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mdf commerce inc. (Q1 2022 Results)
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C:  Luc Filiatreault; mdf commerce inc.; President and CEO
C:  Deborah Dumoulin; mdf commerce inc.; CFO

P:  Nick Agostino; Laurentian Bank Securities; Analyst
P:  Kevin Krishnaratne; Desjardins Securities, Inc.; Analyst
P:  Richard Tse; National Bank Financial; Analyst

+++ presentation

Operator^  Thank you for standing by.  This is the conference operator.  Welcome to the mdf commerce Q1 Fiscal 2022 Results Investor Conference call.  Today's call will provide information and commentary on the company with a focus on the financial results released today after the market closed.

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 at your website at www.mdfcommerce.com.

First, here are a couple of housekeeping notices.  (Operator Instructions)  This call is being recorded, and we expect that the recording will be available on the mdf commerce website later today.

The information in today's remarks, including any forward-looking statements has been prepared as of June 30, 2021, unless otherwise indicated.  mdf commerce assumes no obligation to update or revise the forward-looking statements to reflect any new events or circumstances, except as may be required pursuant to the securities law.  We remind you that today's remarks will include forward-looking statements and non-IFRS financial measures and key performances indicators 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 the mdf commerce press release, which is on the website and on has been filed on SEDAR.  The company's actual performance could differ materially from these statements.

The terms and definitions associated with non-IFRS measures as well as a reconciliation to the most comparable IFRS measures and key performance indicators are presented in the section non-IFRS financial measures and key performance indicators in management's discussion and analysis for the first quarter ended June 30, 2021.

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

Luc Filiatreault^  Well, good evening, everyone, and thanks for joining us on this call for our discussion about our Q1 fiscal 2022 results call.  So we will review the results that we filed earlier this evening in a few minutes.  But first, I want to take a bit of time to update you on mdf commerce activities, more specifically, the acquisition of Periscope Holding that we just announced a few minutes ago, and that we've all been waiting for it.

So mdf is a developer and operator of digital commerce platforms.  Once we complete this acquisition of Periscope, our various platforms will transact and facilitate billions of dollars a year of digital commerce transactions between B2B and B2G for well over 1 million end user companies, mostly in North America.

So if we turn to the page five of our presentation, today, we announced this transformational acquisition of Periscope.  That advances our strategy of becoming a leading player in the B2B and the B2G market with one highly strategic acquisition.  The purchase price of $207.3 million is a compelling valuation considering the scale and capabilities that we will gain and positions mdf commerce to achieve near-term profitable growth and generate significant value for our shareholders.

Periscope is an impressive organization that has been on our radar for quite some time now.  Periscope brings with it an impressive track record of growth and a strong team of industry professionals that combined with mdf commerce's leadership and existing platforms is well positioned to capitalize on significant public sector procurement opportunities.

Moving to slide six, we present the key highlights of this transaction.  The acquisition of Periscope is highly strategic for mdf commerce as it positions us as a leading public eProcurement provider creating many opportunities.  First, it broadens our offering through a fully integrated end-to-end procurement solution, coupled with an innovative, self-funded transactional solution.  Second, it builds on our U.S. market presence, immediately enhancing our scale and adding a strong, well-connected team that will enable us to efficiently serve the full spectrum of government agencies across North America.

Third, it allows us to leverage Periscope's innovative transaction fee solution, which is expected to drive predictable and scalable revenues at attractive economics.  Fourth, we expect this acquisition to be highly synergistic, both on the revenue and on the cost front. And lastly, Periscope enhances mdf commerce's financial profile, both in terms of scale and growth.  This acquisition is highly strategic, and it reinforces our relentless focus on value creation for our shareholders.  And I know we've been waiting a long time to get this.

So turning to page seven.  Here are the underlying themes that we find really attractive about the space in which Periscope operates, and why now is the right time to complete this transformational acquisition.

Number one, existing trends to modernize legacy government procurement systems were highlighted and accelerated by the pandemic; number two, many governments have ramped up spending campaigns in an effort to stimulate the economic -- the economy, sorry; number three, government agencies are increasingly looking for a consumer-like shopping experience to acquire the various goods and services that they need.

Just yesterday -- sorry, just Monday, the U.S. Senate just approved Biden's $1.2 trillion infrastructure bill. We believe that this will be fueling a large increase in public spending that will mostly have to go through these types of platforms that we have.

This being said, existing procurement solutions are not purpose-built to meet the needs of governments and agencies. Most of them are fragmented, they lack functionality, and they rely on legacy technologies. Periscope that's joining us today has over 20 years of experience in this space and offers solution that were specifically built for the public sector's evolving needs. Our combined platform is well positioned to capture significant market share, especially from a government procurements and perspective.

