



Sylogist Ltd.

**Fourth Quarter and Full-Year 2025 Results
Conference Call Transcript**

Date: March 19, 2026

Time: 8:30 AM ET

Speakers: **Jennifer Smith**
LodeRock Advisors Inc.

Craig O'Neill
Interim Chief Executive Officer

Sujeet Kini
Chief Financial Officer

Operator:

Welcome to the Sylogist Limited Fourth Quarter 2025 Results Conference Call and Webcast.

As a reminder, all participants are in listen-only mode, and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star then one on your telephone keypad. Should you need assistance during the conference call, you may reach an Operator by pressing star then zero.

I would now like to turn the conference over to Jennifer Smith with LodeRock Advisors. Please go ahead.

Jennifer Smith:

Thank you, Michael, and good morning.

Joining me to discuss Sylogist's fourth quarter and full year 2025 results are Craig O'Neill, Sylogist Interim Chief Executive Officer, along with Sujeet Kini, the Company's Chief Financial Officer.

The call is being recorded live at 8:30 Eastern Time on March 19, 2026.

I'd like to remind everybody that our Q4 2025 press release, MD&A, financial statements, and accompanying notes have been issued and are available for download on SEDAR+. Please note that some of the statements made on today's call may be forward-looking, actual events or results may differ materially from those expressed or implied, and Sylogist disclaims any intent or obligation to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise. A complete safe harbor statement is available in both the MD&A press release as well as on sylogist.com. We encourage all of our Investors to read it in its entirety.

Additionally, we are reporting our financial results in accordance with IFRS accounting standards or IFRS. Today, we may also refer to and discuss non-IFRS performance measures, which should be viewed as supplemental. We have included in our MD&A the definition of certain non-IFRS performance measures used by the Company. Furthermore, all the dollar figures expressed in this call are in Canadian dollars unless otherwise stated.

Now, I will be turning the call over to Craig for his opening remarks. Following that, Sujeet will provide an overview of our Q4 and full-year financial performance, with Craig returning to conclude with closing remarks. After which, we will open the line for Q&A.

With that, I'll hand the call over to Craig.

Craig O'Neill:

Great. Thanks, Jen, and good morning, everybody. Thank you for joining us today.

Before we get into today's results, I want to emphasize that the focus of this call is our operating results and the go-forward plan for the business. The ongoing process regarding Board matters and the proxy contest is being overseen by a special committee of the Board. The Board has also been actively engaged in the search for a permanent CEO.

The job spec was finalized in February, and under the leadership of the CEO Search Subcommittee, comprised of Kim Fennell, Errol Olson, and Tracy Edkins, the Board has been actively interviewing candidates. You'll have seen the Company's press release on Monday, and in these circumstances, Management does not intend to discuss that topic further or take specific questions about the situation on this call.

With that in mind, I'd like to turn to the business itself and share some reflections from my first few weeks as interim CEO. It's actually been approximately six weeks since I joined the Sylogist team, and since then, I've invested significant time and energy to better understand the business and our products, the markets that we serve, and our teams across the Company. What I've learned is really encouraging. We have a committed and a highly skilled group of people here. We have a portfolio of ERP, CRM, and other mission-critical software solutions that are highly effective at addressing the needs of our customers, and we've built a strong presence and reputation in our target markets.

Our fiscal 2025 and Q4 2025 results are reflective of the journey the Company has been on over the past few years. That journey has been a transformation, and transformation really is not too strong a word to describe the changes that have been underway. Sylogist has moved from being what I would characterize as a legacy player, a software vendor with older products that followed old-school or old-style model of perpetual licenses and maintenance with a high degree of one-time professional services

revenue, whereas today we are a modern SaaS business with modern products that customers license through subscriptions and that are implemented via a partner ecosystem, a major transformation. We believe these changes will create sustainable long-term value for our stakeholders going forward.

While the journey isn't complete, I'm pleased to report that in Q4, Sylogist continued its forward progress, and our results are showing early signs of improving revenue quality and operational efficiency. SaaS revenue stayed strong, reaching 73% of recurring revenue in Q4 compared to 70% of our recurring revenue during the same period last year, while our SaaS ARR increased 9% year-over-year. Additionally, recurring revenue as a percentage of total revenue reached a high of 81% for Q4 compared to 72% during the same time last year.

In addition, our partner-led sales and delivery strategy gained traction in Q4 with 43% of ARR bookings being partner-driven. While total revenue declined slightly, this was driven by the Company's strategic decision to transition professional services work to our partners. Our SaaS ARR, recurring revenue mix, and our platform depth grew significantly during the reporting period as we moved away from lower-quality revenue streams.

With that, I will turn it over to Sujeet to walk you through the detailed financials for the quarter and the year. Sujeet?

Sujeet Kini:

Thank you, Craig, and good morning, everybody.

