MDF Commerce Inc

Second Quarter Fiscal 2021 Investor

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PRESENTATION

Operator

Welcome to the MDF Commerce Q2 Fiscal 2021 Investor Conference Call.

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

For questions following the call, you can reach MDF Commerce at the address on their website, www.mdfcommerce.com.

First, here are a couple of housekeeping notices. All participants are in a listen-only mode for the duration of the call. This call is being recorded, and we expect that the recording will be available on MDF Commerce'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, sir.

Luc Filiatreault:

Good morning, everyone, and thanks for joining us at the Q2 Fiscal 2021 Results Call.

We will turn to the results we filed yesterday in a moment, but first I want to take a moment to tell you a bit about MDF Commerce and our state of operations.

MDF Commerce is a developer and operator of digital commerce platforms. Our platforms facilitate billions of dollars of transactions per year of digital commerce for well over 300,000 end user companies, mostly in North America.

The Management team here today joined the Company in the fall of 2019. Since then, we have undertaken to transform MDF Commerce into a high growth SaaS digital commerce company with a potential to dominate key market segments. We undertook to clarify the business, streamline and refocus operations, build a five-year strategic plan, execute on a sales transformation plan and shore up our balance sheet.

You will hear later in these prepared remarks that our revenue streams are beginning to grow substantially. Subsequent to quarter end, we renegotiated and expanded our access to debt facilities to raise $48 million of equity to improve our access to liquidity to currently about $88 million. We have access to adequate resources to fulfill our ambitious five-year growth objective identified in our strategic plan.

As we've noted in our previous conference calls, we are investing in two core growth platforms of our business and are harvesting a third. The first growth platform is Strategic Sourcing. This procurement and tendering platform accounts for approximately 39% of our revenues. We are proud that over 3,500 government and large enterprise buyers rely on our Strategic Sourcing platform to procure and tender from a North America wide network of over 300,000 suppliers.

Our primary strategy for this platform is to consolidate a fragmented market in North America by acquiring assets that improve our geographic reach, expand the platform, and deliver pricing power through cross-selling and up-selling more services.

To that end, subsequent to the conclusion of the quarter, we acquired a regional procurement and tendering provider called Vendor Registry. It adds approximately 5% to our top line revenue, expands our reach to 10 more U.S. states, increases our supplier network by 70,000 and are procuring entities by 400.

The second growth platform is Unified Commerce, which represents approximately 42% of our revenue base. This platform offers end-to-end commerce including supply chain for thousands of midsized and large enterprise customers globally who rely on our technology. We are currently in the process of deploying significant e-commerce roll-outs in the world with major customers, including a first website that was brought in production for OTT HydroMet, which is a wage subsidy, just a few weeks ago, with many more to come, and also with a European based retailer.

These projects are temporarily reducing our gross margins and also reducing the recurring revenue as a percentage of total sales in the Unified Commerce segment, because of the outsized recognition of one-time professional services revenue associated with these major deployments. These projects will extend to multiple quarters but once completed should have meaningful positive impact on recurring revenue going forward.

Our second quarter results indicate that the acceleration shift to e-commerce triggered by the pandemic has generally been sustained and we plan on exploiting this opportunity with future investments in direct sales, channel partnerships and product development. Our systems are highly scalable and are now supporting both B2C and B2B volume increases associated with the second pandemic wave.

Finally, our Marketplaces platform is a collection of online properties that enable everything from wholesale diamond purchasing to job hunting. Collectively, these five online marketplaces account for approximately 17% of total revenue and are slightly declining, but no single property represents more than 3%of total revenue. It is our assessment that incremental investment in these small local online properties would not achieve adequate returns on invested capital. As a result, we do not plan any significant investments for this platform.

I would like now to comment on the state of MDF Commerce as we embark on our growth phase.

We've completed a detailed review of our revenue stream and are pleased to report that recurring revenue grew by 11% to $15.9 million, which equates to approximately 76% of MDF Commerce's total revenues for Q2 fiscal 2021, slightly lower sequentially than the 77% reported in Q1.

