Sylogist Ltd.

Fourth Quarter 2021 Earnings

Conference Call Transcript

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Speakers:

Bill Wood
President and Chief Executive Officer

Xavier Shorter
Chief Financial Officer

Operator:

Welcome to the Sylogist Ltd. Q4 Fiscal Year 2021 Earnings Conference Call. As a reminder, all participants are in listen only-mode and the conference is being recorded.

I would now like to turn the conference over to Bill Wood, President and CEO. Please go ahead.

Bill Wood:

Hello, and welcome to our earnings call for Q4 in Fiscal 2021. I'm Bill Wood, Sylogist's President and CEO. On the call with me today is Xavier Shorter, our Chief Financial Officer. In a moment, we will walk you through our performance for the quarter and full year and also provide our outlook for Fiscal 2022. To remind you, our fiscal year ends on September 30th.

Before we get into it, I should note that this call may contain forward-looking statements relating to the future operations and profitability of the Company, any of which are subject to risks, uncertainties and assumptions and actual events or outcomes may differ materially from those we contemplate here. Any such forward-looking statements are made as of today and except as required by law, we have no obligation to revise them.

Sylogist is a software as a service or SaaS company that provides mission critical solutions primarily to three large public sector verticals: education; nonprofit and NGOs; and government. Our cloud based platform is well established and used by over 1,950 customers worldwide. For the past year, we have been deliberately preparing to take advantage of growth opportunities in our market segments, as they're said to improve and or expand their digital footprints exiting the pandemic.

We are hyper-focused on being the leading profitable, growth-oriented SaaS company that's focused on our public sector verticals. Given our fiscal year ended back in September, or almost three months ago, I wanted to let you know that Sylogist is finishing the calendar year as a completely different company.

In years past, Sylogist was focused on M&A and profitability with minimal emphasis on organic growth. That all changed a year ago, with a mandate from the board and our investors when I joined in November of 2020. In a strengthened management team, we've now put in place a foundation to accelerate growth both organically and inorganically. I'm pleased to report that we're starting to see that new strategy pay off.

Our organic growth strategy has three pillars. The first is the creation of scaling capacity. We have increased investments in our products, R&D, and customer facing teams by 66% to drive innovation, customer responsiveness and our competitive position overall. We also reorganized to break down divisional silos and build a single unified team.

Secondly, we are committed to a cloud-only strategy that's underpinning differentiated like platform versus products. This involves tightly integrating our product solutions into industry leading platform offerings. This strategy allows customers to onboard with the functionality they need now with the assurance they can activate and grow into versus out of more of the platform over time as their requirements evolve, or an incumbent offering no longer meets their needs. This approach creates increased wallet share opportunities, lower cost of sale and increased LTV. Our platform offerings provide core functionality, new innovations such as intelligent analytics, as well as expanded use of complementary technology we've had for some time such as payments. This strategy enhances our ability to offer unique and desirable features to win new business, increase already high stickiness, and expand customer wallet share.

Third, we scaled our account management and go to market capabilities. Before I joined, Sylogist was delivering impressive earnings margins, but it only modestly invested in sales and marketing in several key areas of the business over the last few years.

Over the last 12 months, we've materially readied ourselves to activate growth. For any healthy SaaS company, that includes aligning experienced account managers that are dedicated to proactive customer outreach and engagement. Minimizing churn and growing customer wallet share is key to maximizing value creation in a SaaS model.

On the sales sides in addition to expanding our direct team, we've lean in on our indirect partner channel strategy. Most important to reinvigorating data area was focused in leadership. We brought in an experienced Director of Strategic Partnerships to expand and recharge our channel and reseller network. We've also launched our new online presence to enhance our brand awareness, highlight customer successes, curate and deliver thought leadership and drive low cost mid-funnel lead activity.

As I mentioned, we have added experienced quota carrying account executives across our verticals, and more are on the way in early January. In total, go to market investments have increased over 200% to date, setting the stage for growth acceleration in Fiscal Year 2022. To create company-wide alignment, we've put in place a performance management system whereby team members are measured, coached, and financially rewarded based on their individual performance and that of the business overall.

As I've said before, a talented and motivated workforce is our power source and key differentiator, and this commitment to aligning our workforce with shared goals drives results and value creation. For a couple quarters now, I've been saying that I expected to see green shoots on the organic growth side toward the end of calendar year 2022. Those have materialized.

