mdf commerce inc.(Q4 2021 results)

June 10, 2021

Corporate Speakers:

- Luc Filiatreault; President and Chief Excutive Officer; mdf commerce
- Deborah Dumoulin; Chief Financial Officer; mdf commerce

Participants:

- Unidentified Participant; Analyst; Laurentian Bank
- Unidentified Participant; Analyst; Unknown Company
- Ben Franklin; Analyst; Rural States Capital
- Unidentified Participant; Analyst; National Bank Financial

PRESENTATION

Operator^ Ladies and Gentlemen, this is the operator. Today's conference schedule to begin momentarily. Until that time, your line will remain on music hold. Thank you for your patience.

Thank you for standing by. This is the conference operator. Welcome to the mdf Commerce Q4 Fiscal 2021 Investor Conference Call. Today's call will provide information and commentary on the cooperation with a focus on the financial results released yesterday after the market close.

We will hear from Luc Filiatreault, President and Chief Executive Officer, and Deborah Dumoulin, Chief Financial Officer. If you have questions following the call, you can reach mdf Commerce at the address of their website, www.mdfcommerce.com.

First, here are a couple of housekeeping notices. All participants are in listen-only mode for the duration of the call. Call is being recorded and we expect the recording to be available on the mdf commerce website later today.

The information and today's remarks including any fore-looking statements have been prepared as of June 9th, 2021 unless otherwise indicated. mdf Commerce assumes no obligation to update or revise the fore-looking statements to reflect any new events or circumstances, except it may be required pursuant to securities law.

We remind you that today's fore-looking statements are subject to important risks and uncertainties. For more information on these risks and uncertainties, please see the reader advisory at the bottom of the mdf news release, which is on their website, and which has been filed on [Cedar]. The corporation's actual performance could differ materially from those statements.

The corporation presents non-IFRS financial performance managers and key performance indicators to assess operating performance. The corporations presents adjusted profit loss, adjusted profit loss per share, net profit loss before interests, taxes, depreciations, and amortization EBITDA, and adjusted EBITDA as non-IFRS measures and mostly recurring revenues as a key performance indicator.

These non-IFRS measures and key performance indicators do not as [improvise meetings] IFRS measures and key performance indicators are unlikely to be comparable to similar designated measures reported by other corporations.

The attendees on this call are cautioned that these measures are being reported in order to complement and not replace the analysis of financial results in accordance with IFRS management, uses both measures that comply with IFRS and non-IFRS measures in planning or seeing or assessing corporations' performance.

The terms and definitions associated with non-IFRS measures as well as [refacilation] to the most comparable IFRS measures and key performance indicators are presented in the section, non-IFRS financial measures and key performance indicators in the company's management discussions and analysis for the fourth quarter of the year ended March 31st 2021.

In the fourth quarter of fiscal 2021, the corporation amended the definition of adjusted [EBTRIA] and comparative figures have been reclassified to conform with the current period presentation. In the company's M&A refer to the section non-IFRS financial measures and key performance indicators. I will now hand the call over to Mr. Filiatreault, please go ahead, sir

Luc Filiatreault^ Good morning everyone and thanks for joining us for our Q4 fiscal 2021 result call. What a year we've had. We will turn to the results we filed yesterday in a moment. But first I want to take a bit of time to tell you about mdf commerce and the state of our operations. Our mission at mdf commerce is to enable the flow of commerce and we do so by developing and providing our commerce technology solutions to our clients.

Our three platforms, unified commerce, strategic sorting, and e-marketplaces empower businesses around the world allowing them to generate billions of dollars in transactions on an annual basis. It includes over 300,000 end user companies mostly in North America. This past year marks the first of our five-year strategic plan that we embarked on a year and a half ago. At the heart of this plan is our transformation into high growth hub-based stacked company.

During an unprecedented global health and economic crisis brought on by the COVID pandemic, we remained focus from delivering on the needs of our clients and creating value for our stakeholders. Our success is driven by our employees and we celebrate their many accomplishments during that first year of our transformational journey.

The management team is confident that our talented team will meet new challenges as we move forward into the second year of our strategic plan. I invite you to turn to slide five, which shows a diagram, a high-level diagram of that strat plan.

The strategic plan was developed to guide the corporation effectively competing in two significant and growing software market that enable the flow of commerce. Unified commerce, which includes e-commerce and supply chain collaboration and strategic sorting.

For Q4 2021, total revenue was 22 million, which represents the growth of 16.5% from the same quarter of year-over-year and annual revenue for fiscal ’21 was 84.7 million, which is up 12.3% over the previous year. It is the highest level of annual growth recorded for any of the past five years.