As mentioned previously, we expect one-time professional services revenue to be elevated in the short term as we deploy these large contracts that we have recently been awarded.

Within the Strategic Sourcing platform, recurring revenue represents 93% of total revenue, which we believe is close to a maximum annual recurring revenue available to that line of business. Our pipeline of new deployments is growing in this segment, and these new clients are all multiyear services contracts that should not meaningfully impact recurring revenue as a percentage of total or gross margins.

In addition, the recent acquisition of Vendor Registry will not meaningfully impact recurring revenue as a percentage of total revenue or gross margin.

Within the Unified Commerce platform, recurring revenue is approximately 58% of total revenues. Although we are working on multiple partnership programs to give us an ability to scale deployment of our SaaS solution from time to time, the recognition of professional services revenue could reduce our gross margins. However, these deployments are lead indicators for large recurring license deals. Our enterprise e-commerce platform does require effort at the onboarding phase. Notwithstanding, we intend to use our partners' network as much as possible to give us the ability to onboard many more customers simultaneously. For example, we announced a partnership with KPMG at the end of September, which adds significant bandwidth to our commercial and onboarding capabilities. We will be continuing to gradually add more partners in our program over time.

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 k-eCommerce, one of our criteria will be high levels of recurring revenue. It is our objective over time to maximize annual recurring revenue to similar levels as Strategic Sourcing platform while we accelerate growth.

Before I turn it over to Paul to discuss in more detail our Q2 fiscal 2021 financial results, I want to again thank our Board, our Management team, and our dedicated employees for staying strong, effective and safe during these challenging times. We are now well into our growth phase and believe that the best times for our Company lies in the quarters ahead.

Now, Paul, please, would you review the financial results?

Paul Bourque:

Yes. Thank you, Luc, and bonjour a tous. Good morning, everyone, everyone.

I'll go through the highlights of the second quarter of fiscal 2021.

Total revenue for the quarter was $20.8 million. They were up 14% from the $18.2 million reported in Q2 2020. Total recurring revenue was $15.9 million during the quarter, representing 76% of our total revenue, which was stable in comparison to Q1 of 2021. For the Strategic Sourcing platform, recurring revenue represented 93% of total revenue, while Unified Commerce generated 58% recurring revenue as a percentage of total revenue. Exiting Q2 2021, MRR stood at $5.3 million, and that's a 12% increase over the previous Q2 reporting period. That was led by an increase of 37% in Unified Commerce MRR, and 7.5% increase in Strategic Sourcing MRR. This implies annual recurring revenue of $64 million.

The Unified Commerce platform, which includes supply chain management, generated $9.1 million of revenue, and that's a 54% increase over the $5.8 million reported for the previous year quarter. The recurring portion of revenue grew by 37% to $5.3 million, up from $3.9 million reported in the previous year.

Subsequent to the third (phon) in e-commerce activity reported in Q1 2021, e-commerce revenue generally maintained strong growth for this quarter. As noted earlier, the increase in our total revenue for Unified Commerce was positively impacted by the roll-out of e-commerce solutions, as mentioned by Luc.

Strategic Sourcing platform generated $8 million of revenue for the quarter, and that's a 5.4% increase over the $7.5 million reported for the previous year, and 3.9% growth sequentially from Q1 2021. Recurring portion of Strat Sourcing revenue grew by 6.4% to $7.5 million over the $7 million reported for the previous year quarter. Organic growth strengthened this quarter due to improvements in MERX interface and also to the addition of the resources (inaudible) sales and marketing in general.

Marketplaces platform contributed $3.7 million of revenue compared to $4.7 million reported for the previous quarter. Marketplaces are comprised of platforms where the Company's focused on maximizing cash contribution. As a percentage of total, Marketplaces' revenue declined from 25.8% to 17.7% in Q2 2020. As revenue scales in Strat Sourcing and Unified Commerce, Marketplaces' revenue will continue to become less impactful on the future performance of the Company.