Now let's go to page eight, which provides an overview of Periscope's underlying business and why we believe that it's so complementary to ours. Periscope boasts a large network of government agencies and suppliers across the U.S. with little to no overlap with our own network.

Periscope offers a fully integrated end-to-end procurement solution with a modular architecture that is highly configurable to clients' specific needs, adding to mdf commerce's existing strategic sourcing capabilities. Periscope services larger government agencies, whereas mdf commerce primarily caters to the middle market, the smaller government agencies.

They recently rolled out a very innovative transaction fee solution, which accomplishes several things. It allows customers to utilize our eProcurement solutions at no out-of-pocket costs and transform mdf commerce from a vendor to a revenue-generating partner for these governments and agencies, thus saving taxpayers' money.

Once adopted at the state level, it opens up a B2G marketplace, a business to government marketplace on which smaller agencies can piggyback on existing supplier agreements. It generates predictable revenues that scale with government procurement spending rather than only relying on annual subscription fees under a SaaS solution.

Page nine provides some insight into the recent performance of Periscope with everything I just described. As mentioned earlier, the business gained significant momentum in the first half of 2021 with a significant uptick in client onboarding and pipeline expansions with the transaction fee solution being a notable driver behind this recent growth.

Based on recent discussions with government agencies and suppliers and given the great visibility we have on pipeline developments for 2021, we are confident this positive momentum will continue. We ourselves have seen significant growth in our U.S.-based strategic sourcing over the last few quarters, and we'll show you some numbers in our Q1 results later.

So page 10 is a high-level transaction summary. The purchase price for Periscope is $207.25 million, including $200.8 million of cash paid at closing, $3.3 million in rollover shares and a $3.3 million retention bonus for employees of Periscope. The purchase price represents a multiple of 4.6x Periscope's calendar year 2021 revenue, including revenue synergies of $15 million, well below the 13x current average forward multiple for publicly listed procurement software suppliers.

Financing is composed of CAD92 million of cash from our balance sheet, CAD92 million, CAD50 million of available liquidity from our amended and upsized credit facility, a $53 million private placements coming from Fonds de solidarite and Investissement Quebec, who are our current two largest investors and will remain our two largest investors. CAD68 million bought deal public offering underwritten by Scotia Capital; and finally, $4 million in rollover shares as well as the creation of a $4 million retention bonus for the Periscope folks.

Existing cornerstone investors, FSTQ and IQ accounts for nearly half of the equity proceeds, which we believe demonstrates the confidence that they have in us pursuing this transformational acquisition. The acquisition is expected to contribute positive cash flow on a per share basis, further highlighting the value it creates for our shareholders.

As previously mentioned, transaction is highly synergistic, and we expect at least CAD15 million in revenue synergies and CAD5 million in cost synergies within three years. Subject to regulatory approvals, this transaction is expected to close in Q2 of fiscal 2022, which is September 30th in our case.

Page 11 lists the key pillar underpinning the strategic rationale, which we will cover in more details over the next few pages. The key takeaway here is that the acquisition of Periscope transforms mdf commerce into a leading North American eProcurement player.

Page 12 illustrates the market-leading metrics of the combined company. As you can see, we will have an established presence in both Canada and in the U.S. with a prominent network of over 6,000 government agencies in states and provinces and approximately 1.5 million active suppliers. We believe our combined network will build on the positive momentum as it provides scale and reinforces our leading position in the North American eProcurement market.

Page 13 provides a high level comparison of mdf commerce and Periscope and really demonstrates how complementary those businesses are. As you can see, the acquisition broadens mdf's public sector offering into a fully integrated solution with modular capabilities, allowing us to service all types of government agencies, and this, therefore, expand our total addressable market over 100,000 government agencies across North America.

Customers will be able to pick up the best-of-breed solution, I'm sorry, customers will be able to pick the best-of-breed solutions to meet their specific needs, whether they are large states, a small townships, an urban school districts, while maintaining total flexibility. We will be giving government officials consumer-like ability to transact online.

Turning to page 14. Periscope currently offers both SaaS and transaction fee solutions. Under a transaction fee solution, state governments can self-fund their eProcurement system as they share transaction fees paid by suppliers rather than pay an annual staff subscription fee. Therefore, state customers become revenue-generating partners, creating incentives for them to onboard local government agencies to the statewide B2G marketplace and increased state-wise -- sorry, state-wide transaction spend.

Periscope is the first public eProcurement provider to successfully implement a transaction fee solution at the U.S. state level, providing us with a valuable first-mover advantage. This innovative solution generates highly predictable and scalable revenue with attractive economics and is the key driver behind Periscope's growth.

On Page 15, we highlight some of the key drivers of both revenue and cost synergies. As indicated previously, we expect this transaction to be highly synergistic with CAD15 million of annual revenue synergies and CAD5 million of annual cost synergies realized within the next three years.