When we embarked on this strategic plan, the biggest challenge was to join with growth and we’ve accomplished that significantly; and you can also see that that growth is increasing quarter after quarter, so our average is 12.3% but fourth quarter was sixteen, so certainly trending in the right direction.

What is particularly noteworthy is when we look at revenue growth of our strategic focus, namely e-commerce and the US portion of our strategic sourcing, revenue from the e-commerce solution has grown 107%, that’s massive, and our US strat plan sourcing grew by 20.8%. Again, quite massive.

So our global growth is certainly fueled by our strategic initiative but of course, we still have older pieces that are not growing as fast and will discuss this a bit later. Overall, we’ll pleased with all that was accomplished the last year; and we continue to make excellent progress in transforming mdf commerce into high-growth stacked digital company.

So to effectively compete in these two growth markets, our strategy is focused on five transformational pillars; and here is how we’ve progressed in the past 12 months.

The first pillar was to unite in becoming a single-stacked company. Over the past year, we have rebranded, we have elevated our profile. Look at how many press releases we’ve published in the last 12 months compared to the last five years.

We’ve greatly simplified and unified how we present our solutions. We’ve revised our brand architecture. It is now uniform. Our internal services are technologies, our reporting, and our planning have also been realigned to favor operational unity and efficiency.

The second pillar is accelerating product developments and adding innovation. We did this by adding new senior products strategists, IT resources, and have considerable impact on accelerating our development cycles, strengthening our product innovation, and further monetizing existing assets.

All these improvements have been extremely well-received by our customers. We have new versions of our e-commerce solutions as well as multiple innovations in our strategic sourcing platforms, which helps explain the growth. mdf commerce remains committed in investing in product development that maintains our competitive edge and improves our ability to convert our pipeline.

Thirdly, it was the scaling of customer acquisitions. Considerable efforts were put into developing our sales resources and processes. New sales leadership, on going sales training, the past year, we've won major accounts such as Aldi, Indigo, Train Co., The Canning Loop, the government of Newfoundland and Labrador, among others.

We've ordered over 92,000 suppliers for strategic sourcing and approximately 600 SMDs to our unified commerce solutions. Sales leadership dedicated to our high-growth platform is driving the implementation of our organic growth plan, which focused on further strengthening our sales culture and leveraging crop selling opportunities between our different platforms.

Our third pillar is ongoing merges and acquisitions and integration, which is a key element to our transformational plan. Our acquisition strategy revolves around specific goals of our expanding our geographic footprint and strengthening our product offering.

We entered fiscal 2021 just having completed the integration of e-commerce, and have since acquired and integrated vendor registry. We've added 70,000 new suppliers, 400 buying agencies, and increased our coverage to 14 additional states in the US. These are two very good examples of executing our strategy.

Strengthening our product offerings for unified commerce and expanding our geographical reach for strat sourcing with the end goal of further consolidating a very fragmented market. Looking ahead, our enemy roadmap is robust. We have targets for both unified commerce and strategic sourcing in our pipeline that we will be executing on.

And last but not least, it's actually probably the most important one, cultivating the culture power and productivity. As a software company, the main driver of our success is our people, their talents and our culture. Over the past year, considerable efforts have been made to bring life to a set of values that empower our teams to innovate, accelerate sales effort, ensure better operational efficiency, better governance, diversity, inclusive.

As a tech source, Crunch intensifies in Canada and internationally, we've implemented multiple strategies and contains across Canada, in the US, and parts of Europe to source the new talent required to support our accelerating growth trajectory. This is just anecdotal, but our hyperlocal recruiting campaign, and our partnership in Ukraine, I was informed earlier this morning that we've actually recruited our first two candidates from these campaigns.

It's starting to work. As we exit fiscal 2021, it's the fastest growth trajectory experienced by mdf commerce in several years. Management has identified a few foundational elements that needs in order to be addressed in order to scale more efficiently in the future. Accelerated growth revealed that there are opportunities to improve efficiencies and margins by upgrading some technologies in key area as we increase the number of large employment.

It has required us to invest in call transformation, to improve metrics such as usage, transaction volume, as it increases in our e-commerce solutions. At the end of year one, one of the most exciting aspects of our efforts is the marked growth acceleration in our area of strategic focus: e-commerce, US-based strategic sourcing.

As I mentioned earlier, we believe these results are a good indicator of the potential growth strategy. Not only did we transform our operations, but we also strengthened our leadership team. We added three new members to our board of Directors. [Christian] from California, [name] well-known in Quebec in Canada, and more recently, [Marian Delle], a great leader.