Our Q4 and full year 2025 results reflect the growth of our SaaS revenue base and the near-term offsetting impact of a decline in project services revenue. From a revenue perspective, revenue was \$14.4 million in Q4 and \$62.2 million for the full year 2025. The growth in the SaaS revenue base was a key driver, with SaaS subscription revenue increasing by 12% year-over-year in Q4 and 13% for the full year. This growth reflected strong growth in the SylogistGov segment with additional contribution from Sylogist Solutions and SylogistEd.

Maintenance and support revenue declined by 7% in Q4 and 11% for the year, attributed partly to DOGE-related cutbacks and customer transitions from our legacy solutions to our cloud platforms. Project services revenue experienced a significant decline, falling 44% in Q4 to \$2.4 million and

declined 23% to \$15.6 million for the year. This decline was primarily within the Mission segment and largely associated with our shift to partner-led implementations. Our revenue mix showed marked improvement, with recurring revenue representing 72% of total revenue for the year, up from 66% in fiscal 2024.

For Q4, recurring revenue accounted for 81% of total revenue, up from 72% in the previous year. Additionally, SaaS revenue made up 73% of recurring revenue in Q4 and 72% for the full year, reflecting expansion in our SaaS base. ARR at the end of fiscal 2025 was \$45.7 million, with SaaS ARR growing 9% to \$33.8 million, driven mainly by SylogistGov and supported by growth in SylogistEd and Sylogist Solutions. SaaS Net Revenue Retention, or NRR, declined slightly to 101%, mainly to customer budget issues within the Mission segment.

Our ARR bookings for the year were \$4.3 million, slightly up from \$4.2 million in fiscal 2024. Note, however, that this does not include the impact of an additional approximate \$1.7 million ARR step-up from the Texas OAG contract that will be recognized in Q3 of fiscal 2026.

Moving on to margins and profitability, gross profit for Q4 was \$8.1 million, with a 56% gross margin down from \$9 million and a 59% gross margin in the same quarter last year. For the full year, gross profit was \$36.3 million, with a 58% gross margin down from \$38.6 million and 60% in fiscal 2024. This margin compression was primarily due to declines in project services revenue, along with us continuing to carry associated costs in order to support the build-out of our partner delivery model.

Separating recurring revenue and project services, recurring revenue gross margins improved approximately to 73% in Q4, up from 71% last year, and were 72% for the full year, slightly higher than 71% in fiscal 2024. From an operating expense perspective, G&A remained stable at about 18% of revenue for both Q4 and the full year, compared to 17% last year.

Sales and marketing expenses in Q4 were \$1.7 million, or 12% of revenue, flat compared to the prior year. For the full year, sales and marketing expenses increased to \$7.7 million from \$7 million in the prior year, this reflecting increased investments in our partner enablement and marketing programs.

R&D spend, at the gross level, that is inclusive of CapDev costs, was \$2.8 million in Q4 at 19% of revenue, up from 16% last year, mainly due to higher third-party costs. On a net basis, R&D expenses

increased by \$1.5 million year-over-year, this driven by lower levels of capitalized development revenue in the current year, and especially in Q4 of the current year, we capitalized no R&D expenses. We would also like to note that this practice is expected to continue into fiscal 2026 as our platforms near technical readiness.

Year-over-year capitalized development costs declined by \$3.1 million, and this negatively affected our Adjusted EBITDA margins by about 5%. Absent this reduction, i.e. on an apples-to-apples basis, Adjusted EBITDA for fiscal 2025 would have been approximately \$12.3 million, or 19.6% of revenue. As part of our assessment of capitalized development costs, we also reassessed the useful life of our intangible assets, which was then revised to four years on a prospective basis. This prospective change in accounting estimate results in increase below the line amortization of \$1.3 million in Q4 of fiscal 2025.

Finally, moving on to our cash position, we ended with \$8.3 million in cash, consistent with seasonal expectations for this time of the year. Additionally, our cash balance also reflects a payment of \$2.5 million related to the final annual payment for our Mission CRM acquisition during the early part of this year. In February 2026, we announced a reinstatement of our normal cost issuer bid program to enable share purchases alongside other capital allocation priorities aimed at enhancing shareholder returns.

With that, I will hand it back to you, Craig. Craig?

Craig O'Neill:

Thank you very much, Sujeet.

As we look ahead, we have a high degree of conviction that the transition we've been on will drive further improved outcomes in the upcoming quarters. Although we're not quite done yet, the lion's share of the effort has been completed, and we expect to see the positive impact of all that work in increasing measure in the near future.

Working together with our Board of Directors, we're locked in on delivering on a number of core priorities over the next 12 to 18 months. One, we plan to expedite our transition to SaaS, ARR-driven business. We believe that growing our recurring revenue mix, our SaaS subscription revenue and ARR will be a core value driver for Sylogist.