First, the revenue synergies resulting from the combinations are primarily driven by the introduction of Periscope's ePRO and marketplace solution to mdf commerce's network. We intend to leverage each other's customer base as well as key government relationships to sell ePRO to additional U.S. states and Canadian provinces and federal governments.

We also expect to offer Periscope's marketplace solution to our existing network of over 3,500 government agencies and over 300,000 active suppliers. Think about this. It's almost like an Amazon marketplace, but for government. Integrating the whole network together will offer more value to suppliers and broader access to government contracts, thus enabling additional revenue.

Second, cost synergies are expected to be primarily driven by workforce-related initiatives, alleviating the needs to hire additional talent for sales, product development and other key functions. And we all know that talent right now is very rare and difficult to get. Second efficiencies gained through the harmonization of content aggregation systems and processes; and third, product integration, eliminating reliance on third parties.

I'll now pass it over to Deborah, our CFO, to discuss the compelling combined company's financial profile on page 16.

Deborah Dumoulin^ The combined company exhibits a strong combined financial profile, Periscope increases our scale and enhances our growth significantly. mdf commerce revenues for fiscal 2021 were $84.7 million, increasing 36.6% to create a combined revenue of CAD115 million.

Year-over-year growth increases from 13% to 18% for the last six months of June 2021. mdf commerce percentage of recurring revenue increases from our consolidated 76% to 80%. Combined adjusted EBITDA increases by 44% from $5.7 million to $8.3 million, and this is on the historical numbers.

Strategic Sourcing and Unified Commerce will now account for 87% of the combined revenues, emphasizing our focus on core platforms and delivering our vision to enable the flow of ecommerce for business and governments.

Luc Filiatreault^ So thanks, Deborah. As you can see, we're extremely excited by this transaction and the numbers that you just heard, as Deborah mentioned, are historical, and they don't take into consideration the growth that we showed on previous slides, both on the Periscope side and particularly on the Strategic Sourcing portion of mdf standalone in the U.S.

So now moving to slide 17. As mentioned earlier, our strat sourcing and unified commerce platforms will now make up approximately 87% of combined revenues. We're getting closer and closer to that one brand, one company vision that we laid out about a year and a half ago. That being said, we're still trading at a significant discount to public comparable companies, either in procurement software or in digital commerce.

Now just before concluding with the last slide on the Periscope presentation, I will ask Deborah to give us a brief overview of our Q1 fiscal 2022 results, which are in line with what we were expecting.

Deborah Dumoulin^ Thanks, Luc. So while we have an exciting transaction and we're very excited about it, we're also proud of our Q1 results, so we'd like to go through those. So let's talk about the highlights of Q1 fiscal 2022.

So revenue for the quarter was $22.6 million and that compares to $20.5 million in the first quarter of the prior year, representing 10% growth. During the quarter, we are also reporting for the first time, constant currency basis revenue, which increased $2.5 million or 12.5% compared to the first quarter of 2021.

For the first quarter of 2021, U.S.-denominated revenue totaled 45% of total revenue. And therefore, we believe that the constant currency, a non-IFRS financial measure is useful to compare the corporation's performance on a constant currency basis, and you can refer to our Q1 press release or the MD&A for more information on that.

So turning to our two growth platforms. Revenues from our Strategic Sourcing platform for Q1 were $8.9 million, representing a 14.8% increase compared to the 7.1 -- $7.7 million of the first quarter of 2021. Our U.S.-based Strategic Sourcing revenue grew by

32.3% year-over-year, including the acquisition of Vendor Registry, which we completed in November of 2021.

Unified Commerce had a solid growth, with revenues from our Unified Commerce platform, which, as you'll probably recall, includes ecommerce and Supply Chain collaboration totaled $9.9 million compared to $9.1 million for Q1 of the previous year, representing an 8.7% increase.

Focusing on our ecommerce solutions, which consists of Orckestra and k-ecommerce, the Q1 revenue grew by 15.3% to $6.7 million compared to $5.8 million for Q1 of the previous year.  Revenues from the Supply Chain collaboration in Q1 were stable at $3.2 million compared to $3.3 million in fiscal 2021.

In Q1 of prior year, total revenues was more positively impacted by volume-based increases due to a spike in online commerce, which started at the beginning of the pandemic and forced a certain loss lines at the beginning and more specifically in egrocery.

With the confinement happening in certain countries during this period, we've seen -- in the arrival of summer, we've seen a slower amount of transaction volumes on some platforms, which we believe will be temporary overtime.  Revenue from emarketplaces platform was $3.8 million or 2.8% increase and compared to the $3.7 million that we reported in the same quarter of fiscal 2021.