Gross margins for the quarter stood at 67% compared to 74% reported for Q2 2020. The decline in gross margin is associated with service mix and to the lower margin professional service revenue recognized for the deployment of the project noted earlier in Unified Commerce. We anticipate that gross margins will remain compressed temporarily until the ongoing project in e-commerce are delivered.

Now to the EBITDA. Adjusted EBITDA for the quarter was $2.3 million, and that compares to $3.7 million reported for Q2 2020. Adjusted EBITDA in this quarter includes a net amount of $1.2 million of wage subsidy as part of the Federal Government's Assistance program in the context of the COVID-19. Total Adjusted EBITDA declined year-over-year primarily due to increased investment in sales and marketing, product development, and also research and development, all to support the five-year transformation plan.

Operating loss for the quarter was $0.1 million in comparison to $2.0 million operating profit reported for Q2 2020. The decline in operating profits, similar to the Adjusted EBITDA, was impacted again by the increased investment in order to fulfill the five-year transformation plan. On a per share basis, total net loss for the quarter was reported at $0.04 a share, compared to a net income of $0.12 a share reported last year for the same quarter.

On a year-to-date now, total revenue was $41.3 million, a 7.4% increase over the $38.4 million reported last year over the same period. For the first half of this fiscal year, total Adjusted EBITDA was $4.1 million compared to $7.9 million for the first half last year. This decrease was due to divestitures in our fiscal Q1 of 2020 and also to increased investment again in sales and marketing and also in research and development.

And with that, I'll turn it over to Luc to discuss performance and outlook.

Luc Filiatreault:

Thanks, Paul.

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

During the quarter, approximately 6,000 suppliers were added to the Strat Sourcing platform, along with 66 new active procuring entities; approximately 161 SMEs and 2 enterprise level mandates were added to the Unified Commerce platform. Total deferred revenue, which we use as a proxy for software-as-a-service booking, increased 32% to $18.1 million in Q2 2021, over $13.8 million reported for Q2 2020.

The needles are pointing in the right direction for growth in monthly recurring revenue. As with the previous quarter, a majority of the growth occurred in the Unified Commerce, partially influenced by COVID-19 volumes, but now also more impacted by our own expanded sales and marketing efforts. Strategic Sourcing grew a bit more modestly at approximately 6%, but the growth trajectory more than doubled sequentially from Q1 2021. The upward bend in the trajectory is led in part by our redesign of MERX but also by a new focus on sales activity. As we acquire and integrate companies like Vendor Registry, more opportunities for cross-selling and up-selling should help to further accelerate the growth trajectory in future reporting periods.

Based on growing pipeline, Management believes that much of the shift in preference towards digital commerce caused by the COVID-19 pandemic will be permanent. This is reflected in the growth trajectories reported this quarter, and we plan to exploit the market trends to accelerate growth of recurring for the two core platforms of Unified Commerce and Strat Sourcing in the future.

Finally, I'd like to leave you with two key take-aways that I think summarize our transformation to date.

First, we have executed. We have shored up our liquidity, made a strategic acquisition to expand our U.S. presence while also increasing deferred revenue. We have added major enterprise clients in both Strategic Sourcing and in Unified Commerce and our pipeline of new deals is growing everyday. On top of that, we are deploying a significant e-commerce project right now. By all measures, and even as the stock has accreted in value, MDF Commerce remains dramatically undervalued in comparison to close peers, like SPS Commerce, and more recently, BigCommerce. So it is a great opportunity for investors looking for value.

Finally, I would say that the entire MDF team worked really hard over the last 12 months to get us to where we are now. So we are determined not to squander the opportunities in front of us.

And with that, I'd like to hand over to the Operator for questions.

Operator:

Thank you, Mr. Filiatreault. We will now open the line for questions. Should you have a question, please press the star, followed by the one on your touch-tone phone. You will hear a three-tone prompt acknowledging your request. If you are using a speakerphone, please lift the handset before pressing any keys.