In a recent press release, we highlighted a few large recent wins, have added over $5.9 million of contracted revenue, including both SaaS subscriptions and implementation services. These new wins include a marquee $3 million reward with a leading global health related non-profit, a $500,000 award to Mission CRM, a company we acquired in October, as well as three material awards at the state level. These are representative of a pipeline that's unclogging and expanding with deals starting to matriculate across each of our verticals.

I'd like to re-emphasize that we are being strategic and selective in our investments. Sylogist intends to maintain industry leading profitability and be guided by the rule of 40 in industry rule of thumb for highly valued companies measuring the sum of organic growth and EBITDA margins. While we have exceeded the rule of 40 for many years on EBITDA profitability alone, we are now striving to have growth factor into the blend more materially.

We also had real success executing our M&A strategy in 2021, completing three highly strategic acquisitions, municipal accounting systems provided complimentary expanded modern SaaS functionality in the education market, immediate accretion and a remarkable 85% market share in its pre-acquisition target market.

Mission CRM brought us a fast growing, innovative fundraising and donor engagement SaaS solution and a talented team behind it that expands our addressable market and customer wallet share in the non-profit and non-governmental organization sector.

Pavliks brought an industry leading web portal solution, expanded scale and expertise in our Microsoft Dynamics 365 practice, a strong managed services team and top and bottom line growing at an historical rate of roughly 20%.

We apply the new integration playbook to all three companies investing in bringing these businesses together to share talent, systems, resources and technology to accelerate Sylogist's overall growth. To further strengthen our M&A readiness and capacity, Sylogist expanded our credit facility to $75 million in March. This gives us the non-dilutive financial resources to maintain an aggressive cadence of acquisitions.

Finally, I'd like to give you a sense of what we expect Fiscal 2022 to look like. As I mentioned, this has been a transformative year for Sylogist. This coming year, we expect to achieve organic revenue growth rates on our roughly $38 million non-acquired revenue base in the high single digits with the same or better growth objective on the approximate $118 million (phon) of revenue we have recently acquired.

Along with an increased focus on revenue growth, we expect to maintain strong profitability and a rule of 40 posture. We intend to accelerate our overall growth with an aggressive strategic M&A cadence to augment our revenue customer density platform offerings and talent pool.

In a continuation from this year, we will invest strategically in our workforce products and innovation, customer relationships, and the go to market strategy as needed to achieve our goal of being a leading growth oriented, highly profitable SaaS company aimed at the large and sticky public sector market.

I'd now like to turn things over to Xavier Shorter, our VP of Finance and CFO, to take us through the fiscal year financials that ended September 30 2021 in more detail.

Xavier Shorter:

Thanks, Bill. Revenue for the year was $38.7 million, up from $38.1 million in Fiscal 2020. Notably, recurring revenue for the year rose 8%, even in the face of material COVID and currency headwind. As with last quarter, we faced material currency headwinds. If year-over-your exchange rates had been the same, revenue for the quarter would have been 5% higher.

Our gross profit margin for the quarter was 74%, compared to 71% in Q4 2020. This reflects the contribution of municipal accounting systems, which we acquired back in March '21. Operating expenses were up due to our investments in growth. As Bill highlighted, we are continuing to make these strategic investments with an emphasis now on building our scaling capability with expanded sales, marketing and customer facing functions and headcount.

Fiscal 2021 gross profit margins rose—were 72%, down slightly from 74% in Fiscal 2020, due largely to currency headwinds, and COVID related uncertainty delaying some large professional service projects. Adjusted EBITDA was $4.8 million in the quarter, up from $3.9 million in Q4 2020 due primarily to the contribution of MAS. Adjusted EBITDA for the year was $17.2 million down from $20.4 million in Fiscal 2020 due mainly to the strategic investments Sylogist has been making.

As I mentioned, exchange rates were a material headwind for us in '21, and if they had been the same as they were in 2020, EBITDA would have been 5% higher in Q4 and 6% higher for the year. Q4 net income was $1.4 million, down from $2.3 million in Q4 2020. Earnings Per Share was $0.06, down from $0.10 last year. As mentioned, we are making strategic investments with an eye to accelerating growth and long term profitability.

Sylogist distributed $3 million to shareholders in dividends in Q4 with quarterly dividends holding steady at $0.125 per share. Our balance sheet is strong. We finished Q4 with $29.6 million in cash. Even with the recent Mission CRM and Pavliks acquisitions, we have a healthy balance sheet, a material cash balance and approximately $49 million remaining on our $75 million credit facility to pursue further inorganic growth through M&A.