Recurring revenue for the quarter, it was $16.4 million, 72.5% of total revenues compared to $15.8 million and 77% million of total revenues in the first quarter of the prior year.  Recurring revenue for the quarter was 90% of total revenue for Strategic Sourcing, and this is stable on a sequential basis and just down slightly from 94% of last year.  Recurring revenue for Unified Commerce was 57%, stable from 59% in the prior year.

Turning now to margins, operating expenses and profitability.  Q1 gross margin was 58.6% compared to 68% reported in Q1 of the prior year.  As mentioned earlier, the change in gross margin is associated with service mix between right-of-use revenue and professional services and to the lower margin professional services revenue recognized on large deployments, especially in ecommerce.

We anticipate that gross margins will remain compressed temporarily until the ongoing deployments in ecommerce are delivered.  We believe that the foundational investments we are making now will contribute to future improvement in preventing gross margin.

Total operating expenses for Q1 were $17.5 million compared to $14.7 million in Q1 of the previous year.  The key contributors to the increase are general admin expenses of about $1 million during the quarter, sales and marketing of about $1 million and increased cost due to the investments in scaling for headcount and higher salary costs to attract and retain employees, in a time of a scarce tech talent and higher professional services fees.

Net loss was $4.3 million or $0.15 per share basic and diluted compared to a net loss of $1.2 million or $0.08 basic and diluted in the previous Q1. Total adjusted EBITDA loss for the quarter was $1.1 million compared to the adjusted EBITDA of $2.1 million reported in Q1 of 2021.

Adjusted EBITDA declined year-over-year due to increased foundational investments in operations, sales and marketing, R&D and professional services to accelerate sales growth and to support large deployment contracts. As deployments accelerate over the coming quarters, professional service expenses are expected to remain elevated, and the company expects to continue to make foundational investments to improve scalability as the corporation grows.

Tech talent remains a challenge, and we have implemented multiple strategies to address this, including market competitive, salary increases, which began in Q1 to improve retention. We have new recruiting campaigns, established a development center in Ukraine to provide additional workforce, and this is going well. Our operational and infrastructure investments are focused on improving scalability and improving gross margin.

As we move forward, our challenge will be to strike the right balance between the investments and their impact on margin, while staying in the race to capitalize on the opportunity brought on by this market acceleration.

We believe that the investments in people and foundational infrastructure will help to capture the opportunities presented to us by this accelerated market and especially around the adoption of commerce, ecommerce and strategic sourcing solutions, and we can convert these opportunities into future cash flows that offer compelling value to shareholders.

On June 30th, the company had $110 million in cash on its balance sheet with net cash inflows, and now you know what we're going to do with that money.

And with that, I turn it back to Luc.

Luc Filiatreault^ Well, thanks, Deborah. Just -- although I know all this, but listening to you, I'm not out of breath thinking about everything we did. And I'd like to emphasize that, obviously, our growth platforms are really ecommerce and strategic sourcing, so be careful when you look at the overall, we still have some businesses that are less growing. So the average, unfortunately, is maybe not fully comparable to some of our peers. But when you look at what's really doing well, we're in the right spot.

So to wrap up this presentation, I'd like to call your attention back to Slide 18, which is titled, Expecting Value Creation for All Stakeholders. I'd like to emphasize that this is a transformational acquisition.  It's beneficial for our shareholders as well as for our broader stakeholders, namely our customers and employees.

First, the strategic acquisition of Periscope creates significant value for shareholders, now positioning mdf commerce as a leading eProcurement player.  We are extremely excited about this transaction and the opportunity that it creates for us.  I'd like to thank all of the shareholders for your continued support.

Second, the acquisition broadens our product offering, allowing us to meet our customers' evolving procurements.  Thank you to all our customers and our partners for your continued trust.  And I'd like to insist here that when we say that our mission is enabling the flow of commerce digitally, that's exactly what we're doing between B2B, B2G and certain customers through various retailer websites.

Third, this combination creates a new environment for all of our employees to thrive it, providing them with new opportunities to develop and grow within a stronger organization.

To the Periscope team, who will be joining us, I want to extend a very warm welcome on behalf of the entire mdf commerce team.  We look forward to welcome you -- welcoming you, sorry, into the mdf commerce family.  Your organization has had an amazing 20 year history, and it shares our core values and drives for excellence.  We recognize often where the Periscope head office is located, is a vibrant city where top spec talent and top universities are present, which will make us an even more attractive employer overall.

To our people, thank you for all that hard work over these many months and years.  We all know with transactions of this nature that the real work is only beginning.  Without you, these opportunities would not be possible.  Together, we're building a leading customer-focused platform in ecommerce and public procurements, delivering on our vision to enable the flow of commerce for businesses and governments worldwide.

And with that, I'd like to hand over the call to the operator to open the line for questions.

+++ q-and-a

Operator^  (Operator Instructions) Your first question will come from Nick Agostino with Laurentian Bank Securities.  Your line is open.

