public company requirements. In particular, we are incurring and expect to incur significant expenses and devote substantial management effort toward ensuring compliance with the requirements of Section 404 of the Sarbanes-Oxley Act. Although we have hired additional employees to comply with these requirements, we may need to hire more accounting, legal and financial staff in the future with appropriate public company experience and technical accounting knowledge to meet these requirements. We cannot accurately predict or estimate the amount or timing of additional costs we may incur as a result of becoming a public company. Further, if our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to practice, regulatory authorities may initiate legal proceedings against us and our business may be harmed.

Additional compensation costs and potential future equity awards may be required to properly compensate our executives and directors as a result of the personal liability that goes with public company status. Any such costs or awards will increase our compensation expenses, which would increase our general and administrative expense and could adversely affect our profitability. We also expect that operating as a public company will make it more difficult and more expensive for us to obtain director and officer liability insurance on reasonable terms. As a result, it may be more difficult for us to attract and retain qualified people to serve on our board of directors, our board committees or as executive officers.

Currency exchange fluctuations may negatively impact our financial results.

Some of our international agreements provide for payment denominated in local currencies, and the majority of our local costs are denominated in local currencies. As we continue to expand our operations in countries outside the United States, an increasing proportion of our revenues and expenditures in the future may be denominated in foreign currencies. Fluctuations in the value of the U.S. dollar and foreign currencies may impact our operating results when translated into U.S. dollars. Thus, our results of operations and cash flows are subject to fluctuations due to changes in foreign currency exchange rates, particularly changes in the Euro, British Pound Sterling, Japanese Yen and Chinese Yuan, and may be adversely affected in the future due to changes in foreign currency exchange rates, particularly in light of the Brexit vote and other recent political developments. Changes in exchange rates may negatively affect our revenues and other operating results as expressed in U.S. dollars in the future. Further, we have experienced and will continue to experience fluctuations in our net income as a result of transaction gains or losses related to revaluing certain current asset and current liability balances that are denominated in currencies other than the functional currency of the entities in which they are recorded.

We recently initiated a program during our fiscal year ending January 31, 2018 to engage in the hedging of our foreign currency transactions and may, in the future, hedge selected significant transactions or net monetary exposure positions denominated in currencies other than the U.S. dollar. The use of such hedging activities may not offset any or more than a portion of the adverse financial effects of unfavorable movements in foreign exchange rates over the limited time the hedges are in place. Moreover, the use of hedging instruments may introduce additional risks if we are unable to structure effective hedges with such instruments.

If the market for cloud-based solutions develops more slowly than we expect or declines, our revenues could decrease and our business could be adversely affected.

The market for cloud-based solutions is not as mature as the market for on-premise enterprise software in the life sciences and other regulated industries, and it is uncertain whether cloud-based solutions will sustain high levels of customer demand and market acceptance in these industries. The continued expansion of cloud-based solutions, particularly in the life sciences industry, depends on a number of factors, including the cost, performance and perceived value associated with cloud-based solutions, as well as the ability of providers of cloud-based solutions to address and maintain security, privacy and unique regulatory requirements or concerns. If we or other cloud-based solution providers experience security incidents, loss of customer data, disruptions in delivery or other problems, the market for cloud-based solutions in the life sciences industry, including our solutions, may be adversely affected. If cloud-based solutions do not continue to achieve more widespread adoption in the life sciences industry, or there is a reduction in demand for cloud-based solutions, our revenues could decrease and our business could be adversely affected.

#### Risks Related to Ownership of Our Class A Common Stock

Our Class A common stock price has been and will likely continue to be volatile.