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

Amr Ezzat:

Good morning. Thanks for taking my question. My first couple of questions are on sales. It looks like Unified Commerce is flat from last quarter, and I'd like to delve into the dynamics there. You generate revenues partly on a number of transactions. So is that flat revenue quarter-on-quarter number reflective of a decrease in the number of transactions from last quarter and an increase of new clients? Is that a fair way to look at it? Then can you give us more colour as to how much the number of transactions go down quarter-on-quarter?

Luc Filiatreault:

Thanks, Amr, for pointing this out. As we all know, in April—for a good portions of March, April and May, this spring, was a hammer down on multiple areas in the world and effectively since we're quite present in the food business, we saw a gigantic increase in number of transactions with certain of our customers and I would guess to say that the total amount from, let's say, January to April, probably went up something like 10x, maybe even 12x. As the constraints and the confinement measures relaxed over the summer, the number of transactions did come down. It probably still is at about 2.5 to 3 times what it was in January, for example, before the pandemic hit, but it clearly came down as people sort of started to live a bit more normally again.

We have recently seen a bit more pickup as there are more restrictions, especially in Europe, although less so in North America. But the reason the revenue remained flat even with the significant decrease in number of transactions, is due to the fact that we've acquired multiple new customers that have paid off. We should see benefits of all these new sites that we've put up in the last few months start to really make a difference in terms of recurring revenue just about now. And we're obviously continuing to add new customers to the network. The fact that we now have three partners, I mentioned KPMG, Logic, we signed up Hessa (phon)—Innovate, also, I'm sorry. We now can accelerate the implementation of our websites, which will again help grow the number of recurring revenue from the usage of our platforms.

Does that answer your question, Amr?

Amr Ezzat:

Yes, that's actually very good colour. Maybe if we stick to that. I mean, when I'm thinking about the pace of onboarding clients, you've mentioned in the past a large contract win in Europe for Orckestra, I believe, a multi-location, multi-country closure (phon). How is that onboarding process going? Is it contributing a lot to the revenues this quarter or are we still didn't see the bulk of that?

Luc Filiatreault:

That contract is going very well. We're constantly adding new points of sales. However, it is clearly not completed and you're not yet seeing a lot of recurring revenue. We're actually still in the process of onboarding and there's quite a significant amount of professional services that is being recognized during the quarter. And our margins on that are certainly not as good as the margins on software, obviously, and we have not yet been able to transfer these onboarding deals to our newly signed partners. They'll be coming on board for more of the new contracts to come.

Amr Ezzat:

Fantastic. Sticking to Unified Commerce, I think a couple of quarters now that it's sort of soft on the EDI front. Can you give us more colour as to what is driving that and the expectations over the next couple of quarters?

Luc Filiatreault:

We're actually, I'd say positively encouraged by what's happening in our supply chain groups. As we had anticipated, a pretty steep lowering of transactions as a lot of our customers are in the general merchandise and apparel. However, it's been, yes, relatively flat, but certainly has not come down to various points where we thought it could have.

So, we are adding customers, we're adding suppliers to these networks constantly, but the number of transactions there is probably not as high. There just is probably a little bit less consumption of these generally non-essential goods. I guess that's a reflection of the general state of the economy. People just don't buy as many pairs of shoes that they used to. And handbags. Ladies' handbags, I have to say, were very, very popular at some point.

Amr Ezzat:

Okay. That's good colour. I've got a couple of questions on your acquisition of Vendor Registry. First, what's the big picture integration plan? I know there's some overlapping presence in some states. I thought I heard you say that there's eventually some sort of integration. Are you going to run two separate platforms for a little while? Then when you do integrate which platform would you keep? Do they have capabilities that you don't? Do they have a CLM part of their offering or are you going to cross-sell your CLM? A bit of colour on integration, I guess, would be helpful.