Nick Agostino^  Congrats on the transformative deal.  I guess my first question is, obviously, some impressive growth that this acquisition is bringing when you look at 2020 versus 2021.  So look, can you maybe just talk about the history?  Maybe give us a sense of the historical CAGR growth, maybe a five-year growth rate?  That would be helpful.

Luc Filiatreault^  Thanks for that question, Nick.  I'm looking out here to Deborah because I don't know that I have an answer for the five-year growth.  What we do know is that -- and I think we have a slide on that, is that on the H1 for this year, the growth was approximately 30%, 30-some percent. And we anticipate that for the full year, the growth will approach 50%, with the existing state contract, particularly on that transactional model that I described. We'll be looking for a little bit of an older growth CAGR, but I don't have that off the top of my head right now.

Nick Agostino^ Okay. Yes. When you have it, if you could either call it out or send me an e-mail, that would be great. Secondly, just trying to understand, obviously some revenue synergies, I think you said $15 million. And if I understood the multiple pay of 4.6 times, that includes the $15 million synergy, just to clarify?

Luc Filiatreault^ Yes, it does.

Nick Agostino^ Yes. Okay. So my question is, is there anything that -- just to kind of wrap my head around the synergy gains, obviously, cross-selling, they're more larger focused, you are more smaller market focused. Is there anything off their platform that you can -- that you see as value-add that you can turn around and offer to your clients and vice versa? In other words, anything that either party was doing that may be offered a little bit of competitive advantage or value proposition that you don't currently have?

Luc Filiatreault^ Well, totally, right? If you look at the slide on products, their ePro model, their Marketplace for governments is something that we will turn around immediately and start to offer to our current 3,500 governments and agencies, both in the U.S. and in Canada. As we said, this is a first-mover advantage. And it's quite transformational for governments as it turns something that is a cost into a revenue generating. So that's one aspect where we will -- we are already thinking about where to go and how to market that piece of product.

Second, and you've heard me say this when we did the Vendor Registry acquisition about six months ago or seven months ago, it now combines two supplier networks, which will -- in which there is about 1 million suppliers and about 0.5 million of those have been active in the last 12 months. That's an incredible large network of suppliers that cater to now 6,000 government and agencies, and that's going to continue to grow.

And as I mentioned during the Vendor Registry, we're very good at turning these non-active customers into active customers that start to pay us a royalty to use the platform. And we're also very good at increasing the value that we bring to these suppliers because we suddenly basically doubled the number of opportunities that they're exposed to, and we think that, that's going to continue to grow. And not only can they simply be exposed to simple basic RFPs, we can put them in the marketplace so they can transact with governments as easily as you buy anything on Amazon.

So clearly, there's an obvious amount of synergies in between. And we put it at $15 million, obviously, to -- because we are still in the first few phases of doing that. And as you know, we're announcing and signed the transaction today, but the close is expected in another few weeks. So there's a limited amount of work that we can do on how will we put this together, but the teams are ready on both sides to really make this a -- an extremely compelling digital procurement platform, which we have the intent of not only taking to North America but worldwide.

Nick Agostino^ Okay. But is there any product feature sets that they're bringing to the table that you currently don't have or vice versa?

Luc Filiatreault^ Yes, the ePro. If you could -- I don't know if you can flip through the slides that we showed. But I don't remember the number of it. But if you go to slides on product, everything about ePro and Marketplace is a piece that they have and we don't.

On our case, we don't have technology that they don't have because we were competitors on the basic. And that would be on Slide 13 right there. You see that strat sourcing, supplier relationships and contract lifecycle management is something we both have but they bring requisition, purchase order management, invoice receipt processing, payment management, ePro and Marketplaces. So we're buying both a set of products and platforms that we don't yet have, plus the network of customers and revenue and profitability.

Deborah Dumoulin^ And then this transaction takes us into the entire eProcurement wheel. So that if we were to illustrate it in the wheel, it's from everything from beginning to when the cash flows out. So it's really a full process.

Nick Agostino^ Okay. Now when I look at the multiple pay, the 4.6x, as you know there was a transaction out in Europe that was done at a similar level as well. And I'm just wondering, was this particular transaction, was there any competition in getting this deal done?

Luc Filiatreault^ Yes, totally. This was -- and unfortunately, Periscope is owned by private equity in -- named Parthenon Capital. And hey, we have been in discussion with the company for quite some time that they launched a very stringent competitive process to -- obviously, we don't have the full details of who was there. But we certainly know or we can guess of certain parties.

And based on how it was handled and the various discussions and the time that it took and everything else, I don't know how many parties, but it was a significant number. This is a company that's highly sought after. And when you think about the bill, the U.S. Senate that approved the Biden bill, this is extremely timely right now.

