

Mediagrif Interactive Technologies, Inc.

Q1 Fiscal 2021 Investor Conference Call

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PRESENTATION

Operator

Welcome to the Mediagrif Interactive Technologies' Q1 Fiscal 2021 Investor Conference Call.

Today's call will provide information and commentary on the Company, with a focus on the financial results release. We will hear from Luc Filiatreault, President and Chief Executive Officer, and Paul Bourque, Chief Financial Officer.

If you have questions following the call, you can reach Mediagrif at the address on their website, www.mediagrif.com.

First, here are a couple of housekeeping notices.

All participants are in a listen-only mode for the duration of the call. After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press star, then the number one on your telephone keypad, and if you would like to withdraw your question, please press star, followed by two.

This call is being recorded, and we expect that the recording will be available on Mediagrif's website today.

We remind you that today's remarks will include forward-looking statements that are subject to important risks and uncertainties. For more information on these risks and uncertainties, please see the

reader advisory at the bottom of Martello's news release which is on their website and on SEDAR. The Company's actual performance could differ materially from these statements.

I will now hand the call over to Mr. Filiatreault. Please go ahead.

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

(Foreign language spoken). Good morning, everyone. Thanks for being with us this morning. We really appreciate your presence.

We are innovating today and you—I hope you could—you are able to join the Cision platform so you can check the slides as we go through this presentation where we thought that a picture is worth a thousand words, so in order to save some words, we're showing you some graphs and some data.

We'll turn to the results that we filed yesterday in just a moment, but first I want to take a moment to tell you a bit about Mediagrif and the state of our operations.

We're a developer of—we're a developer and operator of digital commerce platforms. Our platforms facilitate billions of dollars of transactions per year of digital commerce over about 200,000 end-user companies mostly in North America. We're a meaningful player in the sector.

We joined the Company in the fall of 2019 with a mandate to really take the Company to the next level, and since then, we have undertaken to transform Mediagrif into a high growth SaaS digital commerce Company with the potential to dominate key market segments. In order to do this, we first had to prepare the Company for transformation. We undertook to clarify the business, to streamline and

to refocus operations. We built a 5-year strategic plan, we executed on a sales transformation plan, and we shored up our balance sheet.

While doing all of that, we extended our Unified Commerce platform by acquiring and integrating k-eCommerce, which tripled our monthly recurring revenue for e-commerce starting in January. We're investing in two core growth platforms of our (audio interference) and we're harvesting a third.

The first growth platform is Strategic Sourcing. You should be seeing a map which shows that—this procurement and tendering platform, which accounts for approximately 42 percent of our revenues. We have over 3,000 government and large enterprises' buyers that rely on our Strategic platform to procure and tender from a North America-wide network of approximately 200,000 suppliers. The dots that you see on the platform represent where these various governments and large enterprises are, and you have the blue dots, which are what we had, and the orange dots are the buyer that were added during the quarter, so that you can tell there's quite a bit of progress, and our geographical coverage of North America is increasing all the time.

The second growth platform is Unified Commerce, which represents about 38 percent of our revenue base, so you have a slide here that shows that digital commerce, in general, accelerated immensely during the pandemic. The report that we have here shows—or calculates that approximately 10 years of progress of digital commerce penetration were accomplished in the last four or five months, so our platforms offer end-to-end ecommerce, including supply chain, for thousands of mid-sized and large enterprise customers globally who rely on our technology.

We have a particularly strong presence in the grocery space, and, like other ecommerce providers, our platforms experienced a 50 percent surge in usage during the early stages of the COVID-19 pandemic. That surge was generally sustained throughout Q1 2021, while we recorded this 48 percent growth in revenue compared to the same time last year. We believe that the accelerated shift to e-commerce triggered by the pandemic will generally be sustained, and we plan on exploiting this. Our results today show that the trend is continuing to benefit MDF directly. Our systems are highly scalable and we would absolutely be ready to face volumes of a second wave, if it ever occurs.

Finally, the third platform, which is our Marketplaces, is a collection of online properties that enable everything from wholesale diamond purchasing to job hunting. Collectively, these five online Marketplaces account for approximately 20 percent of total revenue, but no single property represents more than 3 percent of our total revenue. It is our assessment that incremental investments in these small, online properties would not achieve adequate returns on invested capital. As a result, we do not plan any significant investments in these platforms. In fact, we plan to harvest earnings and maximize the contribution of each of them.

I am happy to report that we are now largely through the preparation phase of Mediagrif's transformation into a SaaS digital commerce Company and we're now entering a planned growth phase focused on monthly recurring revenue.

I would like to now comment on the state of Mediagrif as we enter this growth phase.

A great leading indicator of our performance in MRR growth is the growth of our deferred revenue, which is now at \$19.1 million from \$15.2 million last year, which represents a 20 percent—26

percent, sorry, year-over-year increase. We've completed a detailed review of our revenue streams, and we are pleased to report that approximately 77 percent of Mediagrif's total revenue were recurring for Q1 Fiscal 2021. Total MRR for Q1 was \$15.5 million, up 11 percent year-over-year and 3 percent sequentially compared to Q4 2020, so by all common measures, we're already a SaaS Company with the majority of our revenue streams recurring and predictable. This is a fantastic base upon which to build.