With all the leaders, we also added to the management team, our Chief Financial Officer, Deborah, our new Chief Legal Officer, [Niccolo], our new VP of Human Resources, [name], as well as strengthening our team in e-commerce. It's been an extraordinary year. And with this, I will turn over the call to Deborah to discuss our Q4 and fiscal 2021 financial results.

Deborah Dumoulin^ Thanks Luc. You could turn to slide six where I'll start with the annual fiscal '21 results. Total revenue as mentioned was 84.7 million that compares to 75 million reported in the previous year, an annual growth rate of 12.3% and as Luc mentioned, the highest level of annual growth reported in the last five years.

We look at our revenues under three strategic platforms. Unified commerce represents 44% of our revenue, strategic sourcing, 39% and e-marketplaces at seventeen. Unified commerce platform, which includes our supply chain collaboration and our e-commerce solution, generated 37.3 million for fiscal 2021, an increase of eleven, almost $12 million at 47% compared to our revenues of the previous year at 25.5 million.

The strategic sourcing platform generated 32.7 million, an increase 7.8 compared to the 30.3 in the previous year. When we look at our e-market places platform, it generated 14.7 million for fiscal '21. That's down 25.3 compared to revenues of the previous year of 19.7. If we focus on our two growth platforms, the unified commerce, which we saw the growth 47% year-over-over, and specifically our US-based strategic sourcing.

These are the areas we see the highest growth potential. First, for unified commerce which includes our again, supply chain, and our e-commerce solution. On the e-commerce lever, we have two solutions. Orckestra, which is our larger enterprise solution and it contributed 7.1 million of the year-over-year increase.

And the increase in Orckestra solution, it's really around organic growth, new clients, and increased transaction-based revenues year-over-year. In e-commerce, which we acquired in December 2019, we strengthened our e-commerce solution offering and it contributed 5.4 million to the year-over-year increase in revenue.

Combined the two e-commerce solutions, generated a year-over-year revenue growth of impressive 107%. Our e-commerce solutions, often generate professional services revenue primarily from implementation services and large deployment contract. Either typically our lower margin revenue streams, the lower margin number recurring revenue from right of use licensing of our typical size revenue.

We introduced the partner strategies to decrease our focus on implementation services in favor of focusing on higher margin size revenue. In our supply chain collaboration, we saw a decrease in year-over-year revenue of 5-6 million.

This is mainly around certain retailers, which were negatively impacted due to the COVID-19 pandemic, and this is really a lower volume business, lower transactions and volumes that are driving that business down year-over-year.

If we turn to strategic sourcing, this is the solution where the public sector, which is at the heart of the value proposition and represents some of our highest quality and most efficient revenue stream.

This year, it was in the US-based strategic sourcing solution that we saw the highest year-over-year growth and that was 20.8%. The acquisition of vendor registry in fiscal '21 broadens our strategic sourcing and geography.

We believe that the US-based government infrastructure spending will provide us a wonderful opportunity for pipeline growth and conversion. Turning to the e-market platform where we saw revenue for the year, 14.7, and an overall decrease of 25.3%.

Here, this is a marketplace which has many, different types of business and we still have the pandemic that negatively impacts the e-marketplace solution; typically in areas such as automotive parts like our carriage business, electronic components which is our broker forum, and of course, diamonds and jewelry in polygon.

And even in jobboom, in the early days of the year, where we saw online recruitment slow down. Ironically, we'll discuss in a few minutes the global job market and related recruitment activity has completely turned around as we exit 2021 and we're seeing unforeseen demand for top tech talents.

Overall, we expect the e-market phase revenue will continue to have less impact on the corporation in the future as we focus on higher growth solution namely the strategic sourcing and unified commerce platform. If you turn to slide 7, sorry, just before that, I have covered the year-over-year results in terms of net loss for the year with 7.6 and that represents 38 cents per share, and we adjusted EBITDA for the year with 5.7 million, and that compares to 10.3 of the full year, last year.

We mentioned in the early part of the call that we did amend our definition of adjusted EBITDA to accept for acquisition cost and restructuring costs. And we exclude these [having trouble] because we don't believe that they represent our core business, and we adjust them so that periods will be comparative from one to the other.

Overall, adjusted EBITDA declined year-over-over due to increased foundational investments and operation, sales and marketing, R&D, and professional services that support our implementation in strategic initiatives and our overall transformation plan. Foundational investments are expected to improve salability and efficiency over time.

Now we can turn to slide 7 for the Q4 2021 result, so the revenue is 22 million, again representing nice growth quarter-over-quarter at 16.5% and that's from 18.9 in the previous year. The corporation unified commerce, strategic sourcing saw again the highest growth in the fourth quarter, while e-marketplaces was stable or declining in some of the marketplaces quarter-over-quarter.