Deborah Dumoulin^ I can say the transaction model was really based on government spend. So as not only the eProcurement is becoming trendy, governments are digitalizing, et cetera, where it is also at a time where government infrastructure spend is going to drive up some of those volumes into areas where we will really see a strategic side of growth, positive momentum. There's a strong pipeline, and there's a lot of upside potential that we're not limited by just that past revenue anymore, but rather transaction fees based on government spending. So a really interesting model here.

Nick Agostino^  Okay.  And my last question, just maybe shifting gears to discuss Aldi. I think during the course of the pandemic in the U.K., you guys called out a slowing of implementation because of COVID.  Now we're clearly seeing the U.K.'s reopening the economy and what have you.  How is the implementation?  Are you going to start to see an acceleration as far as getting into the targeted 1,000 stores?  And any update on the timeline for getting that completed?  I'll leave there.

Luc Filiatreault^  So Aldi is progressing well, Nick.  We're now just below of a 300 stores.  We keep adding a couple every week.  And certainly, the client is very happy about the platform is -- and we are deploying, albeit not at the speed at which we thought we would initially.  And again, that's really based on a whole bunch of logistics issues on -- mostly on their front, on the physical side.  So we are -- though we are ready to deploy anytime they tell us to go ahead.  So we're fully active on the Aldi front, and everything is going as planned.

The volumes that Deborah mentioned of orders did reduce compared to the early days of the pandemic, right?  Let's be honest.  So -- but we're still at a bit more than double and a half, the volumes that we saw pre-pandemic, and that's pretty much across the board in all of our various ecommerce properties.  So that's still going well.

But there is something that I'd like to mention is that, we now are at the point where we have an incredible pipeline of very large grocers worldwide that we have -- where we're engaged in active discussions, demonstrations, pricing, et cetera.  And we think that we are really in a growth position to capture some other very significant market share in that space.

So as far -- things are going slower than we expected initially.  And I think that caught everybody by surprise.  But the talent crunch did not help.  We are now, I think, through that.  In ecommerce, particularly, we hired about 50 people since the beginning of the year.  The Kyiv Ukraine center seems to be working well.  So we're back to a pace of delivery that is what we need to have.

But on the customer side, they have the similar issues, right?  They, too, are grasping for tech talent, and that seems to be on a worldwide scale right now.  So we're adjusting to that.  But if you look at the growth rates that we're having in ecommerce, we're still in the 15% range, which is quite good because don't forget that we're comparing this quarter with the incredible spikes that we had same time last year in similar quarters, which were April, March and -- sorry, April, May and June, which was at the heart and the start of the pandemic when everything was locked down.

So we're very confident in our ability to continue to grow, capture market share in ecommerce and bring that to profitability when we get to the scale that we need to have.

Operator^  Your next question will come from Kevin Krishna -- I'm sorry, Krishnaratne with Desjardins.  Your line is open.

Kevin Krishnaratne^ Congrats on a very intriguing acquisition. Just the first question just on the revenue and the cost synergies. If you can just help us understand how to think about how does that actually scale over the next 3 years? Is it more backend loaded, front end? How -- or is it linear? Any of the thoughts there?

Luc Filiatreault^ Like we mentioned, there's a large amount of cross-selling. There is a large amount of demand in government digitizing their procurement systems. Hard to say at this point how fast this will come. We basically looked at our existing database of customers and tried to figure out how much time needs to happen for this to materialize.

So I think once we have the ability to fully get together with the target and develop the go-to-market -- the combined go-to-market plans, et cetera, we'll probably be able to update you with something a bit more precise. At this point, it's hard to say.

On the cost synergies, that's a little bit easier, and it's pretty early on because there are some functions that are, I'd say, specifically in the content creation in aggregation, where Periscope has developed technologies and platforms, which we can use, and retire certain platforms on other side.

On -- and one very, very quick win is we were on our end and on their end, struggling to acquire additional resources which together now, we have the ability to transfer resources and have people work on where they -- it's most urgent and needed. So we are saving significantly on potential new hires that would have needed to be done. So that's how we came up with those numbers. And there are a multitude of other things that will show up also.

Deborah Dumoulin^ And perhaps on a shorter-term basis, the Periscope Marketplace solution is one that we'll be able to leverage with our existing customers. And really, what that's allowing to happen is for agencies to shop off of existing supplier contracts. And so this one essentially opens up an entire marketplace where the government goes through an RFP process, and now all of a sudden, these -- the local agencies can be buying off of that government contract.

And so, in addition to the transaction model, which is based on government spend, this transaction model will add volume right away, and that is one where our existing 3,500 government agencies and the 300,000 active suppliers can be connected quite easily from a technology perspective onto that emarketplaces model, and that will bring on shorter-term revenues.