Two, we will continue to expand our partner channel, go-to-market, and partner-led delivery, but we intend to balance this with focused direct sales and services capabilities. We remain confident that increasing our partner-attached bookings through higher partner win rates and then scaling delivery through partners is essential to our growth. However, we believe that augmenting this initiative by leveraging our internal expertise will further strengthen our results.

Three, we're going to align our R&D investments around our best growth opportunities so that we can accelerate product innovation, meet the integration needs of customers and our partners, and deliver meaningful AI capabilities that will further differentiate Sylogist and our markets of choice.

Four, we will continue to focus on providing superior customer service with a strong emphasis on improving our already impressive net promoter scores. This combination of excellent customer service and compelling product roadmaps will drive strong net revenue retention, low customer churn, and heightened customer loyalty.

Overall, we remain focused on delivering value for all of our shareholders by improving our financial discipline, expanding margins and free cash flow, and maintaining peer-level growth, all while operating with transparency and accountability. While this transformational journey has taken time, we're beginning to see the positive impact, and there's much more to come. We're excited about our future and about our ability to create value for our customers and our partners and our shareholders.

With that, let's open it up for questions.

Operator:

Thank you. We will now begin the question-and-answer session. To join the question queue, you may press star then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star then two.

Your first question today comes from Amr Ezzat with Ventum Capital. Please go ahead.

Amr Ezzat:

Good morning. Thanks for taking my questions. My first one is on the project services margins turned negative this quarter, which is obviously a sharp change from prior trends. Can you help us bridge what changed operationally and how much of this is timing versus something more structural, i.e., less implementation work for your guys to do? We should expect that to stay negative going forward.

Sujeet Kini:

Yeah. Good morning, Amr. I'll quickly address that. On the revenue side, what we saw in Q4 was a reduction in project services revenue, primarily on the Mission side and also on the Education side. This caused the compression from the point of view of the revenues. Then, like we said in our prepared remarks, there were associated costs that continued, which did not go away. From a timing perspective, we do see this as being more specific in particular to this quarter because of a series of factors that coalesced in Q4 around our Education segment and Mission. But we do not expect to see this level of compressed gross margins going forward on the project services side.

Amr Ezzat:

I understand the revenue part of the equation and the margin compression that that would create. But can you sort of unpack the other part of it, which is the Texas project? Are you guys done with the implementation there or is there more implementation to be had? I.e., even if you go to positive territory in Q1, is it still extremely compressed?

Sujeet Kini:

Yeah, on the Texas side, what we can share is in terms of overall completion, we're approximately in that 70% range in terms of completion on the implementation side of things. In terms of continuing project services revenue for Texas OAG going out into fiscal 2026, we do expect to see an additional pickup in revenue in Q1 and in some part of Q2. But by and large, the implementation for Texas OAG should be done by the end of the first half of next year.

Amr Ezzat:

Thanks. The SaaS ARR bookings were relatively soft this quarter and I think modest for the full year. How should we be thinking about the underlying pipeline health today versus what you were seeing a few quarters ago? Has anything changed in terms of demands or conversion?

Sujeet Kini:

Yeah, I would say generally speaking, the strength of the pipeline remains very meaningful across all our segments. What we are seeing, Amr, here is essentially there are timing related issues from a pipeline perspective and therefore one sees softness in bookings in one quarter that essentially moves a deal that potentially will close in Q1 into Q2, that sort of thing. We see that pattern a little more exacerbated on the government side because these deals take longer to close. Quite often the government buying process itself is, I'm going to use the word bureaucratic, but that essentially creates a long gestation period for the bookings to come to fruition.

Fundamentally, the pipeline remains meaningful and is strong across segments, but what we did see was just timing related issues, which caused a slippage of deals from the current year into fiscal '26.

Amr Ezzat:

Fantastic. Then on the, I guess, like the SaaS NRR coming in at 101, can you unpack what's driving that level in terms of churn versus expectations? I believe you said in your prepared remark it's related to one client.

Sujeet Kini:

No, I don't believe I said it's related to one client. I did say it was more specific to the Mission segment, I believe.

Amr Ezzat:

Understood. Can you unpack what's happening, though, like on that 101 number?

Sujeet Kini:

Yeah, so what we did see in the Mission segment was essentially because of customer budget issues within the Mission segment that impacted us from an NRR perspective year-over-year. Secondly, from an overall mixed perspective in terms of our bookings, in the current year, that is in 2025, we've seen a very positive inflection towards a larger number of new bookings versus expansion bookings. Essentially, there is more coming by way of new and in an overall percentage sense, a lesser amount coming via expansion. Effectively, that does cause a little bit of a shrinkage impact from an NRR perspective.

