mdf commerce inc.(Q1 2023 financial results)

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Corporate Speakers:

- Luc Filiatreault; mdf commerce inc.; CEO, President & Director
- Deborah Dumoulin; mdf commerce inc.; CFO

Participants:

- Amr Ezzat; Echelon Wealth Partners Inc.; Research Division, MD of Research
- Deepak Kaushal; Stifel Nicolaus Canada Inc.; Research Division, Former Director and Technology & Communications Analyst
- James Burns; National Bank Financial, Inc.; Research Division, Associate

PRESENTATION

Operator^ Thank you for standing by. This is the conference operator. Welcome to the mdf commerce First Quarter Fiscal 2023 Investor Conference Call. Today's call will provide information and commentary on the company, with a focus on the financial results released yesterday 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 their website, 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, 2022, 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 securities law.

We remind you that today's remarks will include forward-looking statements and non-IFRS measurements 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's news release, which is on their website and has been filed on www.cedar.com.

The company's actual performance could differ materially from these statements. I will now hand the call over to Mr. Filiatreault. Please go ahead, sir.

Luc Filiatreault^ Well, thank you, Shannon, and good morning, everyone. Thank you for joining us on our Q1 fiscal '23 results call. We'll 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 operations. Mdf is a developer and operator of digital commerce platforms that facilitate billions of dollars a year of digital commerce transactions for well over 550,000 end user companies, mostly in North America.

Our mission is to enable the flow of commerce. As we enter the third year of our 5-year strategic plan, our key operational drivers are focus and simplification to ensure the strong execution of the strategic priorities for the coming year. Before I cover an update on the state of operations, I'd like to mention that Deborah will provide remarks on the state of the company's balance sheet.

We've had questions recently on the company's capital structure, particularly on long-term debt. I want to confirm that we are in compliance with the financial covenants of our credit agreement at June 30. Our capital management strategy includes performing financial stress tests to assess the corporation's ability to meet its financial obligations, including the covenants in the credit agreement.

Now in terms of operations, our focus remains on our two core platforms: the eprocurement and the Unified Commerce, which includes e-commerce and supply chain solutions. Current market conditions are clearly favorable for our eprocurement technology, which targets government agencies across North America. Despite uncertain global macroeconomic conditions that are impacting many sectors of the economy, these government agencies show no signs of slowing down the process of digitizing their procurement functions.

Our continued focus on revenue growth in this sector is core to our strategy. Our leadership position in North America eprocurement, combined with our innovative transactional model, that we refer as TRX model, position us favorably to capitalize on this growing market -- growing segment of the market.

Our top priority for eprocurement is to accelerate conversion of revenue opportunities in our pipeline. Interest in our technology is high. There were some operational barriers that have impacted conversions, which have been slower in Q1 than what we originally expected going into fiscal '23. Specific actions have been taken to address these operational barriers, which are beginning to accelerate our conversion cycles. Conversion remains a top priority.

Onboarding buying agencies onto our eprocurement platform drives increased spend on our platforms, which specifically for our TRX model drives transaction-based revenues. Our full procure-to-pay ePro solution is already implemented in several U.S. states. For unified commerce and specifically e-commerce, the entire sector, including our platforms, is facing post-COVID headwinds.

As a result, we've seen a reduction in volume-based revenues. Based on the current trends, we expect more limited volume-based growth in the coming quarters, especially in the e-grocery. In contrast, retail-based transactions, which have been less impacted. To counter this market shift, we are focusing our commercial efforts on our order management system, the OMS, which helps retailers ensure an optimal consumer experience with a hybrid shopping environment.

This product does not require a client to fully re-platform their e-commerce solution. It is out of the box already and can be easily layered onto existing tech stacks in a much shorter time frame. It allows our clients to highly increase the inventory they have available online and allows them to increase their digital sales without much additional effort or cost. The e-commerce platform remains a strategic priority for mdf commerce. The market downturn in the e-commerce sector requires us to manage profitably and to realign the cost structure.