The trading price of our Class A common stock has been and will likely continue to be volatile for the foreseeable future. In addition, the trading prices of the securities of technology companies have been highly volatile. Accordingly, the market price of our Class A common stock is likely to be subject to wide fluctuations in response to numerous factors, many of which are beyond our control. In addition to those risks described in this “Risk Factors” section, other factors could impact the value of our common stock, including:

- fluctuations in the valuation of companies perceived by investors to be comparable to us, such as high-growth or cloud companies, or in valuation metrics, such as our price to revenues ratio;
- overall performance of the stock market;
- changes in our financial, operating or other metrics, regardless of whether we consider those metrics as reflective of the current state or long-term prospects of our business, and how those results compare to securities analyst expectations, including whether those results fail to meet, exceed, or significantly exceed securities analyst expectations;
- changes in the forward-looking estimates of our financial, operating, or other metrics, how those estimates compare to securities analyst expectations, or changes in recommendations by securities analysts that follow our Class A common stock;
- announcements of customer additions and customer cancellations or delays in customer purchases;
- the net increase in the number of customers, either independently or as compared to published expectations of industry, financial or other analysts that cover us;
- announcements by us or by our competitors of technological innovations, new solutions, enhancements to services, strategic alliances or significant agreements;
- announcements by us or by our competitors of mergers or other strategic acquisitions or rumors of such transactions involving us or our competitors;
- the economy as a whole and market conditions within our industry and the industries of our customers;
  - macroeconomic and geopolitical factors and instability and volatility in the global financial markets;
- trading activity by directors, executive officers and significant stockholders, or the perception in the market that the holders of a large number of shares intend to sell their shares;
- the operating performance and market value of other comparable companies;
- changes in legislation relating to our existing or future solutions; and
- any other factors discussed herein.



## Table of Contents

In addition, if the market for technology stocks or the stock market in general experiences uneven investor confidence, the market price of our Class A common stock could decline for reasons unrelated to our business, operating results or financial condition. The market price of our Class A common stock might also decline in reaction to events that affect other companies within, or outside, our industry even if these events do not directly affect us. Some companies that have experienced volatility in the trading price of their stock have been the subject of securities class action litigation. If we are the subject of such litigation, it could result in substantial costs and a diversion of our management's attention and resources.

The dual class structure of our common stock has the effect of concentrating voting control with our executive officers (including our Chief Executive Officer) and directors and their affiliates; this will limit or preclude the ability of our investors to influence corporate matters.

Our Class B common stock has ten votes per share, and our Class A common stock has one vote per share. As of July 31, 2017, stockholders who hold shares of Class B common stock, including our executive officers and directors and their affiliates, together hold approximately 69.6% of the voting power of our outstanding capital stock. Because of the ten-to-one voting ratio between our Class B common stock and Class A common stock, the holders of our Class B common stock collectively control a substantial majority of the combined voting power of our common stock and, assuming no material sales of such shares, will be able to control all matters submitted to our stockholders for approval until October 15, 2023, including the election of directors, amendments of our organizational documents and any merger, consolidation, sale of all or substantially all of our assets or other major corporate transaction. This concentrated control will limit or preclude our investors' ability to influence corporate matters for the foreseeable future. In addition, this may prevent or discourage unsolicited acquisition proposals or offers for our capital stock or may adversely affect the market price of our Class A common stock.

Future transfers by holders of Class B common stock will generally result in those shares converting to Class A common stock, subject to limited exceptions, such as certain transfers effected for estate planning purposes. The conversion of Class B common stock to Class A common stock will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long term. If, for example, our executive officers (including our Chief Executive Officer), employees, directors and their affiliates retain a significant portion of their holdings of Class B common stock for an extended period of time, they could, in the future, continue to control a majority of the combined voting power of our Class A common stock and Class B common stock.

We have broad discretion in the use of our cash balances and may not use them effectively.

We have broad discretion in the use of our cash balances and may not use them effectively. The failure by our management to apply these funds effectively could adversely affect our business and financial condition. Pending their use, we may invest the net proceeds from any future securities offerings in a manner that does not produce income or that loses value. Our investments may not yield a favorable return to our investors and may negatively impact the price of our Class A common stock.

We do not intend to pay dividends on our capital stock for the foreseeable future, so any returns will be limited to changes in the value of our Class A common stock.

We have never declared or paid any cash dividends on our capital stock. We currently anticipate that we will retain future earnings for the development, operation and expansion of our business and do not anticipate declaring or paying any cash dividends for the foreseeable future. In addition, our ability to pay cash dividends on our capital stock may be prohibited or limited by the terms of any future debt financing arrangement. Any return to stockholders will therefore be limited to the increase, if any, of the price of our Class A common stock.