Those were really the two main drivers. It was a combination of the churn that we saw in the Mission segment, and then the other part was the percentage mix between our new bookings and the expansion bookings. We had a larger bias to new bookings.

Amr Ezzat:

Understood. Maybe one last one, and I'll pass the line. I appreciate Craig still on an interim basis, but I guess as an outsider, given the combination of software bookings, the NRR 101, and the absence of guidance, which you guys sometimes provide, how should we think about the level of visibility you have integrals and margin progression over the next few quarters?

Craig O'Neill:

Good question. Hey, nice to meet you. You're right. It's been a fairly short period. I've been here six weeks, but I've dived in pretty deep very quickly. I think I can answer this with a bit of confidence, although I keep saying I know just enough to be dangerous. But it's getting better.

When I look at this year, sometimes I have these pictures in my mind, and I've got this picture of Sylogist has been on this transformational journey and changing in a new direction, which I fully believe is the right direction. But I think about a sailboat on the sea, and it's tacking and sort of turning into the wind and getting into a headwind. Like, the turn and change, there's a period where things slow a little bit. I feel like there's been some of that this year. In particular, we've introduced two new replacement products, modern SaaS products to replace legacy products.

Introducing brand new products, there's always unexpected wrinkles and challenges that slow things down in terms of onboarding new customers. There's the challenge of getting existing customers to move when the old products actually still work. There's been some of those sorts of things going on. Then in the midst of all that, there's been the transition to being more partner-led and essentially giving away project work to partners so they can focus on, it's the core of their business, what they do, and we want to focus on software.

But it was, I think, wise, the Company said, we need to keep our consulting people involved to help the partners be successful. We've got costs and less revenue to match against those costs. That's all transition stuff. The transition's not done, but we're kind of on the—close to the goal line now. What I'm really focused on in terms of the forward plan is, how do we get a—we're in the, if we use a football

analogy, we're in the red zone, how do we get across the goal line as quickly as possible? Because when we do, I think there's good line of sight, good visibility on seeing growth rates and margins pick up nicely.

That's kind of what we're focused on. Is there a light at the end of the tunnel here? Is there visibility on better margins and better growth? There is. It's really about finishing the transition and really focusing to get to end of job there. That's certainly going to be my core focus in this interim period.

Amr Ezzat:

Thanks, Craig. Appreciate it. That's helpful. I'll pass the line.

Operator:

Your next question comes from Gavin Fairweather with ATB Cormark. Please go ahead.

Gavin Fairweather:

Oh, hey, good morning. Thanks for taking my questions. Maybe, Craig, you've been going through your initial assessment of the business, I'm curious how active you plan to be on making changes in this interim period ahead of finding a full-time CEO. Should we expect things to be pretty steady? Are you actively executing on some of the priorities which you outlined in your prepared remarks?

Craig O'Neill:

Yeah, great question. It's still a little bit of a question. My mandate when I came in was to assess and to tee up priorities and plans for the new person. But we've certainly had really engaged discussions. By me, I mean we. I mean myself, the executive team, and the Board on what I'm learning and my thoughts on the go-forward plan. I haven't fully got the mandate to start making changes yet, but it's under discussion and it's definitely going to be considered.

At the same time, I should say that this direction the Company has been on is the right direction, I believe. I think everybody would agree it's taken a little bit longer. It's been a bit harder than expected. It's not a change in direction that I'm contemplating, but some real focused energy and a few areas where we're not just going to focus more, but adjust or tweak slightly the way we're going about things.

Things like we mentioned or I mentioned in my remarks, when it comes to going to partner-led, the tweak that I've suggested that we're still working out the details, but we've largely agreed to, is we're going to be partner-led, but we're still going to keep a very selected portion of services work and leverage our expertise, both in terms of earning really good high-margin professional services revenue and better enabling our partners to be successful. That's an example of one tweak. I can't say for sure how much change I'm going to actually institute while I'm here, but we're in that active discussion and I think there's a lot of good opportunities ahead of us.

Gavin Fairweather:

I appreciate that. Then maybe just on the channel, it feels like we're not fully there in terms of partner effectiveness of getting deals across the line and managing all of the implementation. I'm curious what you think might need to be tweaked in terms of the partner channel to bring them up to expected productivity here in 2026.

Craig O'Neill:

Maybe hindsight is 2020, but I remember saying while I was still on the Board kind of two and a half years ago when the partner channel work was just getting underway, from my own experience in companies that I've run, I'd caution the team, getting partner channels working is really hard. It takes time and it's really hard. I think now in retrospect, that's been the case. It's taken some time and it's really hard to do, but there's been a lot of progress made and there's a lot of interest on the part of partners. In fact, I've got a kind of a personal connection with a large potential partner. When they saw the press release that I was interim CEO, that personal connection, they connected the dots and this person was inundated with interest from within his firm to get to me to talk about how we could partner together.