Within the Strategic Sourcing platform, recurring revenue represents 94 percent of total revenue, which we believe is close to maximum annual recurring revenue available to that line of business. We simply need to accelerate the growth of these predictable high gross margin revenue streams.

Within the Unified Commerce platform, recurring revenue is approximately 60 percent of total revenue, so quite a bit of growth to achieve there, and we're currently working on a partnership program to give us an ability to scale our SaaS solutions. Our enterprise e-commerce platform, better known as Orchestra, does require effort at the on-boarding phase, and we intend to use our partners' network as much as possible to give us the ability to on-board many more customers simultaneously and increase the percentage of MRR recurring revenue.

As an example, we very recently announced a partnership with Logic—actually it was at the end of July—which adds more than 700 retail e-commerce specialists in 10 countries on which we can rely to implement our technology. We will be gradually adding more partners, including some very large consulting firms, to our program over time, which will, again, help us scale faster our growth.

As we implement our sales transformation plan, we believe that we will increase our ability to acquire net new customers significantly. As we target new Unified Commerce acquisitions, like the eCommerce one, one of our main criterias will be high levels of recurring revenue. It is our objective, over time, to maximize annual recurring revenue to similar levels as Strategic Sourcing, while we accelerate growth.

As we streamline operations and divest from low growth and non-recurring revenue properties, total revenue, and sometimes, Adjusted EBITDA may temporarily be impacted; for example, the divestment of LesPAC last year. However, we urge investors to follow total MRR growth in our core platforms, which we anticipate will continue to accelerate as we have seen in Q1 Fiscal 2021.

Next, I want to turn to the balance sheet.

With the close of the bought deal equity offering in May of 2020, we raised \$16 million of incremental working capital. Mediagrif closed Q1 Fiscal 2021 with \$19.4 million of cash on our balance sheet.

Before I turn it over to Paul to discuss in more detail our Q1 Fiscal 2021 financial results, I want to again thank our Board, thank the Management Team, and thank all of our dedicated employees for staying strong, very effective, and safe during these challenging times. We are now well into our growth phase and believe that the best times for this Company lie in the quarters ahead.

Now, I'd like to ask Paul to review the financial results.

Paul Bourque — Chief Financial Officer, Mediagrif Interactive Technologies, Inc.

Merci, Luc. Thank you, and (Foreign language spoken). Good morning, everyone.

Here are the highlights of the first quarter of Fiscal 2021 results.

As you can see on the slide, total revenue was \$20.5 million during the quarter, up 8.4 percent from \$18.9 million reported in Q4 of Fiscal 2020. Adjusting for revenues from discontinued operations associated with the divestment of LesPAC in Q1 of Fiscal 2020, total revenue increased 13.9 percent to— from \$18 million, driven by the 48 percent growth in the Unified Commerce platform, which benefitted from a surge in consumer online purchasing associated with the COVID-19 pandemic. The surge had a significant impact on our revenue throughout the quarter.

Revenue in the other core platform, Strategic Sourcing, remained stable throughout the pandemic, growing 2 percent year-over-year to reach \$7.7 million.

We've also added 77 new buying agencies during the quarter that will allow us to monetize supplier ecosystems and meaningfully increase our revenue streams over time.

Adjusting for revenue from discontinued operation, again, associated with LesPAC divestment in Q1, non-core platforms revenues, which include the Marketplaces platforms, slightly declined to \$3.1— or declined to \$3.1 million from \$4.4 million in Q1 2020. The Marketplaces are comprised of platforms where the Company is focused on maximizing cash contribution.

Total monthly recurring revenues—total recurring revenues in Q1 2021 were \$15.8 million, or 77 percent of total revenue for the quarter. Total MRR grew 11 percent over the previous Q1 reporting

period, led by the 43 percent increase in Unified Commerce MRR, and a 4 percent increase in Strategic Sourcing MRR. The Company views MRR as a key performance metric.

Adjusted EBITDA totaled \$1.8 million, which was up \$0.9 million in Q—versus Q4 2020. The Q1 2021 EBITDA—Adjusted EBITDA margin of 8.8 percent is in line with our expectations. The reduction in EBITDA versus first quarter last year is mainly due to the divestment of LesPAC in Q1 2020, the results of k-eCommerce, the decrease in our non-core platforms, and the investments that we've made into the implementation of our business plan.

Net loss for the Q1 of Fiscal 2021 totaled \$1.2 million, or \$0.08 a share, compared to a net profit of \$1.1 million, or \$0.07 a share, last year.

I will now comment on some other highlights that occurred during the fourth quarter.

In Fiscal 2021, as mentioned by Luc, deferred revenue grew 26 percent to reach \$19.1 million compared to \$15.2 million reported for the same quarter last year of Fiscal 2020. At this point, we believe that deferred revenue should be viewed by investors as a proxy for contracted future revenues.

As I mentioned earlier, we've added 77 procurement clients to our Strategic Sourcing platforms, mainly into the U.S.

For our Unified Commerce platform, the Company added 40 small, medium, and SMBs business or clients, and one enterprise client, which is a significant grocer—grocery retailer.