Future sales and issuances of our common stock or rights to purchase common stock, including pursuant to our equity incentive plans, could result in additional dilution of the percentage ownership of our stockholders and could cause the stock price of our Class A common stock to decline.

In the future, we may sell common stock, convertible securities or other equity securities in one or more transactions at prices and in a manner we determine from time to time. We expect to issue securities to employees and directors pursuant to our equity incentive plans. If we sell common stock, convertible securities or other equity securities in subsequent transactions, or common stock is issued pursuant to equity incentive plans, our investors may be materially diluted. New investors in such subsequent transactions could gain rights, preferences and privileges senior to those of holders of our common stock, including our Class A common.

Sales of a substantial number of shares of our common stock in the public market, or the perception that they might occur, could cause the price of our Class A common stock to decline.

Sales of a substantial number of shares of our Class A common stock in the public market, or the perception that these sales might occur, could cause the market price of our Class A common stock to decline or make it more difficult for you to sell your common stock at a time and price that you deem appropriate and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales, or the perception that our shares may be available for sale, will have on the prevailing market price of our Class A common stock.

In addition, as of July 31, 2017, we had options outstanding that, if exercised, would result in the issuance of additional shares of Class A or Class B common stock. Our Class B common stock converts into Class A common stock on a one-for-one basis. As of July 31, 2017, we had restricted stock units outstanding which may vest in the future and result in the issuance of additional shares of Class A common stock. Our unexercised stock options and unvested restricted stock units, as of July 31, 2017, are described in note 8 of the notes to our condensed consolidated financial statements. All of the shares of Class A common stock issuable upon the exercise of options (or upon conversion of shares of Class B common stock issued upon the exercise of options) or upon the vesting of restricted stock units have been registered for public resale under the Securities Act of 1933, as amended, or the Securities Act. Accordingly, these shares will be able to be freely sold in the public market upon issuance as permitted by any applicable vesting requirements.

If securities or industry analysts do not continue to publish research or if they publish inaccurate or unfavorable research about our business, our stock price and trading volume could decline.

The trading market for our Class A common stock will depend in part on the research and reports that securities or industry analysts publish about us or our business. If industry analysts cease coverage of us or additional industry analysts do not initiate coverage of us, the trading price for our Class A common stock may be adversely affected. In addition, the stock prices of many companies in the high technology industry have declined significantly after those companies have failed to meet, or often times significantly exceed, the financial guidance publicly announced by the companies or the expectations of analysts. If our financial results fail to meet (or possibly significantly exceed) our announced guidance or the expectations of analysts or public investors, analysts could downgrade our common stock or publish unfavorable research about us. If one or more of the analysts who cover us downgrade our Class A common stock or publish inaccurate or unfavorable research about our business, our Class A common stock price would likely decline. If one or more of these analysts cease coverage of us or fail to publish reports on us regularly, demand for our Class A common stock could decrease, which might cause our Class A common stock price and trading volume to decline.

Provisions in our restated certificate of incorporation and amended and restated bylaws and Delaware law might discourage, delay or prevent a change in control of our company or changes in our management and, therefore, depress the market price of our Class A common stock.

Our restated certificate of incorporation and amended and restated bylaws contain provisions that could depress the market price of our Class A common stock by acting to discourage, delay or prevent a change in control of our company or changes in our management that the stockholders of our company may deem advantageous. These provisions among other things:

- establish a classified board of directors so that not all members of our board are elected at one time;
- provide for a dual class common stock structure, which gives our Chief Executive Officer, directors, executive officers, greater than 5% stockholders and their respective affiliates the ability to control the outcome of all matters requiring stockholder approval, even if they own significantly less than a majority of the shares of our outstanding Class A and Class B common stock;
- permit the board of directors to establish the number of directors;