With that, I would like to hand off the call to Bill with some final thoughts.

Bill Wood:

Thanks Xavier. I'd like to conclude by once again emphasizing that Sylogist in 2022 was a completely different company from where we were at this time last year. In the face of an unprecedented pandemic that has materially impacted our markets, we made foundational changes to set the stage for accelerating sustainable, profitable growth and completed three highly strategic acquisitions. We are now the most complete advanced SaaS platform available for the markets we serve. Customers and prospects have the budgets and motivation to upgrade and buy our solutions now.

New wins with material contracted revenue, strong appetite within our on premises customer community to upgrade to our SaaS solution, overall high customer wellness, a motivated, talented team and expanding pipelines gives us confidence that our strategic investments in efforts are paying off. We are excited and look forward to Fiscal 2022 as we continue to execute on our strategy, and accelerate value creation.

Thank you for your interest in Sylogist. I'd now like do open the floor up to questions.

Operator:

The first question comes from Amr Ezzat with Echelon Partners. Please go ahead.

Amr Ezzat:

Thanks for taking my questions and congrats on the strong quarter. My first question is on the new variant and how it might be impacting your business, be it on the implementation fronts or just getting new bookings, in general. Any early colour you can give us there?

Bill Wood:

Thanks, Amr. Not materially. I think most have adopted policies and practices to accommodate the realities of COVID and the pressure it places. In terms of the activities, we see our customers more determined than ever relative to starting to regain a posture of moving forward as well as new activity as I highlighted in my comments relative to bookings activity. So, should that expand in some way, we always stay alert to that. As of right now, we're not gauging it to have a material effect at this time.

Amr Ezzat:

Okay, that’s good to hear. The biggest surprise to me in the quarter was the MAS number. So, MAS had a nice bump up from last quarter and I understand that part of it is the deferred revenues balance that wasn't recognized last quarter. Even if you adjust for that, it's a good 35% to jump quarter-on-quarter to $2.3 million. So, is it like a seasonally stronger quarter for them? I know it's typically slow for you guys in Fiscal Q4. Any colour you can give us there?

Xavier Shorter:

Hi Amr, this is Xavier. You mentioned that deferred revenue rules to change on business combinations, wherein before we were looking at market participants’ standpoint and taking a haircut recently. The guidance has come out saying that based on IFRS 15, we should start looking at the actual contracted value. So, that resulted in us, albeit, it's around USD $300,000 that we had taken a haircut in the prior quarter that we recognized in Q4. Also, Q4 represented our billings of the contracts that had year run through the end of June and July 1 was on our paper.

Amr Ezzat:

Okay. I'm just looking to compare the apples-to-apples. So, last quarter, you guys reported $1.4 million, then I add $360,000 on the deferred revenue IFRS cuts. So, that's like $1.76 million, and this quarter, the apples to apples should be like $2.3 million, right?

Xavier Shorter:

Two point three, which it was.

Amr Ezzat:

Yes, that’s still a big jump. Is there anything that’s driving that?

Xavier Shorter:

Well, there is, in addition to the recurring subscription fees, we also billed for some forms for the schools as well as some professional services on training. So, that would account for the slight variance there too.

Amr Ezzat:

Okay. Can you guys speak to how the integration of Mission and Pavliks is going so far? Then help us understand what are the, I guess, how significant the implementation efforts are from your end? Or, is it just integrating the accounting systems and letting them run as independent?

Bill Wood:

Yes, I was going to highlight. The diligence, I think that we are now committed to when we look at acquisitions really gives us a good sense of what it is we're getting. Obviously, until you get into post close discussions, sometimes you're looking for those activities that maybe didn't feather themselves up during the diligence itself.

I will say boldly that they have gone extraordinarily well, so far. We go well beyond the idea of just the accounting and early system activities and discussions. Our playbook now for integrations I spoke to on calls previously relative to MAS that was implemented, since I joined is very much a company-wide organization wide.

So, we're talking about people, processes, go to market, positioning of brands, how we talked about early wins that we can recognize, as well as long term synergies. The strategy with which that we looked at both of those very much included all of those facets, talented teams, and very complimentary IP.