With that, I will now turn over the meeting to Luc. Thank you.

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Thanks, Paul.

I'd like to make a few comments about our outlook before concluding our prepared remarks.

You should see a graph here on your screens that clearly show the progress of our MRR over the last four quarters. You also see that the percentage of MRR compared to total revenue evolved from roughly in the mid 60's to the high 70's, and even hit, at some point, the 80 percent, so that's a clear trend that we intend to continue, and during the quarter—the first quarter of 2021, we signed 118 new clients. This is significant. This leading indicator helps to quantify our MRR ramp-up in future quarters, which we intend to accelerate further by expanding the rollout of our sales transformation plan and making strategic acquisitions.

Continuing a trend started in—starting in Q4 2020, the trajectory of monthly recurring revenue for core platforms, Unified Commerce and Strategic Sourcing, has already increased 23 percent, which was influenced by global market conditions. The overall growth of MRR in Q1 Fiscal 2021 was partially driven by a 48 percent surge in e-commerce due to a spike in online commerce caused by the COVID pandemic, mostly in the grocery sector, and although Strategic Sourcing grew modestly at 2 percent during the same timeframe, there was a 17 percent spike in demand for our U.S.-based e-procurement platform, which we believe was also influenced by the COVID-19 pandemic.

The early feedback from our Canadian users on the upgrades of the MERX platform in Canada gives us confidence that there are new growth opportunities emerging here as well, so Management

believes that much of the shift in preference towards digital commerce will be permanent, which should reflect in future performance for the two core platforms of Unified Commerce and Strat Sourcing.

I want to now turn to a recent Strat Sourcing contract which I think demonstrates our superior competitive positioning in the marketplace.

We recently announced National Health Service, also known as the NHS in the U.K. They have selected our Contract Lifecycle Management solution to help co-ordinate procurement for its members across the U.K. The NHS is the largest universal healthcare in the world, and they manage approximately €26 billion of third-party contracts every year. Very proud of that accomplishment.

Finally, I'd like to leave you with the three key takeaways that I think summarize our transformation to date.

First, by all measures, Mediagrif should be considered a high-quality profitable SaaS digital commerce Company with 70—almost 80 percent recurring revenue, \$60 million of annual recurring revenue, and gross margins typically in the mid-70s.

Second, we are laser-focused on driving growth in Strat Sourcing and Unified Commerce. On those two platforms, we have over 200,000 end-users that pay us monthly, and we are poised to accelerate revenue both through organic sales effort, but also via strategic acquisitions.

Investors who understand where we are going will benefit greatly by getting on board right now. By all measures, MDF is dramatically undervalued in comparison to close peers like SPS Commerce,

more recently, Big Commerce, Texas, because MDF trades, actually, below two times revenue. All other peers trade in a far higher range.

Finally, after spending eight months preparing to transform MDF into a lean MRR growth Company, we are in great shape now to take advantage of the enormous opportunities in digital commerce, assisted by this 50 percent surge in demand caused by the COVID-19 pandemic. Some might say that we were lucky to be in the right spot at the right time. I would like to offer that the entire MDF team worked really hard over the past eight, nine months to get us to that right spot, so we earned our luck and we're determined not to squander the opportunities in front of us.

I'm also super excited to announce that we will be changing the name of the Company to better reflect our current positioning in our markets. That new name will be revealed at our AGM coming up on September 23 at 11:00. I'm hoping to see you there, virtually, obviously, and we will be very excited to show you where that—what we thought would really be a good name to describe not only who we are, but who we are becoming.

With that, I'd like to hand it over to the Operator, Sylvie, for further questions.

Q & A

Operator

Thank you, Mr. Filiatreault.

We will now open the lines for questions. Ladies and gentlemen, if you do have a question, you will need to press star, followed by one on your touchtone phone. You will then hear a 3-tone prompt

acknowledging your request, and should you wish to (audio interference) question, simply press star, followed by two, and if you're using a speakerphone, please lift the handset before pressing any keys. Please go ahead and press star, one now if you have a question.

Your first question will be from Amr Ezzat at Echelon Wealth Partners. Please go ahead.

Amr Ezzat – Analyst, Echelon Wealth Partners

Bonjour. Thanks for taking my questions.

Guys, first, congrats on the quarter.

My first question is on MRR, specifically on the e-commerce side, or Unified Commerce, rather. You guys mentioned a 48 percent growth, which is a pretty impressive metric. Can you help us sort of segment the data points? I'm trying to dissect how much of it is due to the increased transactions versus new clients. On the last call, you spoke to a very large contract at Orckestra, and obviously, these are longer implementations, so I'm just wondering if we are seeing some of that already in your MRR numbers, or is that yet to contribute?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Thanks, Amr, for your question.

The first thing I'd like to offer as a—certainly a partial answer is if you look at our definition of MRR, we took the conservative approach not to put in the MRR the very large surge of revenue that we felt were caused by the pandemic, and I'll give—and I'll offer an example. I think you all heard that we

have (inaudible) as a client, and in Italy during the pandemic, at some point, (inaudible) was the only operating grocer online, so obviously, the surge of demand we got there is hardly repeatable. I hope, for Italy's sake, that it doesn't happen again. So, we were conservative in calculating the MRR, and the increases that you see do not include those—what we felt were directly caused, so there's a good portion of MRR.