- provide that directors may only be removed “for cause” and only with the approval of 66 2/3% of our stockholders;
- require super-majority voting to amend some provisions in our restated certificate of incorporation and amended and restated bylaws;
- authorize the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- eliminate the ability of our stockholders to call special meetings of stockholders;

62 Veeva Systems Inc. | Form 10-Q

---



Table of Contents

• prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;

• provide that the board of directors is expressly authorized to make, alter or repeal our amended and restated bylaws; and

• establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

In addition, Section 203 of the Delaware General Corporation Law may discourage, delay or prevent a change in control of our company. Section 203 imposes certain restrictions on merger, business combinations and other transactions between us and holders of 15% or more of our common stock.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for any derivative action or proceeding brought on our behalf, any action asserting a breach of fiduciary duty, any action asserting a claim against us arising pursuant to the Delaware General Corporation Law or any action asserting a claim against us that is governed by the internal affairs doctrine. This choice of forum provision may limit a stockholder's ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or other employees and may discourage these types of lawsuits. Alternatively, if a court were to find the choice of forum provision contained in our certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving such action in other jurisdictions, which could harm our business, operating results, and financial condition.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS.

a) Sales of Unregistered Securities

None.

b) Use of Proceeds from Public Offerings of Common Stock

None.

c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

None.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

ITEM 4. MINE SAFETY DISCLOSURES.

Not applicable.

ITEM 5. OTHER INFORMATION.

None.

Table of Contents

ITEM 6. EXHIBITS.

Exhibits

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	<u>Restated Certificate of Incorporation of Veeva Systems Inc.</u>	8-K	001-36121	3.1	10/22/2013
3.2	<u>Bylaws of Veeva Systems Inc.</u>	S-1/A	333-191085	3.4	10/3/2013
31.1	<u>Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.</u>				
31.2	<u>Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.</u>				
32.1†	<u>Certification of Chief Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.</u>				
32.2†	<u>Certification of Chief Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.</u>				
101.INS	XBRL Instance Document.				
101.SCH	XBRL Taxonomy Schema Linkbase Document.				
101.CAL	XBRL Taxonomy Calculation Linkbase Document.				
101.DEF	XBRL Taxonomy Definition Linkbase Document.				
101.LAB	XBRL Taxonomy Labels Linkbase Document.				

101.PRE XBRL Taxonomy Presentation Linkbase Document.

The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Veeva Systems Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

Veeva Systems Inc. | Form 10-Q 65

---

SIGNATURES

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.

Veeva Systems Inc.

By: /s/ TIMOTHY S. CABRAL  
Timothy S. Cabral  
Chief Financial Officer  
(Principal Financial and Accounting Officer)

Dated: September 7, 2017

Table of Contents

EXHIBIT INDEX

Exhibit Number	Exhibit Description	Incorporated by Reference			
		Form	File No.	Exhibit	Filing Date
3.1	<u>Restated Certificate of Incorporation of Veeva Systems Inc.</u>	8-K	001-36121	3.1	10/22/2013
3.2	<u>Bylaws of Veeva Systems Inc.</u>	S-1/A	333-191085	3.4	10/3/2013
31.1	<u>Certification of Principal Executive Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.</u>				
31.2	<u>Certification of Principal Financial Officer Required Under Rule 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended.</u>				
32.1†	<u>Certification of Chief Executive Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.</u>				
32.2†	<u>Certification of Chief Financial Officer Required Under Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, and 18 U.S.C. §1350.</u>				
101.INS	XBRL Instance Document.				
101.SCH	XBRL Taxonomy Schema Linkbase Document.				
101.CAL	XBRL Taxonomy Calculation Linkbase Document.				
101.DEF	XBRL Taxonomy Definition Linkbase Document.				
101.LAB	XBRL Taxonomy Labels Linkbase Document.				

101.PRE XBRL Taxonomy Presentation Linkbase Document.

The certifications attached as Exhibit 32.1 and 32.2 that accompany this Quarterly Report on Form 10-Q are not deemed filed with the Securities and Exchange Commission and are not to be incorporated by reference into any filing of Veeva Systems Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

Veeva Systems Inc. | Form 10-Q 67