Kevin Krishnaratne^ Okay. Awesome. That's very helpful on both those questions there. Kind of related to my next question, if I think about looking at the $23 million that Periscope gave, you're guiding sort of $33 million, can -- just to clarify, the -- how to think about the transaction revenue versus SaaS? How do we think about how that has evolved, that mix? And obviously, volume's driving the transaction. But just how do we think about the breakdown of that revenue?

Deborah Dumoulin^  Yes.  So the $20 million, $23 million revenue is -- it's in U.S. dollars in the slide we presented.  Sorry, $20 million, $23 million, or is the historical 2021.  Sorry, I think I'm mixing it up.  I'm starting over.  It's been a long 2 days.  So the $23 million that we're talking about in this slide is the historical December 2021 of Periscope.

And looking at where we are at the June 30 period, and contracts that have been signed and are committed, we believe quite strongly that the $33 million that we're presenting there is a solid number.  While it is forward-looking and not guaranteed, it is, we believe, quite solid.

The transaction fee model represents to Periscope approximately one-third of their revenue.  That model is relatively new.  It was introduced in 2019.  So it's ramping up with different U.S. state clients being added to that model.  So there is upside, potential growth with respect to that.

Kevin Krishnaratne^  Okay.  Got it.  And so -- but I guess if you're thinking about -- you've got the -- your thoughts on the guidance or the outlook for the $33 million.  Is that mainly -- how do we think about that growth being driven from SaaS versus just pure volume?  You made a $20 billion worth of volume, I think I saw it in the press release.  Is that then -- is that really the main driver?

Deborah Dumoulin^  Yes.  In terms of the growth, a lot of it does have to do with that transaction model, but there are also quite a bit of growth within the emarketplaces that I mentioned.  So it is also combined with existing -- there are -- there is existing client increases, but it is a lot to do with the volume side on the marketplaces and, of course, the increase in government spend.

Luc Filiatreault^  And they have added also a significant number of customers on the government and agency side over the last -- since the beginning of the pandemic.  So there is also a significant amount of additional SaaS revenue because not everybody has converted to the transactional model.

Kevin Krishnaratne^  Yes.  Okay.  That's sort of what I was looking for.  The last is sort of a bigger picture question.  I'm looking at your Slide 7, where you've got the North American sort of U.S. government agency spend $1.8 trillion, $20 billion in spend.  Can you talk about maybe the landscape, the competitive landscape?  You also mentioned the increased government digitization.  So maybe just help us understand what the landscape looks like now?  You obviously have first-mover advantage as you've talked about with the B2G shopping experience that is provided.  So any just thoughts on how you're thinking about the landscape competitively and the opportunity, whether that's legacy switching over to digital platforms like yourself?

Luc Filiatreault^  So I'd say that from a competitive point of view, as we've often mentioned, it's a very highly fragmented market.  With this transaction, we're clearly becoming the main guy in that area.  How do governments do it today, a lot -- a significant amount is still just paper.  Paper-based fax, e-mail and even snail mail.  We see sometimes some departments that are still receiving proposals by mail and opening them up and binding them in binders and comparing them, et cetera.

So simple, I would say, manually -- manual processes are still very present, and we can easily completely replace those processes because we offer a solution that does not cost anything to a government agency.  And that's a big advantage because a lot of them are budget constrained.  And yes, they are buying and investing money in the economy and all sorts of that.  But they don't have the ability to buy a fancy piece of software.

The ones that do have or went on to various procurement platforms, it will typically adopt a commercial procurement platform.  Think about Ariba, think about some modules in SAP for the bigger guys, but they don't have anything to handle the public procurement piece.  They don't have the security, the auditability of the processes, and we come in and we offer all that at no cost.

We actually have complete and full business cases that show them that they can actually start to make money right away because all we do is take a convenience fee out of the transaction from the winning party, which gets shared between us and that government agency.  And once the government agency is on the platform, we can easily convince smaller guys.  And I'm thinking like school districts, municipalities, et cetera, that can then be back off of those government contracts.  And then too can go and purchase whatever goods and services they need by using the pricing, the volume rebates that the whole state is benefiting from.

So this creates a super compelling proposal that is quite easy to sell, right?  So I truly think that the upside here is very significant.  I hope I'm answering your question.

Kevin Krishnaratne^  No.  That's helpful, Luc.  Very intriguing deal, and good luck.

Operator^  Your next question will come from Richard Tse with National Bank Financial.

Richard Tse^  Yes.  Thank you.  So congratulations team on Fonds de, it looks like a very long process.  If you look at slide 14, I was wondering if you can maybe just quickly walk through the broad economics of the sort of the two models, the ePro SaaS and the ePro Transaction?  Just trying to understand maybe a very simplistic transaction, just get the flow of what -- how the margins look on each of those respective models?