The growth comes from the added clients, like we mentioned, 40 new SMB clients. The large enterprise clients that we mentioned is not fully on-boarded at this point, so their contribution to the MRR is still very small because we're still in the on-boarding phase of that very large customer.

Amr Ezzat – Analyst, Echelon Wealth Partners

Okay. That's helpful. Okay, maybe if I'm thinking about size, when I'm thinking about Orchestra historically, and correct me if I'm wrong, the average revenue per accounts is sort of \$800,000 to \$900,000 per year, sometimes more, so when I'm thinking about that new contract, specifically how does the average revenue, I guess, compare relative to historicals?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

That customer, once fully on-boarded, would very much trump these numbers very significantly. However, the on-boarding cycle is a rather lengthy one because that customer is present, to the best of my knowledge, in more than 40 countries, in Europe, North America, and a bit of South America also, and obviously, the on-boarding of all these countries will take some time. It's not going to happen in a

single month. It would just be impossible to handle, so it will take some time to come to full (audio interference), but it's definitely much larger than our average customers up to now.

Amr Ezzat – Analyst, Echelon Wealth Partners

Okay. We'll stay tuned. Maybe switching gears to your EBITDA, I guess my first question there is on the wage subsidies you received. I was surprised to see that, actually. Can you, perhaps, give us some more colour there, and are you guys expecting this going forward as well, or is it just a one-off for this quarter?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Do you want to go ahead, Paul?

Paul Bourque — Chief Financial Officer, Mediagrif Interactive Technologies, Inc.

(Inaudible). Go ahead, Luc. Go ahead. No problem.

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Most of the grants that we got came from the e-marketplaces, and as you know, for example, one of the e-marketplaces is in job search, so that was obviously slowed down, and the way those programs were designed, we were able to capture some funding, so we obviously took the opportunity. Not knowing what the various levels of government will do in the future, we can't count on this, but we were very happy to take it during the quarter.

Amr Ezzat – Analyst, Echelon Wealth Partners

Understood. Okay. I didn't realize you could sort of ring fence some of these divisions.

Okay, so when I'm thinking about your operating expenses, I see you've got 20-ish open positions on your website, and obviously the June quarter was a bit of an abnormal quarter with COVID, so just wondering what sort of normalized op ex number we should look for going forward.

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Paul, I'll let you take a peek at that. It's a harder one to respond with an exact...

Paul Bourque — Chief Financial Officer, Mediagrif Interactive Technologies, Inc.

Exact number, that's for sure. I mean in the quarter, I mean in—we've had additional expense due to (audio interference), which were not necessarily (inaudible), and on the other hand, we cannot say on travel, entertainment, and trade shows and stuff. I mean, we've added few people since the beginning of June, obviously, in the development of our business plan at the moment, so we could expect some increase on that front. We've added some. If we succeed in hiring the others, it will have an impact on the overall costs over the next couple of quarters, which we anticipate revenue to grow as well during that same period.

Amr Ezzat – Analyst, Echelon Wealth Partners

Okay. Maybe one last one and I'll jump back into queue to free up the line. When you guys are thinking about capital allocation and M&A, especially in light of the increased traction in your organic

growth rates, do you sort of pause and delay to focus on your current operations, or do you guys feel you have enough bandwidth to execute on M&A than maybe like some colour on the size that you guys are looking at?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

I think we have mentioned in the past that we sort of had put our M&A program on pause at the start of the pandemic, and sort of re-launched this towards the end of May. We are working on putting together a very detailed acquisition roadmap so that we will be acquiring companies in the Strat Sourcing to increase and accelerate our geographic coverage. We expect these acquisitions to be highly accretive because we will be integrating them both in terms of migrating the customers on to our platforms and increasing the value that we bring to these customers, which will, obviously, in turn, also increase the value that we can charge them, and we also intend to be performing some acquisitions in our Unified Commerce platform more to complete certain technology tuck-ins where we feel that the cost of—the cost and the time of developing these functionalities would be—there's an advantage to us in taking higher, faster market share by acquiring these tuck-ins versus developing them.

Amr Ezzat — Analyst, Echelon Wealth Partners

Great. Thanks. I'll jump back in the queue.

Operator

Thank you. Next question will be from Nick Corcoran at Acumen Capital. Please go ahead.

Nick Corcoran – Analyst, Acumen Capital Partners

Good morning, and thanks for taking my questions.

My first question is just on your credit facility. I think you had mentioned that you were looking to get that converted to an MRR-based facility. Could you give any update on that?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Yes, certainly. Thank you, Nick.

We actually are working with financial partners at Echelon to help us get the best possible conditions, and we're currently actively working through a couple of offerings from various financial institutions and hope to be completing this, I'm pretty sure, during the current quarter. Vacation might slow it down a bit, but we should be done with this relatively shortly.