In unified commerce platform, where we saw 9.7 million that represents growth of 29.5%, and again in the e-commerce solution, that part of Orckestra and our k-ecommerce, we saw an increase of revenue of 2.4 million together, compared to the same quarter of fiscal 2020.

K-ecommerce, which was acquired by the corporation in December 2019 contributed $2 million in revenues in the fourth quarter compared 1.6 in the quarter before, sorry, the Q4 of the previous year. This increase demand for e-commerce services which accelerated in the context of COVID-19 has resulted in higher right of use revenues, higher professional services revenues, better supporting large customer deployment.

For strategic sourcing, the revenue for the quarter was 8.7 million or at 15.4 over the previous Q4. Revenue increased by 1.4 basically Q4 this year versus Q4 last year. Again, we saw that the corporations US-based solution did net, contributed the majority of the revenue quarter-over-over including appropriations acquisition of vendor registry which was in November 2020.

And again we say that the US-based strategic sourcing solution are really benefit from organic growth, in revenue driven by new buying agencies which driving up and increase the number of paying suppliers and an overall increase in revenue compared to 2020. E-marketplaces, we saw revenues at 3.6 million, a slight decline over the prior year representing 6.7%.

Overall, we see in the e-marketplaces platform slightly negatively impacted by the COVID-19 pandemic as most of the solutions experienced lower memberships or lower transaction volume in their respective industries. Turning our attention to our growth margin, we're about 61% compared to the prior year at 67. The decrease in growth margin percentage mainly due to professional fees revenues that yield lower margins, and it relates to large customer deployment mostly in e-commerce.

We also saw higher costs in hosting and licensing from our cloud-based solutions. We expect the growth margin percentages will remain compressed temporarily until the deployment in e-commerce are delivered. Operating expenses were 16.7 million it compares to 14.9 in fourth quarter of 2020, an increase of about 12%.

The increase in operating expenses is primarily due to higher salaries and expenses due to higher headcount and the cost of labor. Q4 salary expenses were offset by 0.7 million of weight subsidies of the Canadian government, of the Canadian emergency wage subsidy program, and for the year that amount, the subsidy amount was 3.4 million.

Concluding on Q4 with a net loss, which was 2.9 million or 12 cents per share basic and diluted, and this compares to a loss of 6.8 million or 45 cents loss per share, basic and diluted to the same quarter of fiscal 2020. Adjust EBITDA with 200,000 for the fourth quarter of fiscal ’21 compared to 700,000 reported in Q4 2020.

The adjusted EBITDA decline year-over-year is mainly due to increased foundational investments where we saw operations, sales and marketing, R&D, and again, professional services that were required to support the corporation in implementing its strategic initiative transformation plan and large customer deployment.

We believe that as deployment accelerate over the coming quarters, personnel and professional service expenses will remain allocated. And we expect to continue to make foundational investments to improve our scalability as we grow. Margins might continue to be compressed as we make the required investments to improve our scalability. Few words on our balance sheet.

In March of this year, we completed a bought deal offering and raised $80 million of growth proceeds. This was the third bought deal equity financing in fiscal 2021, combined with a new credit facility that’s based on monthly recurring revenue and having paid down our long-term debt in Q3.

We really strengthened our balance sheet and our overall financial position. In March, at the end of March, we had 110 million in cash and cash equivalent from the balance sheet. This capital will allow us to implement the key components of our transformation plan, including our M&A strategy, while remaining focused on maximizing return on invest capital.

As we move in to fiscal 2022, a key challenge is the scarcity of tech challenge. The tech talents and the growing costs of labor. To put things in perspective, adjusted EBITDA which I mentioned was 5.7, it represented margins of 6.8 for the current year, and this compares to 10.3 million adjusted EBITDA and 13% margin for the prior year.

The demand for programmers and developers has accelerated exponentially, reaching unparalleled levels at a time where businesses are seeking to accelerate the digital transformation and their e-commerce capabilities. The competition for resources is global, driving up the cost for tech labor to unforeseen levels.

Over the past fiscal year, the impact of this extraordinary demand for talent has already contributed to the compression of our margin, which may experience fluctuation quarter-over-quarter. As we move forward will be to strike the right balance between managing our salary costs and staying in the race to capitalize on the window of opportunity brought on by this market acceleration.

As the tech resource intensifies in Canada, internationally, we've implemented multiple strategies that contain across Canada, in the US, and also in Europe to help us in our growth trajectory including the expansion of development capabilities in Ukraine, and as Luc mentioned earlier, it's already starting to at least gain some intention and hopefully some success. With that, I turn it over to Luc.