So, I feel very good about not only the cadence that we demonstrated and proved out with MAS and really bringing them into the fold in a pretty short window, less than, I'd say around four months, where we would see them as a completely integrated company to Sylogist overall. We're well along that playbook now about a month and change in with both Mission CRM and Pavliks. It ups the ante for us because we're doing two at the same time. So, it really demonstrates our muscle tissue is building as we think about the future but also execute the current.

Amr Ezzat:

Thanks, that's very helpful. When I'm thinking about areas of future M&A, like Pavliks has, as you mentioned, a large managed service and I believe an IT services segment. Can we see you do more of that? Or, was your focus with Pavliks really to get the portal connector, which is higher growth and a better fit then the rest just came with it?

Bill Wood:

We like all three facets of the business. We think the synergies with our current 365 practice sets itself up for a larger footprint in North America. As I've mentioned previously, the number of grants that are flowing down to cities, towns, as well as states to execute on improvement of technology that maybe bolsters their budget some, we are well positioned in terms of that kind of services, delivery relative to projects that I think will create a fulsome pipeline for us in 2022 and beyond.

The TPC, the portal connector, was obviously a very synergistic piece because we can pull it through our entire customer community relative to customer facing hydration two-way relative to data that maybe citizens require, but also what they need to post for, let's say parents in a school setting, what they need to post up for materials for children, medical information, and so on. It's an exciting opportunity.

In the managed services side, I think is maybe the idea that people underestimate how valuable expertise is when you have a SaaS posture. A SaaS posture for our customers means variables that are sometimes cloudy to them relative to how interacting with licensing, how relative to the Microsoft SaaS subscription, so on and so forth.

We see that as a real strategic advantage for us to be able to complement in-house workforces at our customer sites that maybe will look for strategic consulting and good advice to keep their house safe in terms of their security posture, their systems optimized and ultimately planning for next steps in terms of technology adoption. So, we feel very good about managed services being more of a valued service as we increase our SaaS footprint and accelerate.

Amr Ezzat:

Understood, that's very helpful. I'll pass the line.

Operator:

The next question comes from Gavin Fairweather with Cormark Securities. Please go ahead.

Gavin Fairweather:

Hi, good afternoon. I thought I'd started on the infrastructure bill. Can you talk about how that impacts your customer communities? Are there specific grants available for IT systems or IT projects? Maybe you can just help us understand a little bit better as maybe it's not what you would immediately think about in terms of infrastructure.

Bill Wood:

Good morning, Gavin. Thanks for that. It is material. I don't want to say once in a lifetime, but it's something that most states and cities in terms of the federal dollars in the U.S., it's a wave of funding that has few covenants. It really is put down to the state leaders and the local leaders to make determinations about how best to deploy capital, to support citizens, get people back to work, go through their training process, and support those people who are hurting.

All of those we have tentacles into relative to where our customers would want and have a strong case to say we need better internal technology to support those outward facing services. So, it very much impacts budgets that may have been skinny up for one reason or another over time, and puts them in a pretty strong position to consider their own internal improvements, infrastructure wise, to be able to deploy capital and measure back to the funding entities, the progress toward the dollars put to you. So, we feel very bullish on how that will impact our business on several fronts.

Gavin Fairweather:

That's great. Nice to hear about the green shoots that you're seeing kind of showing up in the pipe. I guess I'm kind of curious what trends you're seeing in terms of the number of opportunities, the new logos, the cross-sell opportunities or just kind of overall size of the pipe. Any kind of colour that you could provide on that front would be quite helpful.

Bill Wood:

I'll speak in magnitude in changes I'm seeing versus discrete dollars. We're seeing activity. I mentioned in my comments of where I mentioned unclogging. I said on prior calls relative to just they weren't canceled activities, but they were postponed or stalled. I think we're seeing organizations that have now gotten themselves to a position where they can manage the realities of COVID, manage the realities of the pressure that they've been through and their workforce, in really realizing that the idea of a SaaS profile as an organization is almost not just a nice to have, but it's almost a crucial part of their strategy going forward. So, I see it affecting our existing customers who I've always said that the idea of a carrot versus a stick in terms of helping customers see clear ROI about upgrading is advantageous.

Well, we've got that in spades relative to how COVID has put pressure on internal legacy systems and our customers are very anxious, feel good about the relationship we serve them well during the hardest times of COVID. Ultimately, feel as a partner, and now seeing our latest SaaS offering is where they want to be. So, that creates a material backlog of work for us that is increases that SaaS flywheel effect as we go forward.