Luc Filiatreault:

Sure. We have a very fast paced and tight integration plan. We feel that we should take roughly six months. So two quarters to complete the integration. The goal is to migrate both the suppliers and the buyers to our networks in the U.S. so that way we can offer even more purchasing power to the various buyers that we already have, and also offer more opportunities to the sellers.

So we are definitely creating some strong synergies with that integration, and we feel that come March, April next year that should be completed and that acquisition will already be accretive to our bottom line.

Amr Ezzat:

Sorry, did you guys mention whether they're profitable or not? Are you guys discussing that publicly or?

Luc Filiatreault:

No, we are not disclosing details of that.

Amr Ezzat:

Okay. Then maybe one last one and I'll jump back in the queue. Again, on Vendor Registry, I'm trying to understand how their business model and pricing scheme differs from you guys. You guys mentioned that it's 70,000 suppliers. So that's a 30% increase for what you guys had, but it seems like it's a premium model, from my understanding. So, how many of these suppliers are paying customers and are you looking to change that model at all or?

Luc Filiatreault:

It's one of the synergy points that we're expecting to really change. Because of the way we have set up our networks in the U.S., we feel we will have the ability to heavily increase the number of paid suppliers versus the free suppliers. And also, as we will be offering many more opportunities, like we said, these guys are connected to approximately 400 buyers. We will now offer the ability to these suppliers to be connected to roughly 3,500 buyers, so, obviously, increasing heavily the value for these suppliers. So that's going to come into play in that integration model. So we feel that we have an opportunity to significantly increase the numbers from the contribution of the Vendor Registry customers.

Amr Ezzat:

Great. I'll jump back in the queue. Thanks for answering my questions.

Operator:

Thank you. The next question comes from Jerome Dubreuil at Desjardin. Please go ahead.

Jerome Dubreuil:

Yes. Thank you. Bonjour. Thanks for taking my questions. On margins, we know the Company's in transition right now and you set a much higher goal for margins after transition. Can you maybe discuss the specific costs that you expect could run up shortly? I guess the Company name change is an example. But what would be the other short-term costs?

Paul Bourque:

Merci, Jerome. Well, certainly, yes, the change of name was a significant amount of cost during the quarter. We're continuing to increase our capabilities. As I mentioned in Unified Commerce, we're in the process of launching two major worldwide customers, so we need to continue to invest in our ability to support such large customers. And we're, unfortunately, not yet seeing the benefits of the complete operational revenue that will come pretty shortly. We have completed most of our investments in sales and marketing.

We're obviously continuing to maintain the sales and marketing efforts. When I look at comparing, for example, how much we invest in sales and marketing versus our competitors, we're still very, very low on the chart. If you look at certain of our competitors that recently IPO'd, they've spent up to 55%—I think it's 47%, to be precise, of their revenue in sales and marketing. We're just around 17%, 18%. And I'm not suggesting by any means that we would go to 50%, but we certainly need to maintain that.

So, that's the situation on margins. And as we mentioned also, the large amount of professional services that we're currently doing to onboard these very large customers, is obviously hampering margins down.

Jerome Dubreuil:

Great. Then moving on to Strategic Sourcing. We saw the Newfoundland government deal. How would you qualify the state of government tendering platforms? And in North America I think that can be a competitor for you. How would you say technology is on government platform right now and are you having more discussions with other governments at this time?

Luc Filiatreault:

In Canada, most of these governments use the MERX platform, which we released a major upgrade, I think it was in May of this year, and we're continuing to make that platform better. I think it was in Q1 that we actually won a pretty significant contract in the U.K. with the National Health Service that chose our platform over some 60 others and they had gone through a worldwide bid to pick the best possible platform.

So, I think that from a technology basis, we've somewhat caught up. I have to be honest, we kept MERX in a very steady state for very, very long, but we are now in a position where we're offering some of the smarter procurement and tendering functions along with the CLM.