Deborah Dumoulin^  Okay.  So maybe I can just explain it briefly.  But -- so, what you see on the left is ePro SaaS.  It is what you would know as the typical subscription fee paid by the agency to customers based on SaaS.  So it's not various SaaS of governments will pay a different amount of subscription fee in terms of revenue.

On the ePro transaction model, the revenue recognition is really based on the government spend. So as Luc explained a couple of minutes ago, the percentage of the spend is what gets recognized. They're typically long-term contracts in this case, a large U.S. state. So essentially, there's a lot of growth in the ePro transaction. So when you're in the ePro SaaS, you have to win new work, new sales contracts, whereas in the ePro Transaction model, the spend with existing U.S. customer base can increase quite significantly.

From a margin perspective, we've never been a company that's provided guidance on margins. So we knew we need to do some guidance, especially around revenue, but we can tell you that we believe that our EBITDA margins, as we showed on the first slide, will improve. Combined companies definitely brings on to improved margins. And so we expect to see that increasing over time.

Luc Filiatreault^ Richard, thanks for the question. I -- and I know you and I talked often, and I know you had some -- you were looking forward for us to execute on the transaction. And obviously, every time we spoke, well, I could not tell you about this. But it was and has been in the work. So hopefully, you understand why sometimes I was a bit vague and not directly answering. Sorry.

Deborah Dumoulin^ And perhaps what you can see on the slide we did present is that the historical margin has been around 8% from an EBITDA margin perspective for Periscope. And I think it's from there that we think the significant opportunity is really on expanding the margins from there.

Richard Tse^ Yes. No, I appreciate that. And in terms of Slide 8, you showed the agency solutions. And I'm just kind of curious to see, from a product set perspective, what that mix is? Is it proportionately leaning towards one or the other? And what you can kind of share with us at a high level, what the mix of revenue may be?

Deborah Dumoulin^ So for sure the ePro solution is representing about one-third of the revenue. And then after that, I don't have a specific breakdown in front of me. But it would be the Marketplace that's really driving the -- probably the second largest stream of revenue. And then things like CLM, which is our contract management system, it's smaller in terms of revenue. And then there's a few legacy platforms in there. And then add in terms of by nature of product.

I think certainly, the growth areas are around the Periscope Marketplace and the Periscope ePro, which is the transaction model that we referred to. And the rest are really providing all the services of the procurement -- the eProcurement wheels.

Luc Filiatreault^ Yes, it's -- I mean it's similar to us, right? The various modules that they have are also supplier based. And a lot of suppliers pay small amounts to be on those networks. But once you get something that interests the large agencies to come on and offer them significant savings, well, obviously, you can get some pretty significant savings from that.

Deborah Dumoulin^ And I think that modular concept is what's really solid about the solution that Periscope has because it allows the client to pick what they're ready for and to grow over time on the various modules that are very interconnected and that are very complementary to each other. So you don't need to go full scope everything. You can buy this and purchase a solution in modules or implement it, if you're on the transaction while you're not paying for it.

Richard Tse^ Okay. And just a last one for me. If you look at, let's say, the immediate addressable market that you think you can pursue? Like, what's the market share environment look like? What's your share? And maybe what's the share of some of your -- maybe the top two other competitors in the marketplace?

Luc Filiatreault^ The easiest way to describe this at this point is, we estimate approximately 100,000 agencies and governments across North America. We currently have about 6,000 of those on our networks. And we only have eight states on the -- sorry, Periscope platform. So that gives you a view of how much room there is to grow there, not -- obviously, we -- not all of those agencies are large enough to represent a big bump in revenue.

If you look at it from the transactional piece of the revenue, right now, between us and Periscope, we probably are -- we don't have any transactional revenue, but I know how much we service and that's probably around the $30 billion, $35 billion out of -- North America is probably -- when you add the stimulus there, we're probably getting close to potentially $3 trillion. So we're at 1-ish percent of market share, and we are the leader in public eProcurement. So lots of room to grow. And again, insist on that first-mover advantage.

As far as we understand, we're the first company to be able to offer this type of transactional revenue with a revenue-generating model for the actual government body that's issuing those contracts.

Richard Tse^ Okay. That's great. Congrats on pulling off this big deal.

Operator^ And there are no further questions. I will now hand the call back to Mr. Filiatreault. Go ahead, sir.

Luc Filiatreault^ Well, guys, thank you very much for your insightful questions. I know it's been a long in the making, and this started already a few months back, and we did everything we could to make it happen as fast as possible. And my whole team is absolutely exhausted. I'm told I'm running them to the ground now.

So very happy to have you on the line, and I'm sure we'll talk some more in the next few days. As you know, there's some financing going on. So I'll take -- we'll take further calls with some of you as we go. So thank you very much for your attention.

Deborah Dumoulin^ Thank you.

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