Luc Filiatreault^ Thanks Deborah, so let's go over to slide 8, where trends are really extraordinary because in another quarter, significant progress in building a solid foundation accelerates growth. In the quarter, we added approximately 92,000 suppliers to the strat sourcing platform with hundreds of new, active procuring entities. Approximately 660 SMEs and three enterprise-level mandates that were added to our unified commerce platform.

A great indicator of the potential of our strat plan is a tremendous growth generated by our e-commerce solution in US-based strat sourcing, which is the focus of all of our efforts. Based on our growing sales pipeline, management believes much of the acceleration for e-commerce caused by the COVID-19 pandemic will be permanent.

This is reflected in the growth trajectory that we reported this quarter, and we plan to exploit the market trends to accelerate future growth of recurring revenue. Additionally, with the infrastructure bills on the way, we anticipate an increase in shareable and other public sector agencies pending across North America for the next several years, which will all be done through various procurement processes and platforms as all levels of government.

Our strat sourcing platform, which really is central to public procurement is extremely well-positioned to capitalize on the up-tic in government spending throughout North America. From an M&A, a strong balance sheet allows us to become more aggressive in the execution of our M&A strategy.

Our target pipeline is strong, proposed unified commerce and strat sourcing, and we're actively working towards strategic outcomes very soon. As we exit fiscal 2021, with the fastest growth trajectory experienced by mdf commerce in several years, we have identified a few foundational elements that still need to be addressed in order to scale more efficiently in the future.

Accelerated growth reveals that there are opportunities to improve efficiencies and margins by upgrading technology in certain key areas as we increase the number of these large deployments. I believe that we have never been in a more stronger position, both in terms of market position and financial strength to capitalize on the tremendous opportunities presented to us.

We'd like to thank all of our clients, all of our employees, and all of our shareholders for being part of this amazing transformational journey. And with that, I'll hand over the call back to [Claudia], our operator, to open the line for questions.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions). And your first question comes from Nick from Laurentian Bank.

Unidentified Participant^ Good morning, this is Sylvano [ph] on behalf of Nick Augstino [ph], thank you for taking my questions. So Luc, my first question is, Deborah was talking about in the end, about the tech talent crunch, so there's huge job openings on the tech side, are those job openings to fill new roles or to balance old roles or start differently because of the tight labor market, are you having issues both finding as well as retaining existing employees?

Luc Filiatreault^ Thank you for that question, it certainly is a challenge that seems to be across all the tech sector, we're in touch with many peers and the demand for basically digital experts and programmers has elevated exponentially, I'd say probably starting a little bit before around Christmas.

So the growth that you see in our numbers, obviously requires additional talent, and we still have quite a few job openings, and went outside our usual ways of recruiting in order to fill the positions that we have so we can deliver the various systems to the clients.

We went into, you may have noticed very hyperlocal recruiting campaign where we're targeting specific I would say low density areas around for example in Quebec, around the city of Sherbrooke, and around (Foreign Language).

We've also been very active in the Kitchener-Waterloo area, we've been active in Tennessee where already have a base with vendor registry. And we've recently found a partnership with a company in Ukraine, which is helping us put together a fairly large development center, and I have mentioned anecdotally, we just signed this a week ago, we're already seeing some input of new talent at a reasonable cost.

But it is an unforeseen activity, which we're feeling, those from the new people that we recruit are asking for salaries which are quite, you know, higher than what we would've expected. And even see it in our jobboom platform, which quite interestingly, is itself seeing a level of demand that is beating records from five, six years ago.

So definitely the job market is a challenge that we are undertaking, but we took various solutions to accept it, and I'm confident that we will be able to fill those positions in the appropriate time and be able to deliver on our customers' orders because our pipeline is in absolutely full, and this seems to be the case in many different sectors.

Unidentified Participant^ Okay, that's very helpful. And of course, you just mentioned the partnership in the Ukraine as well, we're seeing that that started to gain some momentum. Are you expecting any potential cost savings as a result from that partnership?

Luc Filiatreault^ Still experimenting a little bit, the cost of resources, as from what we can see is, less than a similar person would cost in North America. With the success that we've been having for the last year, and half of those are working remote, it's really, we expect the same level of productivity, we don't expect any issues and I have mentioned, we've already had a dozen people in Ukraine, and have had them for a long time.

So this isn't completely new to us, we just increased the level of effort and made the conscious decision to look to grow that development center significantly.

Unidentified Participant^ Got it. And my next question is about vendor registry, so was the revenue in the quarter from vendor registry in line with expectation that were set at the time of acquisition?