So, I think, again, the focus that we've put on sales and marketing recently show that the increase that we're having, especially in the U.S., is significantly. In Canada, we saw the MERX numbers start to grow back almost immediately after we relaunched the new platform, which was, I'd say, severely delayed in terms of its interface, its registration process, and the mobile functionality that at the time was not supported.

So I think we're in good shape now where we just need to continue to execute.

Jerome Dubreuil:

Great. Thank you.

Paul Bourque:

Thank you, Jerome. Merci beaucoup.

Operator:

Thank you. Ladies and gentlemen, as a reminder, if you have any questions, please press star, one.

Next question comes from Deepak Kaushal at Stifel GMP. Please go ahead.

Deepak Kaushal:

Hi, good morning, Luc and Paul. Thanks for taking my questions. I've got a couple of follow-ups. I wanted to start with Vendor Registry. I believe you mentioned that you have growth expectations for business of 30%. What's driving that growth and what are you seeing in general for growth in the quarter in the U.S. market for Strategic Sourcing?

Luc Filiatreault:

There's been an acceleration of buying technology, or buying platforms on technologies such as ours pretty much everywhere throughout the U.S., which was in part caused by many slowdowns during the pandemic, where old methods of procurement, using FAX and even mail, were just no longer working as people weren't showing up to their offices. So, there was a rush to get on platforms such as ours and we've certainly benefited from this, and generally, the penetration of electronic platforms in government is still fairly low, and we are accelerating our sales effort. We mentioned today, we've added 6,000 suppliers in the last quarter and some 60 or 65 buying organizations. Understand that that turns into revenue, very highly recurring, high margin revenue. It just takes a bit of time because it's not a large amount per supplier, but since the number of suppliers is fairly high, once things are onboarded, while the revenue starts to kick up and it makes a big difference.

Deepak Kaushal:

Okay, got it. And are you still seeing double-digit growth in the U.S. market for that business?

Luc Filiatreault:

Yes, definitely. I think we saw—Paul, was it 16%...

Paul Bourque:

Yes, 15%, 16%...

Luc Filiatreault:

Fifteen, sixteen percent in the U.S. market.

Paul Bourque:

Under the...

Luc Filiatreault:

Much faster growth than in Canada, where in Canada we're quite a bit more dominant in terms of government strategic sourcing. So the growth there comes from more consumption. There's not that much more white space we could capture in Canada. There always is a little bit, but not as much as in the U.S.

Deepak Kaushal:

Okay. And then I think when you acquired Vendor Registry you mentioned about a hundred of their agencies, buying agencies were using SaaS software modules. Can you elaborate under what that software is and what the cross-selling opportunity is? Does it overlap with your CLM business, or how should we think of that?

Luc Filiatreault:

I'm not sure I have an answer for you at this point. I'd have to relook at it because—as far as I know they don't have a CLM offering. They really have the very classic procurement tendering function, which is very similar to what business does. They have a bit of different model in terms of producing the content. They buy a lot more content than we do. We produce our own content. So that's one part where we're planning on increasing margins. But I'd have to look back at that SaaS platform. I'm sorry I don't have an answer for that.

Deepak Kaushal:

Okay. And then in terms of—shifting to e-commerce or Unified Commerce, you talked about the European retailer for a while and how big they are. Are you able or willing at this stage to offer a sense of the financial impact of this deal and what we might expect in terms of either on a qualitative or a quantitative basis what could this add to the base of like $30 million for Unified Commerce?

Luc Filiatreault:

Unfortunately, this client is very strict on information, and we are not at this point allowed to discuss or even disclose their name. So, I can tell you it's going to be a major contribution. It's a retailer that's very, very large, and we're really scrambling to get them on our network and we should start to see some significant growth probably in the next quarter it will be already somewhat meaningful. But give it another two or three quarters that it'll be very significant.