On the new opportunity side, I think the idea of making sure that we are visible and our awareness in the markets we serve is increased from where it had been. As I said, we were kind of one of the best stories that had yet to be told, not only within our investor community but ultimately, within some of the markets we serve. I think I was very committed to a much stronger web presence and more self-serve content where people could better understand what's going on.

That's working and we're seeing lead activity up and down the ladder from very big to our ICP in the mid to upper-mid space to be able to drive not just leads but quality leads. Where they've been able to self-qualify through the website, they possibly connected to our customers already. So, I'm very cognizant of celebrating leads is not where we want to be. We want to celebrate ideal customer profile, that ICP acronym that I've mentioned before and we're generating those quite well now. Our dollars are seem to be gaining traction in the areas that we're looking for.

Gavin Fairweather:

That's great. Then maybe just on professional services, nice to see a bit of a bounce kind of this quarter, but maybe still a little bit below the run rates that you were running at before. I know there can be a bit of lumpiness in terms of project timing with your not-for-profit clients. I guess I'm curious if you're seeing any green shoots specifically on that front.

Bill Wood:

We are, and that's a direct result of those deals matriculating and also the deals that we announced. Those are representative deals, those are not the only deals. So, we are in a situation we're not only seeing increased activity of our professional services team, but adding into our professional service team in the current state, as well as the future quarters to meet capacity. So, we feel good that there's sustainable volume to really drive both, as I mentioned, our customer community anxious to want to upgrade, which creates a material work stream for us, but also, the new implementations and new adoption of technology within our customer community.

Gavin Fairweather:

That's great. Then just lastly for me, I know one of your organic growth initiatives has been to launch payments offering more broadly across your customer communities. Can you just provide us with an update on that initiative and maybe share your thoughts on how big that that opportunity is? I'm not sure if you've kind of sized that from a GMB perspective. Any thoughts there would be helpful as well. Thanks so much.

Bill Wood:

Thank you, Gavin. It’s a, I don't want to see an easy win for us, but a unique win for us relative to we have the technology in-house. Most companies, if they're interested in thinking about payments and monetizing payments, or looking at partnerships, and maybe technology that's not their own, so on and so forth. As I highlighted shortly after I joined, I thought it was one of those precious jewels that was kind of been lost in the wash.

I think that to this end, we really developed a number of different pilot areas where we are starting to offer that very easy Ready, Set, Go model, where the different product and platform offerings can not only offer it to the different customer sets, but more easily displace incumbents because of the value beyond just aggressive pricing. Ultimately, we can create a data richness of those transactions, feeding it back into the ERP or the fundraising system, for example, that is beyond what most credit card providers will do.

To that end, I feel very good about the path that that's on. The materiality of that in 2022 is not that great, but it's a building flywheel effect as we get to monetize and have more transactions occurring within the platform and get it more deployed more aggressively across our entire customer footprint. So, I feel very good about that over time. I think you'll start to see the green shoots on that side in the back half of this year start to show up.

Operator:

The next question comes from Jim Byrne with Acumen Capital. Please go ahead.

Jim Byrne:

Good morning, guys. Just a couple quick ones for me. Most of my questions have been asked. Maybe just give us an update on MAS and potential expansion into new markets. I know, there's a lot of pieces of that platform that you coveted and that you were hoping to bring into either new customers and new states. Maybe just give us an update on that.

Bill Wood:

Hi Jim, thank you. I’ll address that in two ways because there was a two-prong available to us, which was pulling the IP to our existing customer community that was simply ERP focused at that time, being able to pull through the student information and lunchroom solution. There's appetite for that. We're just getting into the buying season of most K through 12 schools are early into the calendar new year, in terms of when they're looking at systems and trying to then implement in the summertime. So, we're optimistic but they'll be appetite based on the walkthroughs that we've given, workshops that we've run to our existing customers. So, we feel good about that.

The other point was expanding beyond the Oklahoma border. This is a scenario where some of the dollars coming through from the feds is helping because if you look at technical schools, they are now coveted in terms of workforce training, retraining, two-year schools, is it going to be funded by the government, so on and so forth. So, we have jumped on some opportunities within that space, not only within Oklahoma, but elsewhere, where we see a real strong appetite and dollars available to upgrade their technology to what they need to support their activities.