Luc Filiatreault^ Not only was it in line, but it was better than the business gate that we had just built. We're having an incredible success integrating vendor registry's clients into our global network and that allows us to maintain that very strong organic growth in the US.

If you would look at how it's been, you can almost not distinguish the vendor registry teams from their strat sourcing peers now because we've really integrated the business, not just from a financial perspective but from an operations perspective, a process perspective, and it's going extremely well, and as I've mentioned multiple times before we feel that that strat sourcing market is a highly fragmented market, and we wanted to develop this very strong recipe about integrating additional buying agencies and additional suppliers to our network, which gives us an immense amount of strength.

And with the various stimulus programs that are coming out, those in the US and in Canada, and probably everywhere in the world, we think strat sourcing growth will be very strong, and as Deborah mentioned, it is a highest quality revenue that we have, and it's very, very distributed -- no customer concentration, so we're very, very active on that strat sourcing front.

Deborah Dumoulin^ If I could add, that in that particular strategic sourcing, it's easier to adjust pricing by offering different packages, and so we are benefiting from increase in prices without necessarily just increasing prices. We're doing it through increased functionality and ability to effectively use the platform from a client experience so it's allowed us to increase in pricing, which is helping also.

Unidentified Participant^ Okay, that was very helpful. I'll get back on the line. Thank you.

Operator^ Your next question comes from Ammer Izat [ph] from Epsilon Partners [ph].

Unidentified Participant^ Hello, good morning. Thanks for taking my question. (inaudible) the good surprise of the pace of professional services during the quarter doubling year on year especially with the UK early in the quarter in their lockdown, can you give maybe a bit of an update on the Aldi implementation then as well as maybe give us color on how the first batch of stores for during the quarter?

Luc Filiatreault^ Thanks for that, [ph], so obviously the professional services do some of these large deployments is a, I would say a temporary solution that we had to use because of the tech talent crunch that we were talking about so it's not a permanent thing. We actively got into different recruiting strategies so we hope to have to see this lower gradually over time.

As for the Aldi implementation, things are going very well. We now added significant number stores in Ireland. We're still working with the Aldi folks to optimize the complete operation. As you indicated, the UK was locked down, and locked down is an even weak word. It was completely shut for most of January to March.

And it's created some very good demands to the stores, the number stores that are still active. We would've wanted and Aldi would've wanted to deploy faster, but we still need to make sure that we finish the optimization and the optimization is not just about the actual ordering, and the digital software we provide but it's about the whole operation.

The fact that the stores are in highly-dense population areas, they're typically quite small, some square footage, some very packed and the picking of the articles still requires some optimization. The temporary storage to put the goods while people come and pick it up, or while we have them delivered is sometimes a significant issue that needs to be dealt with.

The availability of labor to do the picking in the stores is something we need to further optimize so we're still experimenting with various strategies before we do the complete rollout. But things are going well, the relationships with the customers' very good.

Our recurring revenue has substantially increased, some of those stores, the demand for online groceries is still very strong, and it hasn't come down any significantly, once UK started to reopen. So things are good. Though I have to be honest, a little slower than we expected.

Deborah Dumoulin^ Right, we did an agreement on Ireland in the quarter.

Luc Filiatreault^ Ireland is now on, you know, they've got their first few stores, and a little bit of optimization and the rollouts that had happen in the second half of the year.

Unidentified Participant^ So are you delaying (inaudible) I guess like rollout plans or do you still feel that you could get to like at a high-level, like you said a thousand stores by year end? Is that still a good estimate?

Luc Filiatreault^ It's certainly the information that we have currently. It's something we obviously do in collaboration with the client, right. Ultimately we have the capacity and you saw that at the third quarter last year, was deployed, within about three months, we've deployed a little over 250 stores successfully, so our capacity to deploy from a key perspective is very fast.

But the logistics and the human impact are significant for the Aldi operations. So it's in collaboration and it has to be timed. We basically put more software in the cloud, it's pretty easy to do. They need to put their feet on the street and acquire and do some construction, hire people, etcetera.

So I think the pace is obviously controlled by our client. And much of it has nothing to do with digital, but some things has a lot to do with operation and getting the goods to do customers, and this isn't a digital product. You can buy groceries online, but somebody needs to handle the product to bring it to consumption. It's not like music, it would be a lot easier.

Unidentified Participant^ I understand, that's good color. (inaudible) I'm just wondering how much is lack of staffing constraining your growth? Can you pick like numbers around, especially when I'm looking at extra (inaudible) Does that serve a peak revenue (inaudible) or how I think about that?