Deepak Kaushal:

Okay. And then when I think about that expertise you have particularly in grocery store supply chain and cold chain, are you thinking at this stage of opportunities in terms of vaccine distribution? I know that's a hot topic these days in the press, and cold chain is a big requirement there. How's that specialty differentiate yourself in the market and what other opportunities can it derive?

Luc Filiatreault:

It heavily depends on the structure of the client. Some clients offer a very centralized purchasing or store, where it's all the same products, it's all the same things and those models are easily centralized because the same goods are being shipped to all of the customers. The expertise that we've developed is the ability to have both a very central database-driven program, which is obviously connected to all of the other systems of the head office, but we have a very strong ability to localize, to intake different product sets at the local level.

We have the ability to work with planograms at the local level to enable an optimal picking and packing system. And for the types of customers that we cater to, where they often have a mix of franchise and corporate stores, that's the model that works best. We do see, obviously, some significant press around highly centralized models for very repeatable products and orders, and on that end, these guys will offer robotics and things like that, which at least for now we have our hands full with the current not only customers that we have but the pipeline that we have, for which the robot types of solutions just would not work, given their, I'd say, their business culture.

Deepak Kaushal:

Okay. Okay, that makes sense. Hopefully we'll learn more about that over time as you add more customers. And then I just wanted to go back to the HydroMet upgrade. I think you mentioned that this is the first multisite deployment that you're doing. Can you give us some more colour on how this is different and what does the pipeline look like for similar types of opportunities here for that business?

Luc Filiatreault:

That one's a B2B site and it's a subsidiary of a large corporation called Anahert (phon) and we are in the process of building up their complete web architecture and implementing various web properties or various products. The plan is unrolling over a multiyear program and we're going to be adding various properties on the platform on a regular basis. That one was the first one.

And there are some significant differences in a B2B approach from a B2C approach. Payment, for example, is significantly different because it's paid usually more by purchase orders and bank transfers, then it's almost never paid by credit cards. There's got to be a direct connection with the customer buying and the selling so that these payment methods are validated and approved. Delivery is often on multiple sites. There's a notion of continuous delivery where certain products that are delivered on some sort of a schedule, or a real-time schedule—or a just-in-time schedule, sorry, and we've developed all of that functionality over the last few quarters for that client and are now just in that scaling mode.

So, again, it's one where we should start to see some gains in software revenue, which will, hopefully, soon trump the professional services revenue from the particularities of that development.

Deepak Kaushal:

Okay, excellent. Well, thank you for taking my questions. I appreciate the thoughtful answers. See you.

Luc Filiatreault:

Thanks, Deepak.

Operator:

Thank you. The next question comes from Richard Tse at National Bank Financial. Please go ahead.

Richard Tse:

Yes, thank you. As you look forward to the next two years, I'm kind of curious as to what are your thoughts around acquisition relative to organic growth - meaning that you've got this target, and of that target, what proportion of that growth rate narrative do you think is going to come from either of these sort of drivers here?

Luc Filiatreault:

Hey. Thanks, Richard. That's a great question. In our strat plan, we identified that we wanted to get at this famous 40 rule, where a combination of profitability and growth should be above 40, and that's sort of what is going to be the guiding principles of how we see how much acquisition will be needed to drive that number. So, depending on the markets, we will use more or less of acquisitions, both from, I'd say, opportunistically, for example, acquiring in e-commerce or Unified Commerce right now, the multiples are just unattainable, at least for us while we're trading at those levels.

So, clearly, we don't see a need to acquire in Unified Commerce, and we also we're growing very, very fast organically, and we reported some 50% this quarter. So, no big need to acquire in Unified Commerce for probably the next year, maybe two years.

In Strat Sourcing, however, what we see there is the opportunity to really consolidate and become the dominant player, hopefully, in the U.S., and possibly even in Europe. We've made some inroads in the U.K. with NHS and that could be an interesting platform there to set foot and start to do some strategic sourcing. That business by definition grows a little bit slower just because of the dynamics of it. So we'll be using a bit more M&A in that sector. The multiples are way more reasonable, and the companies are typically generally small.