We're also pushing out and having already some early interest relative to – it isn't typically a winning entire state. It's where do you get a toehold? Where do you get a foothold? Where do you get a couple hands in? Where do you get those early adopters? So, we've been looking for bridges into those superintendents who had left Oklahoma, gone elsewhere really coveted what was provided at that time, as well as footprints that we already have up and down the eastern seaboard, where we're looking to accelerate and expand our footprint. Both in terms of awareness of workshops, in terms of our online presence, but also the idea of hiring in specific account executives aimed at that target, and we've done so.

Jim Byrne:

Okay. Thanks for that, Bill. Maybe you could just talk about some of the challenges that you either are seeing or afraid to see in the next 12 months. Where could things go wrong? Where could you get tripped up? Feels to me like you're quite confident. You mentioned the green shoots in the last few months, and they certainly look like they've come to fruition. What are your potential headaches in the next 12 months that keeps you up at night?

Bill Wood:

I guess a gift and a curse is a paranoia for speed. I believe that time is of the essence when market opportunities are there. Have we put ourselves in a posture to be able to capitalize on those? I feel that right now it's about execution more than foundational change that needs to occur. I think we've made good decisions. Always hindsight, could have tweaked this, could have changed this, but generally I feel very good about how meaningfully the team has leaned in and well beyond me by any means.

We have a very strong executive team and leadership that has experience and built underneath them good teams to be able to then help to execute. So, pace of execution, I guess, and efficacy is key, Jim. I think the idea of COVID is still out there and ultimately, should that blossom in a way that's punitive, again, that can have a bit of a factor. I don't think it will nearly be the policy effect that it had early on for us in Fiscal 2021 because of just everyone was—the enormousness of it at that time was so material. Now, I think people have found ways to navigate and stay safe and also continue to do the work, if not the work they're doing because of the markets we serve, is essential. To that end, they have to continue to keep the lights on and the trains running.

I think the competitive landscape, I'm always aware too but I think we're in a very good position there. We just need to make sure that the strategy is recognized, our customers continue to stay happy, and ultimately value the relationship they have with us. I can't emphasize enough, that really from a SaaS posture is paramount. We're hyper focused on making sure that our customers see us as a trusted partner. We're earning that month in, month out because it's a situation where you can't rest on your laurels is an SaaS environment. If you're adding new logos and leaking out the existing customers, it's not where you want to be. I feel very good about that. I think to that end, we've made investments on that front that will serve as well.

Jim Byrne:

All right. Thanks a lot, Bill. That’s it for me.

Operator:

The next question comes from Nick Agostino with Laurentian Bank Securities. Please go ahead.

Nick Agostino:

Yes. Thank you. Good day, everybody. Yes, congrats on my part on a solid quarter. I guess, a couple questions for me. First, Bill, you spoke earlier about, obviously, the potential benefits, the tailwinds of the U.S. infrastructure bill. You spoke recently or highlighted recently how the K-12 market is starting to go into more of a buying period.

I’m just wondering, just based on the dollar flows that you're seeing and your observations in the marketplace, can you talk about maybe amongst, let's say, your four key markets, the K-12, the government, NPO, the NGO, just where you're seeing more near-term opportunity based on where dollars might be flowing a little bit quicker, or where customers might be a little bit more eager to start spending again?

Bill Wood:

Thanks, Nick. I will honestly say we're seeing it pretty consistently across each of the markets. I don't mean that from a sidestepping standpoint, but it's very much a case. Not only is the federal program in the U.S. having an impact, but there's been a pent up demand that I think is also driving people to lean in, get on the balls of their feet and think about how are my systems now ready for where we need to be as an organization in the activities that we are delivering.

Schools have had to change dramatically, the classroom is not where we are. The overall admin side of interacting with parents, parent availability of information and apps, and so on, to be able to stay connected and provide information is unlike anything I've seen in my 30 years relative to how much there's a desire to improve their overall infrastructure.

NPOs and NGOs realize the game now is about digital engagement and how are they looking at and really profiling on a personalized basis, each donors experience with that particular organization. Be it the granting entity or individual donor in making sure that they are truly engaged in understanding, not only thank you for your dollars, but here's how your dollars are mattering. Here's how they're impacting lives, here's how they're moving the dial.

Those are things that I think in some ways have also been accelerated, because of the inability to do in person kind of engagement, be it that with a major donor down to a person or volunteer to that end. So, the landscape has really changed on that side of the equation is well. Municipalities, they were somewhat the sleepy idea that they just continue to churn and get their work done. Well, citizens and communities and so on, needed to continue to interact with city hall in ways that all of a sudden, the door wasn't open to them.