Luc Filiatreault^ You've touched on some key points, [ph], you're very good at reading Aldi stuff. You're right. We could've grown faster in probably in the last couple of quarters if we would've had we call it normal access to recruiting; because of the crunch and we did recruit by the way a little over 200 people during the year which is phenomenal because let's face it, we never could've imagined to recruit that many people without ever seeing them.

We completely have to readapt our processes, but we still have a significant amount of open positions. And there comes a point where with the customers that we are signing, we're adjusting pricing because it's no longer about cost, it's about how fast. And how fast depends on the number of people you can get those implementations done.

And it's not about software, you know, it's not our software per se that requires all that work. It's the integration with all of the other customer systems. We typically sell, I like to make the comparison with some other quite well known e-commerce suppliers in Canada, and most of our customers, even the SME ones, are much, much larger.

And they require integration with their ERPs, with their financial systems, with their warehousing systems, with their inventories, many of them are B2B operations so they have complete different options for various customers and that requires some data input, etcetera— and that requires some people to do.

It pays off significantly in the recurring amount that it generates, but until the app is completely installed, it can almost, it doesn't generate a lot of recurring revenue.

So we're sort of trying to find the most efficient balance between either increasing our staffing costs to a point where we will capture the demand but it will be hard on the margins, and slowing down or, sorry, letting ourselves do the desire a bit more and trying to, you know, get our customers to wait up a little longer to get their implementation. And doing that, we're hoping to keep a little healthier margin.

So we're still looking for that right balance but the various recruiting initiatives that we undertook in the probably last 2-3 months are starting to work. It's definitely an unforeseen problem. I have to say, in IT business for a long time and talent was almost difficult challenge you had, but it's now to a point that you've never seen before.

We have to tell customers that we can't start their projects until six months or nine months. You know it's the reality, it seems to be happening in every sector in this post-pandemic thing. Go try to find a plumber to fix your household stuff and its these types of problems that we see.

Unidentified Participant^ No, I hear you. Okay, you spoke to staffing and like (inaudible) obviously and like the increased professional services like impacting your margins, but I'm just wondering how far are we in the process of reinvesting in the business so what I'm looking at either profit margins for fiscal '22, okay I get the message, probably compressed for two, three quarters, but do we start to see an up-tick maybe by the end of fiscal '22, is that fair?

Luc Filiatreault^ With the information that we have, it seems quite fair, I'm not uncomfortable with what you're seeing. Obviously, the big dependency here is that the success that we will have in obtaining tech talent at reasonable pricing.

That's a factor that's bearing significantly and right now, I see it as somewhat unpredictable and that's why we came up alternate solutions.

I think offshore development is going to become pretty popular and I, you know, we have to put a lid on these things because that's the big factor that's very hard to predict in advance. But from our operational constraints, from our investments that we're making are, most of it is quite in line with our expectations. So your bang on.

Unidentified Participant^ Okay, maybe one last one. Can you give us an update on capital deployment? You ended the quarter with obviously a very large task position and we’re seeing platforms and your verticals get taken out call 15-25 x revenues, how are you guys competing in such an environment in light of what you guys spoke about in the prepared remarks of ROIC and being focused on ROIC?

Luc Filiatreault^ Two things, right. We’re looking at two large strategies for R&A. What you mentioned with the acquisitions we saw from our Montreal friends at Light Speed. They are acquiring platforms in our case right now, acquiring platforms in e-commerce is not very synergistic with us.

It’s hard to integrate and we already have a platform that addresses large clients in very, many different spaces, our retail grocery B2B. And we also have a platform that addresses smaller companies, mostly in B2B and manufacturing. We don’t feel we need other platforms, we are now successful at, you know, winning new business, implementing new businesses a little slower than we’d like but we could use certain, I would say, add-on functionality, that we could acquire, which do not go for those multiples.

We obviously would not want to invest our capital at 15-25 x sales, or should we not until we trade at that level. In structuring, you saw that we acquired vendor registry at about a five x multiple. You saw that Negometrix was acquired by Meursault. If I’m not mistaken, it was about at a four and a half multiple.

So unfortunately, they got it so we’re looking at, like we mentioned before, many opportunities also in strat sourcing where we feel multiples although are on the rise, are still a bit more reasonable, and as we mentioned before, the quality of business there is very high. It’s very recurring revenue, it’s not dependent on large customers. A lot less depending on staffing because it is a network.

So we’re active also on the strategic sourcing front to look at a pipeline and we feel that there are integration capabilities really makes the difference, and although we’re not trading at the multiples, the integration strategy like we did at vendor registry really create a very strong return on the capital investment.

So we’re looking at those, but we’re being prudent and patient about what we offer in order to complete the M&A strategy. We’re happy to have a very strong balance sheet because it allows us to really be much more active than some of our competitors, which don’t have that facility for now.