Nick Corcoran – Analyst, Acumen Capital Partners

Great, and then going back to the NHS contract, can you give any indication of the initial size and what potential upside there might be to that?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Like a lot of our Strat Sourcing contracts, right, the value ultimately comes from the various suppliers that sort of hook to the platform, so to—it's very hard at this point in time to estimate how fast we will be able to on-board all of their various constituents of the NHS. It's an extremely complex

organization, and we're just starting now to look at the rollout and the on-boarding of all this, so hard for me to give you a number at this point. I wish I could, but it will be—they chose our technology more based on the performance, the functionality, the ease of use, etc., and the costing of it will be—sort of gradually be happening over time.

Nick Corcoran – Analyst, Acumen Capital Partners

Then last question for me, should we look for Strategic Sourcing to grow further into Europe going forward? Obviously, this gives you a foothold in the U.K. market.

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Well, definitely, right? It's our first incursion in Europe in Strategic Sourcing, and we certainly feel that with the very wide acceptance of our platforms in North America, we have an advantage, and we're possibly also looking at some M&A opportunities not just in North America, but also in Europe for Strategic Sourcing, which could accelerate our penetration of that geography.

Nick Corcoran – Analyst, Acumen Capital Partners

Great. That's all for me. Thank you.

Operator

Thank you. Next question will be from Maher Yaghi at Desjardins. Please go ahead.

Maher Yaghi – Analyst, Desjardins

Yes. Thank you for taking my question, and yes, nice quarter, guys on the growth. Organic growth is starting to show nice pickup, and I wanted to ask you about the k-eCommerce. When you bought the company, I thought the revenue run rate should be around \$8 million. It's running now at \$1.4 million. I recognize you have some deferred revenue impact in there, but should we expect it to come back to the \$2 million range in the next couple of quarters, especially with the COVID situation? I would have thought it would have been a good opportunity for them to pick up revenue from the \$8 million they had last year.

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

One specific element of the k-eCommerce platform is it's mostly targeted towards SMB, and probably somewhere between two-thirds and three-quarters of the customers are B2B SMBs, and mostly in the U.S. Now, during the pandemic, they're not into B2C (inaudible) to be essential services, and many of our clients in the SMB area were actually shut down during the pandemic, they—and these are B2B that produce goods and services that are picked up by other businesses and eventually integrated into finished product. So, in many cases, they just stopped manufacturing, so obviously, they rarely have large inventories to sell, so the usage of the various platforms in k-eCommerce sort of slowed down a bit during the quarter.

However, towards the end of the quarter, and we have preliminary data on July, showed that it's completely back up to normal, so contrary to the—our (inaudible) commerce platform, which caters a lot to—like I mentioned, we do have a specialty in grocery, and grocery was considered to be an essential services. Human beings have to continue eating. However, you might be able to slow down

your consumption of, I don't know, metal, ball bearings, or plastic pieces, so that's what explains a bit of the slowdown in the k-eCommerce platform.

Maher Yaghi – Analyst, Desjardins

Okay, and do you expect this to get back to the \$2 million range over the short, or more medium to longer term?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

I don't have in mind right now the—I mean, what I know is that from our information that we see looking at traffic, etc., it seems to be back up normal, so I would expect it to come back fairly quickly.

Maher Yaghi – Analyst, Desjardins

Okay, great, and in terms of gross margins starting to see some improvement, can you remind us what your objective on that front is as your platforms are working—running properly and the growth in revenues starts to kick in? What's your medium-term objective on gross margin?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Gross margin in Strat Sourcing, and also in our Marketplaces, is very good, so in the case of the Marketplaces, we just—we're maintaining it. I don't expect it to move a lot. In the case of Strat Sourcing, we have to grow the base, obviously keeping the same margins. Where we can substantially improve margins is going to be in our Unified Commerce, simply because we still have too high of a component of service. As I mentioned, in the enterprise world—in the e-commerce world, sorry, we have 60 percent

MRR, and that's because we are still performing much of the service ourselves, and as you know, it's a lot harder to increase margin on on-boarding services, and that's why we are—we've launched this very ambitious partner program and looking to—I like to use the SAP example.

Almost all of the large consulting firms have an SAP practice, and SAP sells the software. We'd like to be to the digital commerce world the SAP of the ERP world, so over time, we'll be adding more and more partners as we gain traction, and also increase our sales efforts so that there are more and more customers demanding our platforms and we can gradually shift into a much higher component of MRR and (audio interference), which will, obviously, directly increase our margin.

Paul, do you have some further colour on that?

Paul Bourque — Chief Financial Officer, Mediagrif Interactive Technologies, Inc.

No, I think you summarized it pretty well. I mean that's the—where the margins are a bit lower than the Strat Sourcing right now are in the Unified Commerce, overall.

Maher Yaghi – Analyst, Desjardins

Okay, and I wanted to ask you—I mean it's hard, maybe, to separate things clearly, but when you look at your organic growth, excluding exchange rates and things like that, how much would you say the improvement sequentially from last quarter was due to COVID and—versus the improvement coming from your strategy that you implemented since you started in October?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Oh, boy. Well, I think the answer lies here in—if you look at the number of new customers that we added, so clearly, a good portion of growth comes from that. It's hard to—if you look on the MRR side, I think not a lot was due to COVID. The MRR grew because of, as I said, new customers that are added to the various platforms, both on the Strat Sourcing and the Unified Commerce. If you look at total revenue, there's a component which was effectively due to COVID, and the example is the surge in grocery revenues because so much was flowing through the system, but I don't have a number for you at this point. That's something we'd have to...