There is lots and lots of interest in our space, lots of interest in great partners working with Sylogist. That's fantastic. It's still hard, getting them trained so that they really know the product. Here's the thing, implementing a product like an ERP or a CRM, it's not good enough to sort of know it. You have to develop a real expertise because implementations, I'm sure you've all heard, IT implementations of any kind, they're challenging and you've probably experienced it in your own companies. The implementer needs to be expert in the product. You don't get to be expert overnight.

They're getting better, they're learning. We're learning more about how to support them and how to provide the materials and the playbooks and the product knowledge that they need. But that's been a growing learning experience. Lots of learning has been done. I think we're going to really analyze where are the gaps now. We're going to listen to our partners, what are their frustrations. We're going to listen to some of our customers that partners are serving to understand their frustrations. We're really going to focus and solve those problems and not just leave it to the partners to figure that out. To me, not really a surprise. That's a hard thing to succeed at and it's been hard for Sylogist, so kind of not shocking.

But back to my earlier analogy, we're kind of in those sort of doldrums as we turn the boat. I don't think we're too far away from kind of catching the wind with partners and then helping them really get some momentum. There's more partners to come. There's more that want to be involved. But the only nice thing about that is we're going to be more explicitly judicious about which partners we work with. What are the requirements of a partner? What do we need to see from them? What kind of commitments in terms of certifying their personnel and so on will it take to qualify to be in our partner program? Which is hard to do that when you start out, but when you start to get lots of interest in partners, you can start to be more selective. We'll be able to do that going forward.

Gavin Fairweather:

Thanks for that. Then I think I caught in your prepared remarks that you're planning on increasing sales investment. I think your go-to-market team was around 25 previously. Maybe you can just help us understand how you're tweaking the internal go-to-market motions and what type of quantum of additional personnel or investment we should be thinking about.

Craig O'Neill:

Yeah. On a net basis, we may not increase the overall sales and marketing investment, but we're certainly going to focus the beam, if you will. We have a lot of projects for the size of company that we are, and we're investing in all of those products. As we look at the business and where our best market opportunities are, and we look at where the most likely activity is in different markets, are there drivers that would cause customers to change in the short term? Because remember, things like ERPs and CRM systems, companies or nonprofits or whoever, they don't think about changing those out every year. Then they take a long time deciding. The dynamic is long sales cycles, and they stay put, but they become a player for a long time.

We're looking at what are the drivers for change in different markets. On this holistic view, as we evaluate what are our target markets that are most likely to change and grow in the short to medium term, we're going to focus our sales and marketing energy in those areas so that we're matching our efforts with where the opportunity is versus looking at all the different things we do. That necessarily means that our lower-growing products and probably less strategic products, they'll get less effort. Maybe even no effort. We'll pick up the phone when somebody calls us. But in the areas where we see there's opportunity; we're going to put a lot more effort. It's more that, Gavin, than actually overall increase. But we think that can really give us a great return on our sales and marketing investments.

Gavin Fairweather:

That's helpful. Then maybe lastly, we can just discuss Mission. It feels like there's a few different factors going on here. I mean, you've got your ERP and CRM kind of crossed out play. You've got a nice new partner that's going to be active for you in the Mission segment. But it does feel like the end market is still dealing with some pressure, as you called that out, in terms of Q4 dollar churn. Maybe you can just discuss how all of that kind of nets out in 2026 and whether you see improving gross bookings and how to think about churn over the course of 2026, given that end market dynamic.

Craig O'Neill:

Yeah, that's a great question. I'll start by saying this is one of the areas that I intend to dig into more deeply than I have today. I've looked at it and discussed it a fair bit, but it's still not totally clear to me. What I would say I'm clear on is the CRM market and the spaces that we play in around nonprofits is very competitive. I know that up close and personal, I ran a company called Kindsight for a period of time, and we had a CRM product. And there's a lot of competition in the space.

One of the things I'm convinced we need to do is, and we will be doing because this has been agreed to, is we're going to really focus in on specific segments within the overall nonprofit space where we can win, where we have one and where we have stronger product market fit. We're going to segment the market further and then really be laser focused on which segments we go after. Again, it's kind of like focusing the beam, and we think we can get better results that way. We're going to be very, very picky if we have an inbound opportunity that's not in one of our target segments, not in a target ICP. We'll take a very hard look at, do we spend any time on this or not? Or do we just say, thanks, but

no thanks. It's hard to do that, by the way, when you get an inbound opportunity. We're really going to focus on where we play in CRM.

Now, one of the targets will be, like you said earlier, the cross-sell, the ability to combine our CRM or add it to our ERP customers, we think is an exciting opportunity. As a vendor that has the two products, we have the inherent advantage that we can build some really close integrations between the two that are difficult to achieve for customers that get an ERP from one vendor and a CRM from another. That cross-sell will definitely be an important part of what we focus on. But that's how I think we can win in the CRM space. Although I've got more work to do, we have more work to do as a team to do to find out which kind of target segments are we going to focus on. (Multiple speakers). Yeah, go ahead, Sujeet.