So the success there will come from a super tight integration plan where we can—right now, Vendor Registry is our first, we had obviously did an acquisition back about a year ago with k-eCommerce that we have integrated but we've perfected our integration plan and the intent is to try to become really some kind of a sausage (phon) machine in that integration and that should create a significant amount of value both on the margin and on the growth side.

So, sorry for the longwinded answer, but it's a mixed bag. We have this split personality, right, Strat Sourcing and Unified Commerce, so it's like the Mini-Wheats, right, it's the sugar and the wheat side anyway.

Richard Tse:

Okay. Thanks, that's helpful. And then in regards to sort of the pipeline coverage, I was wondering if you could maybe sort of walk us through the order of magnitude of coverage from Unified Commerce to endpoint (phon) as well as the Strat Sourcing relative to what it was maybe at the beginning of this year, because it clearly sounds like you've got a bit of momentum there.

Luc Filiatreault:

Yes, I'm not sure, do you mean the pipeline of sales and marketing?

Richard Tse:

No, in terms of a typical sales coverage pipeline, the opportunity in both of those segments. Is it sort of two or three times for a typical coverage ratio? I'm just kind of looking at the trend from the beginning of the year how that's been going from a trajectory standpoint.

Luc Filiatreault:

Well, if you look, we acquired about, I think it was 66 new buying organizations in the quarter. I don't have in front of me how much it was in Q1. But we're definitely accelerating. I'm thinking of how it was when I joined and we were acquiring a handful of customers per quarter. It was really small. So, I'm sorry I don't have a precise answer for you. I'd have to look up in our CRMs and try to get back to you with something. I probably feel just from instinct that our capacity to sell is probably, I'd say, five times, maybe four, five times what it was a year ago in Strat Sourcing.

In e-commerce, on the SMB side, it's always been fairly good with K Commerce. We didn't need to increase that materially. However, on the—what you certainly knew at Orckestra, we now have way more opportunities in front of us than we ever had. I remember that, again, when I joined we had one half of a person dedicated to opportunities in, call it, enterprise grade e-commerce platform, and I think when I joined it was one deal that was potentially in the pipeline that never materialized. Just by the way.

Today, we're probably looking into 70, 80 potential new significant sized contracts and we have a much better firepower in terms of our ability to capture these customers. We have some really good references. We have had some very successful deployments. So that really creates an acceleration. We were able to sign up partners - KPMG, Logic, and Innovate in the U.S. for the Microsoft ERPs - and that should also help not only give us ability to implement but these guys are also commercializing and they're introducing us to some of their customer base.

So, big network important there that we unfortunately haven't seen yet that much results, but that all lies ahead.

Richard Tse:

Okay. And just one last one for me. I know that you sort of have a facility now. I'm just kind of curious to see, in your view, what level of leverage ratio would you feel most comfortable with here as part of pursuing acquisitions?

Luc Filiatreault:

Well, that's why we changed our credit facility to an MRR facility because, as mentioned, we do need to renovate certain of our infrastructure, etc., and the leverage ratios that we could have needed to execute on the growth plan would have not been sustained.

So, today, with the money that we raised, it's really no longer much of a question and we think we have enough certainly for some time to execute on that strategy without going into any meaningful leverage. We are EBITDA positive. We certainly intend to remain that way even though margins might be compressed a bit because of these professional services deals. But I don't see us going in deep into a highly leveraged situation.

Richard Tse:

Okay. All right. Appreciate that. Thank you.

Luc Filiatreault:

Thanks, Richard. Good to talk to you.

Operator:

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

Luc Filiatreault:

Well, thank you, Joanna. Thank you, everyone, for your questions and your insights. So, obviously, you can find a lot more info on our website. You're welcome to call us if you should need any clarifications at any time. Thank you all for your time, and have a great rest of day.

Paul Bourque:

Thank you.

Luc Filiatreault:

Merci tout le monde.

Operator:

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