Unidentified Participant^ (inaudible). Very thankful, will pass the line.

Operator^ Your next question comes from the line of Ben Franklin from Rural States Capital.

Ben Franklin^ Hi guys, I just have one quick question. You mentioned multiple plans about updating technology. Can you just kind of quantify the magnitude or to expect some large cutbacks from next year or some idea of what that will cost, and that's now my question. Thank you.

Luc Filiatreault^ Thanks for that question. We're not expecting large amounts of capital expenditure. We're probably, you know, in similar levels that we were in prior years, a lot of those, I would say optimization are from having moved some of our technology in the cloud. As you're aware, the cloud offers multiple optimization possibilities and we run some systems on AWS and some others, some work differently.

And the great thing about the cloud is that you can scale up all those instantaneously, sorry. But if you do that, your cost of cloud becomes, you know, too high. So there needs to be some optimization in terms of how much CPU are you using, how much memory you use, and that type of thing, which is the type of work that we need to do.

So it's really optimizing, micro servicing or sorry, wrapping our services in micro services so that when we scale, and we do see large spikes of scaling, we have to make sure that our cloud costs stay in line with our expectations so that's mostly that type of work done with our existing staff for now.

Ben Franklin^ Thank you.

Operator^ Your next question comes from the line of Richard C [ph] from National Bank Financial.

Unidentified Participant^ Hi, this is [ph] calling in for Richard. So thanks for taking my question, I just wanted to touch on the gross margins. So I know you guys have been saying the gross margin is being pressured by the professional services. Just wondering, once that stabilizes, what do you expect to be?

Deborah Dumoulin^ Right. So the gross margins, if you remember, we are talking about the cost sales margins, the professional fees. We are being paid for the professional fees, so typically there's a revenue and an expense obviously for our staff of those, over the margins are more compressed.

When we get back in to the market then a typical past revenue, than you know a licensing fee, and really the cost of sales aren't really unfair. When we look at the adjusted EBITDA type of margins, that's where the biggest fluctuation is going to be the climbing of salary costs that we look accelerate, you know, bring on clients we need to have the talent in place, we know that the talent cost is increasing so that's where it's harder to predict on the EBITDA margin.

But certainly from the cost of sales type gross margin, then we feel comfortable and those will just improve naturally as we finish deployments and get back into, you know, the cost revenue.

Unidentified Participant^ Okay sorry, just to clarify, so what if you go back to about like you know make a high sixty bubble, is that kind of what the aim would be?

Deborah Dumoulin^ Yeah for sure. Before we were getting into these very, very large implementations, which we do have healthy positive margins on, they're just lower margins and revenue, so when we think about our year, we had professional services revenue of $12 million and that's going to be just that slightly lower margin than what we would've had on pure recurring revenue so for sure, once we get past those, in another sense we hope we're going to continue to do new client wins in there so we will have deployments.

So that could be a good news story going forward for existing clients. And for sure those margins will start to increase as stores, if for example, I'll meet with our other clients once the implementations are complete and we get back into doing our main business of that type of revenue.

Unidentified Participant^ Okay, thanks a lot. Just one last question, so I know you guys mentioned there are some weaknesses in the supply chain solution, just wondering, the US has opened up a bit, are you guys seeing any trends there that are notable in terms of about picking up again?

Luc Filiatreault^ Definitely. What's happening in supply chain, unfortunately, there are some suppliers that didn't make fruit. We're gaining new suppliers for our large ecosystems and they're coming on board.

We see consumption, we see the amount of traffic increasing. You see a flat, a little bit declining revenue but there's a lot of additional new clients, new suppliers who are using the systems and what's happening is that although it's flat declining, it's actually a mixture of those suppliers that just went off because they shut down or they closed, but are being replaced. So we've replenished significantly the supply chain line of business.

Deborah Dumoulin^ There's a lot of a luxury in business. Luxury retail and there, and that slowed obviously in the current year but then other things of the client like, something like Indigo, where now there's a lot of volumes picking up, it's a new client. So we think that the pandemic did have an impact there and hopefully we see some return to the normal, and an increase in that.

Unidentified Participant^ Thanks for that caller, I'll pass the line.

Operator^ I show no further questions at this time, I will turn the call back to Mr. Filiatreault.

Luc Filiatreault^ Well, thank you very much for being with us this morning. (Foreign Language) I'm calling from the (Foreign Language). Thanks to all of our staff, our clients, and our investors for supporting and we're excited to continue the journey that we’re on and looking forward to meeting some of you in person hopefully soon. Have a great rest of day, guys. (Foreign Language).

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

Luc Filiatreault^ (Foreign Language).