Sujeet Kini:

Sorry, go ahead, Craig. I was just going to follow on with the comment. You finish.

Craig O'Neill:

No, no, that's fine. You go ahead. I've said a lot already.

Sujeet Kini:

Yeah. Gavin, the one thing I'd just like to kind of point out more from a number's perspective, the reduction in Mission, which as you will see on the financial statements, is significant. A couple of comments there. One is the reductions from a revenue perspective, and a product perspective are entirely driven by project services in the main. Then additionally, a smaller portion because of the DOGE-related impacts that happened. That went through primarily the maintenance and support line.

From an overall SaaS subscription perspective, the Mission business overall continues to show, I will say, consistent growth. It does show growth in the 7% range year-over-year from a SaaS subscriptions perspective. When one looks ahead to next year, essentially one could strip away the impacts of the project services decline, as well as the more than significant journal that we saw in 2025, which was DOGE-related. We do believe that there is a good level of runway going into 2026 from a Mission perspective when one looks at it from a SaaS subscriptions perspective, mainly.

Gavin Fairweather:

Thanks a lot. I'll pass the line.

Sujeet Kini:

Sorry, say that again. Oh, yeah. Sorry. Got it.

Operator:

The next question comes from Suthan Sukumar with Stifel. Please go ahead.

Male Speaker:

Hey, good morning, guys. This is (inaudible 38:30) speaking on behalf of Suthan. I just wanted to follow up on pipeline activity. You mentioned the Texas VSS deal. I was wondering how that's affecting the pipeline. Overall, what is the biggest driver of the total pipeline today?

Craig O'Neill:

It's tough to hear you, but I think I got that. VSS and how it's affecting the pipeline and the biggest drivers in the pipeline overall, is that correct? Did I hear that right?

Male Speaker:

Yeah, that's correct. Thank you.

Craig O'Neill:

Okay. Yeah, very good. First of all, VSS, we think there's a really exciting growth opportunity with VSS. We've had some really successful, some really exciting wins. There are many more opportunities out in the market as you look across the U.S. state by state. We know we've got a great solution. We've got a great product for that marketplace. We're really excited about the VSS opportunity.

The reality of VSS opportunities is kind of good news, bad news. They're big. It's elephant hunting, and it's great to hunt elephants. But if it takes a little longer than you think, and it's sitting in your pipeline, that elephant can have a material impact on your results in a quarter. That's just the nature of elephant hunting. But we love that opportunity. We love that there's a lot of elephants to go hunt out there. We think we're really well positioned that once we get an elephant in our sights, that we can win that one, that we can hunt that one successfully.

But it's not like we can generate demand. It's not like that's pipeline building where we're convincing states to make a change. We're really reacting to them deciding to make a change that it's time. The good news is that most of them are on very old software, and they know they need to make changes. It's more about their own budgeting and so on. But once they decide to make the change, we think we have a very high probability to win those states. We're excited about that, but it will cause a bit of lumpiness in our pipeline because they are elephants. Most of our other products, in fact, really, our other products were not elephant hunting, so it creates this dynamic where there's a bit of a lumpy pipeline around VSS. But we're really excited about that product. It's definitely going to be one that we're putting even more focus on.

Generally speaking, in terms of pipeline drivers, it's interesting when I look at the various markets that we work in, we just, confessing the reality of it, we've got a couple of pretty old products that need replacing, and we've taken the initiative to build new modern versions to replace them. But the reality is a lot of our potential customers are on really old products from competitors. There's lots of replacement opportunity across our various target markets. Now, they're not big, big projects like the VSS projects, but they're good-sized projects, and there's lots of them.

What's similar to VSS, though, is there's not that many cases where we can drive or generate the demand. Just the nature of these organizations, they're going to act when they choose to act and when they can get budget. We want to make sure we've got a high degree of awareness, that there's great customer referenceability, there's great word of mouth, gee, that product from Sylogist just is great, so that when they do come to the place where they're going to act, they're thinking about us at the top of the list.

Then, so that's part of our sales and marketing. We want to focus and build awareness and a good sort of word of mouth kind of vibe in our most focused markets. Then it's really about reacting and responding extremely well. The minute there's an opportunity that comes up, being right there, answering potential customers' questions, working with the partners that are close to that customer, and to evaluate the best road, and so on and so forth. That's not really different than what it's been for Sylogist, but it's going to be more focused on our biggest growth opportunities. We think because of that, we'll have more customers that come to us in those markets, and that we'll be at the top of the list. That we'll do a better and better job in terms of RFP responses and sales cycles, so that we're the winner at the end of their sales process.