So, it's pushed that idea of why would I change my ERP to a situation where I need to change my ERP. So I feel very good not only about the markets we serve, but the acquisitions we've made and the platform mentality versus product for us, is a big deal because it simplifies and it gives the customer or prospective customer the ability to onboard where their pain point is, what do I need right now. It gives us the ability to then displace incumbent systems and build a value proposition and have a platform to take our message and expand our message within that organization without it being an email, or did they visit the website? We can use in Product Marketing, to drive awareness of what a customer may not be using that they could get ROI and value from.

So, I feel very bullish that the markets are, I don't want to say at a peak, but there's good activity and material activity of why they would spend dollars that is driving them to lean in and talk with us.

Nick Agostino:

Okay, thanks for that colour. I'm just wondering. On the M&A funnel, maybe remind us how big the funnel is. Maybe if you can highlight how close you are, if you got any deals in an LOI stage. More importantly, just your observations in the marketplace, vis-à-vis, are multiples still staying the same? Do you see any sort of multiples may be coming down, just given what's happening in the marketplace as of late? Just your colour, thoughts, outlook on the M&A space.

For that matter, I believe you were looking to get to about $20 million-$25 million in revenue annually from M&A by Fiscal 2023. Is there a potential that you either hit the high end of that range or maybe come in little bit sooner just because of the observations you might be seeing out there?

Bill Wood:

I'll take those in reverse order. I do feel that that posture is something that is achievable, possibly achievable, if in fact, there is transformational deals that make sense to us that we go after, in addition to the deals and the size of the deals that we've demonstrated and have an appetite, demonstrated an appetite for so far.

The multiples that we're seeing, I think good companies continue to covet value, and to that end, also attraction. Those that put themselves in a process, typically, there's a lot of companies looking to maybe transact that don't have as positive attributes. So, therefore, their multiples continue to be less, but also those around the rim interested in it may be fewer.

However, ours is a combination of will. We have a very fulsome tracker, and I'll speak to that in a minute, but the idea for us is, can we continue to find companies that may not see themselves as for sale, that see themselves as a better trajectory for their customers and for their folks, or potentially a good exit for founder, that ultimately, we can engage and earn the trust that we are a good partner to steward their business going forward.

We've demonstrated that, and so in those, we're not looking to get them on the cheap. I want to be very clear about that, but it may not be the bidding war scenario, where we choose to step aside because it just got too crazy. So, I feel that we need to continue to be diligent in identifying and really having meaningful discussions. Sometimes those take time and you have to be patient to be able to allow that trust to build. Ultimately, we'll continue to lean in on those.

The deal tracker is even stronger and more clear than the six months in mark that I feel reflects. The company had good chops on the M&A side. We just tightened up the screen with which we're looking at opportunities, we redefined many of the key variables because of the strategy that we're now looking at, which is growth orientation, plus the idea of that rule of 40 blend that's attractive and creates material value creation.

So, I feel that tracker is not really deep in number, but we've added resources in that area to be able to have that outreach occur, but also be ready to strike should someone go into a process, be able to respond either through a broker relationship on the buy side that we are reaching out and making sure that people aware that we're in the game, if they don't know that already. The other side is, are we ready to then engage in diligence? Can we do that without disrupting the executive team from running to core business? I say we can and we have in terms of what we demonstrated so far.

Nick Agostino:

Great. Then just one last one for me. When I look at your Fiscal Q3 and Fiscal Q4 and I compare the contribution coming out of your subscription side of the business versus your professional services, it looks like the contribution from those two segments was the same Fiscal Q3, Fiscal Q4. However, the gross margin looks like you got about 400-basis point lift in Fiscal Q4. So, I'm just wondering, was there a one-time item or something of that nature in Fiscal Q4 that maybe contributed? Was a deferred accounting that you contributed to the higher gross margin? Or from a modeling perspective, is there some stickiness in that 400 basis point lift that we should continue to model going forward and leave it there?

Bill Wood:

Xavier, do you want to take that?

Xavier Shorter:

Sure. Yes, Nick. So, that was driven by that accounting policy change. What we recognized as a haircut against deferred revenue, we were able to recognize that as revenue, and that amount of drove higher margins in Q4.

Nick Agostino:

Okay, thank you.

Operator:

This concludes the question-and-answer session as we have no more questioners on the phone lines and also today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.