Maher Yaghi – Analyst, Desjardins

I thought you wouldn't. I mean, I thought you would not be able to, but I just—I thought I'd ask the question anyway. In terms of when you began your new project, you talked about cross-selling services and products to existing customers apart from loading new customers in. How's the cross-selling doing, and can you put a dollar value on how much you've achieved on that front so far?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Certainly can't give you a dollar value. I know we've initiated a lot of projects, and some of these new customers are probably—come from some cross-selling, but I can't track this at this point in time. We still have some work to do internally in integrating our CRMs. We unfortunately still have different CRMs in our business units, so it's hard to compile the data with one single integrated view.

Maher Yaghi – Analyst, Desjardins

Okay, and my last question is on free cash flow generation. You're making quite a lot of investments, I mean, for sure, to increase your organic growth, salespeople, etc. When do you think that will begin to translate into free cash flow generation, because right now it's muted?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Paul, I'll let you go with that one.

Paul Bourque — Chief Financial Officer, Mediagrif Interactive Technologies, Inc.

Well, obviously, Maher, as you know, we need to do the investment first to get to see the cash flow coming in. Again, Unified Commerce performed really well during this first quarter. We anticipate that Strat Sourcing, particularly in the U.S. will continue to grow—is growing nicely and continue to grow. Over the next few quarters you'll—we should see improvement; maybe not in the next one, but we need to do the investment and the changes in our various systems and platforms before we see cash flow increasing significantly to some extent, so we need—again, we need to do the investment first and get the return afterward.

Maher Yaghi — Analyst, Desjardins

By the end of this year, we should start to see revenue growth outpacing your cost increases and your CAPEX?

Paul Bourque — Chief Financial Officer, Mediagrif Interactive Technologies, Inc.

I'd say, yes, that's a nice period to look at it, yes.

Maher Yaghi – Analyst, Desjardins

Okay, great.

Paul Bourque — Chief Financial Officer, Mediagrif Interactive Technologies, Inc.

Which is towards next winter, yes.

Maher Yaghi – Analyst, Desjardins

Okay. Thank you very much.

Operator

Thank you. Next question will be from Deepak Kaushal at Stifel GMP. Please go ahead.

Deepak Kaushal – Analyst, Stifel GMP

Oh, hi. Good morning, guys. Thanks for taking my repeat questions here.

Luc, I think you mentioned earlier in the call you're seeing a good pickup in activity flow through the Strategic Sourcing platform. I assume a lot of that's in the U.S. and driven by COVID. I'm wondering if you can give us some colour on what's the nature of that activity increase, and how do you guys benefit from a growth perspective from existing customers when those volumes go up?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Well, it's pretty easy. Thank you for the question, Deepak.

We added 77 buying agencies during the quarter, and there's a flock of suppliers that cater to these agencies that pay us a monthly fee to have access to the various tendering projects that these agencies have, so that contributed—or will continue to contribute to increase. Obviously, we never fully know when we on-board an agency how many suppliers will come in and buy the various packages, but it's a high-grade sausage thing, right? The fresher it is, the more people eat it, and the more people eat it, the fresher it is, so the more suppliers we have on the platform, the better we can offer the service to an agency because we can expose their jobs a much wider network, and the more agencies we have, the more we can interest various suppliers to come on because they can have access to a very large amount of potential deals, so it's a virtuous circle that works really, really well.

Deepak Kaushal – Analyst, Stifel GMP

Okay, so if a particular agency is seeing—putting through more volume to their platform, your growth from that would come from on-boarding more partners, or do you get pickup from the...

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Correct. It's a supplier-paid model, right. The agencies will pay a one-time fairly modest fee for on-boarding the platforms, and then it's all supplier-based, so the suppliers will pay a monthly fee—a monthly recurring subscription fee which is proportional to the scope of what they want to access. If a supplier, for example, just wants local city deals, well obviously their cost is lower than if the supplier would be some large engineering company that wants nationwide access, and then that's how we make our money around that, and as you can tell, right, 94 percent, 95 percent recurring revenue, very high margins, just needs to accelerate the growth here.

Deepak Kaushal – Analyst, Stifel GMP

Got it, and now that you've expanded into the U.K., and as you look to Europe, are the models for Strategic Sourcing very different in those geographies? What can we expect on that front?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

What we see there is actually very similar, and it comes from a very simple statement is that when a government procures various goods and services, they have an obligation by law to perform a tender to document why they chose whoever they chose to get the job, and this is all anti-laundering, anti-fraud, anti-corruption types of rules, and when you go to the more evolved countries, well, obviously, these rules are in place, and the various agencies needs to maintain the whole story and history of a requirement from the moment it appears to the moment that this requirement is answered by any given supplier, and the fact that the NHS chose our application just goes and proves that, hey, we're—we do—we are handling the things in the right way. There might be, obviously, some local adjustments we could—needs to make, but we're—with the preliminary information that we have, these are very similar, and we do see possibilities of growing in Europe.