Male Speaker:

Thank you. That's great. Next question for you, I'd like to touch on what's happening on your end from an AI perspective. What are you hearing from customers in terms of priorities for that? How about guiding your AI a little more?

Craig O'Neill:

Yeah. I'm glad you asked that, because I think it's such an important question. I'm a computer scientist by education, and I've been in software my whole career. I'm sure you've all heard this from others like me, other computer geeks like me, that there's never been as disruptive a time in software and computer technology as there is right now because of AI. Any company, any software company, no matter how good, that doesn't fully embrace AI, both in terms of how it builds software and maintains software and tests software, and also how the features, the runtime features actually work within the software. Any company that doesn't embrace that fully probably won't be around in five to 10 years.

I believe that 100%. I've spent time with our product and development people, and we all believe that, and we're taking action now. We're starting a project, I believe it will be next week, if not the week after, to look at every aspect of how we build software and how we embrace AI, AI tools, LLMs that are cloud code and others that are so good at designing and architecting software and writing code and building test cases, et cetera, et cetera. We're going to be examining every part of the process, and I think we're going to achieve really significant productivity gains in our product and development groups.

Then along with that, as we put more focus, so we talked about sort of focusing the beam of our sales and marketing investment. We're doing the same with our R&D investment, focusing on those same products where we think the biggest opportunities are. That's going to increase some bandwidth. The combination of using AI to be more productive, and then focusing more resource on our products with the biggest opportunities gives us more bandwidth to expand our product roadmaps, and AI will be a big part of that. The new compelling features that we add, some of those will be exciting AI-based features, agents and LLM-supported functionality and decision-making and so on in the UI and whatnot. You'll start to see AI both in how we do things and what we're delivering to customers. We think that's going to make a big, big difference for the Company, both in terms of win rates with customers and in terms of just our productivity and efficiency.

Male Speaker:

Got it. Just lastly, for me, on margin, I appreciate there's still more investments to come, but I want to check in on what the near term outlook for, I guess, generally OpEx investments and how we should think about recovery and margin, and potential margin expansion here. Is there a time in the near term when a return to historical levels is achievable? If so, is it just a matter of managing investments? Just curious on that. Thank you.

Craig O'Neill:

Yeah. That's an excellent question. Sujeet, if you have some thoughts, you can weigh in, I'll just give you the first thought, which is we're still working that out. We want to get through this transition. That's going to take some effort to do that. We know that once we get through it and we hit our stride, we're going to see higher growth and higher margins. It's this interim period. How much left is there to do to complete the transition, to get focused on the right products and so on?

We haven't figured out yet, although we're actively working it, we haven't figured out exactly what that remaining transition period is and exactly what are the investments we need to make. The jury is kind of out looking down the road a little bit. Certainly, call it three quarters down the road. I'm confident you're going to see a very different picture, but it's the interim period. How's that going to change month by month, quarter by quarter? We're not quite sure yet. I'm going to kind of plead the fifth on that.

But Sujeet, feel free. Sujeet's done a lot more financial modeling than I have at this point. If you've got other things to add, by all means, go ahead.

Sujeet Kini:

No, I mean, Craig, the summary there was excellent. That's exactly where we are in terms of how we're thinking about next year. From a modeling perspective, the only additional comment I would make is that we are modeling it out by product, essentially using a rule of 40 lens, so to speak. What we are doing, Craig, and the Management team, we're essentially working through all of our business units, stack ranking them in terms of where we want to invest, where we want to slow down, and so on and so forth.

As Craig said, the jury's still out in terms of our exact decisions in terms of spend for next year. We would not like to at the moment comment on timing. But safe to say, the one thing that we are doing is

we're really looking at the business from a unit metrics granular level to decide upon what the best—essentially putting our dollar to the highest and best use sort of thing. That's what we're doing.

Male Speaker:

Got it. Thanks. I'll pass it on.

Operator:

Once again, if you have a question, please press star, then one. Your next question comes from Daniel Rosenberg with Paradigm Capital. Please go ahead.

Daniel Rosenberg:

Hi, good morning. Thanks for taking my questions. Apologies if they've already been asked. I joined the call a bit late, but my first one goes to Craig. I was wondering, I mean, you have past history with the Company, but also had a period where you were away. I'm curious, given your first few weeks, what things have changed since you had parted ways? If you could speak to some of the positives and some of the opportunities you see, albeit understanding it is early days that you've been in the seat.

Craig O'Neill:

Yeah, yeah, for sure. I think I'd probably say that when I left, when I stepped down from the Board a couple of years ago, the Company had started this transformational journey that I mentioned in my opening remarks. Actually, I'm saying you probably didn't hear those remarks, but I spoke to this transformational journey. That started a few years ago. I was part of that beginning. We knew, I certainly recognized that it was a very challenging journey moving from some very legacy products to new modern SaaS products, converting a sizable customer base from the old products to the new products.