Deepak Kaushal – Analyst, Stifel GMP

Okay, excellent, and then just on the e-commerce side, particularly related to the groceries, you had a big one this quarter. I'm just wondering what you can—colour you can give us in terms of the opportunity set ahead of you. What market share do you have? What's available, and how does the opportunity—what's greenfield versus having to replace a competitive product?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Our reading of the grocery world is it's still a—by and large, unexploded by e-commerce. It wasn't a very natural, I would say, the fastest place where e-commerce sort of picked up for one simple reason, right? The margins in grocery, as you know, are very thin, and the products are pretty bulky and hard to deliver. When you go do your groceries, there are some room temperature products, there are some refrigerated products, and there are some frozen products, so to have that delivered adequately, it requires quite a bit of logistics.

Where things evolved and really started to pick up is—we actually had helped develop this site, and I think it was initially with Sylvie's (phon), with what we call curbside pickup, where stores will (audio interference) have and prepare areas where they can store the various goods that you are ordering. They have specific bins that they've built and they can identify them to you, and we've developed functionality that, even on mobile, where when you're ready to go pick up, you can just basically flag on your phone that you're about to go pick up, and they take your bags from the three areas, the room temperature, refrigerator, and frozen, and they bring them to the curbside where you just take possession of your goods, and that model is economically quite viable and seems to have a lot of traction, and there are very few large grocers that have implemented, right?

If you take—one of the first areas to be digitized was books and music, and the like, so not a lot of growth in that area, but we still feel in the grocery world that there is significant portions that we could attack, and we are—we're—we sort of have a good name and we're making use of it.

Deepak Kaushal – Analyst, Stifel GMP

Excellent. That's good to hear, and then—I mean does that extend to the B2B world in the grocery side, or is it mostly B2C right now?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Right now it's mostly B2C. We do have some supply chain with certain grocery, but at a smaller scale right now. That's actually a bit of a longer-term view where we'd like to connect our back-end and our front-end in order to be able to offer a complete logistic solution, e-commerce and supply, to single customers, but that's a little bit further ahead, right? That's totally part of the innovation track where I don't see any commercialization in the short term, but maybe 18, 24 months from now we could start to think about having enough of the pieces of the puzzle put together to show a complete picture to certain of our customers.

Deepak Kaushal – Analyst, Stifel GMP

Okay, excellent. Well, thank you for taking my questions. I'll leave it there for now, and look forward to future calls.

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Thank you, Deepak. Thank you for your questions.

Operator

Thank you. Next question will be from Nick Agostino at Laurentian Bank Securities. Please go ahead.

Nick Agostino – Analyst, Laurentian Bank Securities

Yes. Thank you. Good morning.

I guess a few questions for me, Luc.

First, when you spoke about the platforms, I thought I heard you call out three; Unified, of course, Marketplaces, and Strategic Sourcing, but in the past, you spoke also about a fourth platform being supply chain. I'm just wondering how you guys are looking at that specific carve-out these days, and specifically platforms like InterTrade. Are they now incorporated as part of other segments of the business?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Thank you, Nick, for those questions.

If you read the literature—the more advanced literature, right, there's a conversion happening between supply chain and e-commerce, because in the end, it's sort of a continuum. You, as a consumer, will buy various products from a retailer which will then source these products from the various suppliers, so ultimately, this is all integrated, and we adapted our vocabulary, I guess, to that situation. We still have InterTrade, and it's still present, and as I just answered Deepak's question, right, there's more and more appetites to sort of get these—which were historically completely separated—there's more and more appetite to sort of integrate these two aspects of the same system; like I said, front-end purchasing and back-end sourcing, and that's why we call it out Unified Commerce, because we feel

they're so common, and we do have quite a few interesting potential cross-selling opportunities in those areas.

Nick Agostino – Analyst, Laurentian Bank Securities

Okay, great.

Second question, you've added a sales partner. You spoke about adding more, including large consultants, and I'm just wondering, are all these relationships just solely to help you guys on the sales side, or will some of these partners, including the consultants, be assisting on the install in an effort to probably accelerate the growth by getting customers on-boarded quicker?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

It's absolutely on the install side, right? That's where we're currently—we're scaling up as fast as we can, but as you know, there's a short—there's always been a shortage of qualified resources in those areas, so the partnerships with the various integrators are—I'd say sometimes starts with the install side, and then eventually, as they get together—they get a group of people trained and proficient in our platform, then they can start to sell, so it's, again, a nice, virtuous circle, so it's on both sides.

On the k-eCommerce side, we're a bit more mature there. We do have a significant amount of partners that are mostly ERP guys, and k-eCommerce is highly-integrated with SA—with, for example, SAP B1, all of the Microsoft ERPs, and it's often the integrators of these ERPs that bring the customers and do some of the install.

On the Orckestra side, we're starting to build that partnership network.

Nick Agostino – Analyst, Laurentian Bank Securities

Then, lastly, on the e-commerce, you called out—I guess, Unified Commerce, you called out 48 percent year-over-year growth. I believe that your revenue is, in part, subscription and services-based, but also transactional, and that being the case, how much of the growth that you saw year-over-year was from the transactional side?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Gee, I don't know. Paul, if you have an idea, but (inaudible). It's hard to separate, because on the MRR side, we took a—we took off of the MRR some of those extra volumes of transactions that we thought were associated with COVID almost only, but on a total revenue basis, how much is transactional versus new customers? I don't know right now.