I'm sure you've seen many stories with different software vendors that have addressed that challenge, and it is really a challenge. It's hard to do. Along with that, moving to a partner ecosystem that is very involved in both channel sales and delivery of projects. All really hard things to do. Company knew that it was going to be hard to do. No surprise there. Coming back and looking at it a couple of years later, part of my reaction was, yes, it was hard. The other is, it's, I think, taken longer than we thought back at the time and probably that anybody thought, but much of the hard work has been done. That's the good news.

I was saying earlier, a lot of my focus now is really getting tight, really getting clear on product by product, what's left to be done to really complete the journey. We're not looking at it on mass everywhere, just like sort of blended together, but product by product, what's left to be done. We're also looking at where are the best market opportunities and drivers for change, and then really focusing on our effort to complete the journey where our best opportunities are. Because we think that's how we then turn into higher quality revenue, higher recurring revenue, higher margins, higher growth rates, et cetera, et cetera.

It's really kind of, in some ways, we're in the red zone now and we're going to be changing tactics somewhat to make sure that we get to the goal line as quickly as possible. No huge surprises per se, just probably a characterization of, yeah, it was hard, and maybe even a little harder than we thought. It's taken a little longer than we thought, but the goal line is in sight.

Daniel Rosenberg:

Appreciate those comments, Craig. You know, in what you said, you mentioned change there, and obviously there's a lot of change that has happened at the product level, leadership level, Board level. I guess my question to you is, as you kind of look towards resolving and getting clarity on the strategy of the business, are there any timelines or goalposts you could give that expectations of when you hope to have a permanent CEO in position, when you hope to have—what would be, if you can put out some soft timeline of a year from now, two years from now, we want to be firing on all engines.

Craig O'Neill:

Yeah, as long as you're okay with the very soft timeline, because I can't get too specific here. What I will say is the search committee of the Board is active right now. They're interviewing candidates. They're developing a short list, so they've made progress, and clearly, they're going to be very thorough and careful. It won't happen overnight, but that's underway, and I can't tell, I'm not sure if they have, they've just not told me this, if they have a line of sight of when they think they'll be done, but it's within a relatively short period that they'll be done that. Call it kind of inside of two quarters, certainly that they'll be done that in terms of a soft timeline there.

In terms of when do we get to the goal line product by product, it depends on the product and course, but some are close. Some are, I would say a quarter from now, we're probably where we want to be. Maybe it's slightly longer than that or slightly less, but plus or minus, it's quite short term, and some

are a little bit longer than that. But certainly, I would say within, if we talk a soft timeline, within a year, I think we're where we want to be with each one of the products where we believe we have the best opportunities. Then for the products where we think, what, this is in a market or it's just the nature of the product where it's going to stay healthy, but we don't see it as a big grower. We're just going to change how we think about that product, and we're moving more into a support and maintenance mode of those products and keep those customers healthy and happy. But where we think there's big growth opportunities, it'll certainly be inside of a year that we're really pursuing those full steam ahead, well positioned to win.

Daniel Rosenberg:

Okay, I appreciate that. Then what I'm hearing is, albeit, again, understanding that it's early days and you guys are taking a targeted approach in terms of where investment should occur or where it should be kind of just maintained, let's say. On net, how should we think about that for the Company? Does it require incremental additional expenses to get the products across that goal line? Obviously, we think about things long-term, but just trying to get a sense of that investment versus those end goals towards growth.

Craig O'Neill:

Yeah, and short answer there is the jury is still out. We're still working that out. We know that the top areas of focus, the top products of focus will get incremental investment, but that will be shifted from other areas. On balance, whether there's any incremental investment, i.e. will our overall spending go up. The goal is for that not to happen. The goal is we'll actually find some synergies and some areas of improvement. For instance, like with the use of AI that we can do a lot more with the team that we've got. We don't need to add expense. The goal is not to raise expenses at all. The goal is to actually drive some efficiencies. But we're still working on that. It's too early to tell.

Daniel Rosenberg:

Okay. Great.

Operator:

This concludes our question-and-answer session. I would now like to turn the conference back over to Craig O'Neill for any closing remarks.

Craig O'Neill:

Okay, thank you so much. I'll keep it brief because we've had a good long call here and excellent questions.

Thank you so much for the questions. Thank you for your continued focus and support of the Company. We're looking forward to the road ahead. As I said, we're optimistic about the future. We see the goal line in sight. We're looking forward to showing that this transformational journey was worth it, took some time, but was well worth it and really puts the Company on a great growth trajectory for a sustained period for the long term.

Thanks for joining us today. We appreciate your support. Take care.

Operator:

This brings to a close today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.