Paul, if you have any colour, please comment.

Paul Bourque — Chief Financial Officer, Mediagrif Interactive Technologies, Inc.

I don't. I don't at the moment. Obviously, a lot of the increases was due to the spike into—during the pandemic, for sure, on the grocery. That's where it came from mostly during the quarter.

Nick Agostino – Analyst, Laurentian Bank Securities

Okay. That's all. Thank you.

Operator

Thank you. Next question will be from Andrey Omelchak at LionGuard Capital. Please go ahead.

Andrey Omelchak – Analyst, LionGuard Capital Management, Inc.

Yes. Hi, guys. Luc, Paul, great job on monthly recurring revenue during the quarter. It's very nice to see that you're using a conservative methodology for MRR calculations, so I have two questions.

The first question is a follow-up on Nick's question. What's going to be the on-boarding capacity once the Logic is fully on-boarded, and what other partners you have in place is a target on-boarding capacity you're trying to achieve next year?

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

On the Logic side, I mean it—we already have some people from Logic that are working on certain of our projects, and I would err to say that we probably have a dozen-ish, and we're adding more. There's the on-boarding capacity to do the projects, but there's also the on-boarding of training new guys, which there's a—we can't—we just don't have, ourselves, enough trainers, so we kind of have to go gradually. Hard to say how many people would eventually be dedicated to that. Of course, Logic themselves have their own strategy, and they're not going to put all their eggs in one basket. However, these guys are really focused on e-commerce retail, so the fact that our platform caters so well to e-commerce, I think, is a good sign.

On the other side, we have some very active discussions with already three or four quite larger consulting organizations, and hoping to get those in place. Certainly, on a very regular basis, we'll be adding some, and it's—you need to start, and once you get attention, once you get a bit more out there from a sales perspective, then your consulting organization initially wants to see, well, how much of a pipeline do you have, and since we are investing in sales, we're sort of building that pipeline, which creates interests at the consulting guys, and once they get on board, they start with one customer, then they start to generate some of their own customers, so it's unfortunately a process that's relatively slow.

I wish we could just kick that into a much faster pace, but it does take a bit of time to on-board the folks and to get them up and running in their first project, and be effective, because they need to make some money too. If they don't make money, then they don't continue, so it's a gradual process.

Andrey Omelchak – Analyst, LionGuard Capital Management, Inc.

Okay, great, and the second question I have is on Orckestra pipeline. I know you're doing a large enterprise implementation, and that you commented earlier in response to Amr's question, but where else do you have applied for and how many conversations are there? Are these big potential clients, or a mix of the small and big? Any colour would be much appreciated.

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

No, we have quite a few, and we—I mean, we haven't announced this yet, but I know that we just signed up another new deal in the last week. We're working on getting the authorizations from the

customer to announce. We've hired some people in sales. As I said, we're putting our (audio interference) plans out. Things seem to be going quite well. I don't have a number for you. We don't want to disclose these types of numbers. We have competition that we want to be careful about, also, so—but clearly, there's quite a bit of opportunity there.

Andrey Omelchak – Analyst, LionGuard Capital Management, Inc.

Okay, great, and it's great to see MRR growing so fast. Great job, guys. Thanks.

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Thanks, Andrey.

Paul Bourque — Chief Financial Officer, Mediagrif Interactive Technologies, Inc.

Thank you.

Operator

Thank you. There are no further questions. I will now hand the call back to Mr. Filiatreault.

Luc Filiatreault — President and Chief Executive Officer, Mediagrif Interactive Technologies, Inc.

Well, thank you very much for being with us this morning. As I mentioned, right, we're very excited to see this work.

Personally, this is my third quarter at Mediagrif. I'm super excited about the possibilities and what lies ahead. The team, and I mean the whole team, the 620-some of us today, is really super charged. I have very regular update calls, certainly on a weekly basis, and sometimes more than once a week with the whole team, and one thing the pandemic has taught us is the ability to get online on a group call almost at seconds notice. We're a user of Microsoft products, so we're on Teams, and I can call a meeting with 600 people in the next 10 minutes and it works extremely well. It gives us an ability to have not just myself or Paul pushing and pulling, but to really have 600 people that are marching in the same direction at the same pace, and that is extremely powerful.

If one day one of you would like to participate to one of these calls—I had a comment the other day from, really, one of our Board members, actually, who participated on our group call, and he mentioned to me after the call, he says, Luc, this is extraordinary because even though I was on a screen and remote and alone in my home office, I could literally feel the 600 people's power with the questions and the interaction, etc., so I'm extremely happy to lead this charge, and we're very, very confident in the future, so lots of good things ahead of us.

Thank you all, and we'll speak soon to some of you in the very near future.

Operator

Thank you, Mr. Filiatreault.

Ladies and gentlemen, this concludes today's conference call. You may now disconnect your lines. Thank you for participating, and have a pleasant day.