One of the first steps taken was to prioritize filling positions that are revenue generating that allow us to service our clients that generate revenue. With salaries that continue to be trending upward, inflation in our key markets at a 40-year high and a downturn in e-commerce, we are looking at ways to improve our overall operational efficiencies. We are currently reprioritizing many of our initiatives to adapt to the present market conditions by focusing on nearer-term priorities that have a higher impact on margins.

Our goal is to reduce operational costs and improve margins as we push towards achieving profitability. Overall, our growth for the first quarter of fiscal 2023 is lower than expected due to market slowdown in the e-commerce sector and the lengthier than anticipated time to convert eprocurement opportunities with major government clients.

We quickly adapted to respond to these evolving challenges, have taken definitive and clear steps to address them and therefore remain confident in our ability to execute on our strategy towards profitable growth.

And 1 element that I'd like to comment on is the fact that the corporation is pleased to announce the nomination of Brian Nelson to stand for election to our next -- to our Board of Directors at our upcoming Annual General Meeting, which is scheduled for September 20, 2022.

The addition of Brian will further strengthen and complement the permit skills and capabilities of the Board. Brian has been a partner at Long Path Partners, a privately owned investment firm, which owns approximately 11.4% of the shares of the corporation and that invests in the limited number of high-quality businesses operating primarily in the enterprise software and business and information service markets since 2018.

He currently serves as a -- he currently serves as a co-portfolio manager of the Long Path Smaller Companies Fund and the Long Path Opportunities Fund. The corporation looks forward to welcoming Mr. Nelson upon his election. His experience and knowledge will be a valuable contribution to the Board of Directors.

With a long history in public sector software as well as eprocurement software. Long Path brings a wealth of experience and knowledge to the table. We look forward to their continued support and strategic input as we grow our activities in government procurement. So Mr. Nelson will be joining both the new members of the Board, which were Pierre Chadi and Lester Fernandes, which were announced on our Q4 results just a few weeks ago. So now Deborah will provide information on our company's Q1 fiscal '23 financial results. Deborah?

Deborah Dumoulin^ Thanks, Luc, and good morning, everyone. I'll start with our balance sheet. Cash at June 30 was $5.9 million compared to $6 million at March 31, 2022. The company's capital management strategy includes the use of long-term debt. At June 30, long-term debt under the credit agreement includes a term loan, which is a $16 million U.S. facility or CAD 20.6 million, which was available as a onetime borrowing and was used to finance the Periscope acquisition in August of 2021.

The company also has a revolving facility with borrowings at June 30 of $35.4 million. Therefore, long-term debt net of cash balance is $49.5 million at June 30, which compares to 43.7% at March 31. The increase in total debt net of cash of $5.8 million during the quarter is due to several factors.

Normal operating changes in noncash working capital, which relates mainly to timing, payment of the first tranche of the Periscope acquisition-related retention bonuses, which were made in April of 2022, the annual increase in the company's employee salary group, which occurred in Q1 and which increased the overall payroll-related cash outflow.

We also want to note that from a short-term tax credit receivable perspective, and for those of you who are familiar, the e-business tax credit is available to qualifying business for development activities, and this is for many of our Quebec-based businesses, and these credits have taken longer than usual to collect from the Quebec government. We understand that the government tax agency continues to experience some processing delays. However, we expect to collect $5.7 million over the next few months.

The revolving facility has a maximum borrowing of $50 million and an accordion of $20 million, which is subject to lender's approval. The borrowing base under the revolving facility is based on a multiple of our monthly recurring revenue and on eligible accounts receivable as defined in the credit agreement.

On June 30, the actual borrowing base for the revolving facility is in excess of the maximum capacity of $50 million. The credit agreement requires that the corporation maintained 2 financial covenants, the fixed charge coverage ratio, which must be not less than 1.2:1 and a debt to capitalization ratio, which must be greater than -- less than 50.

At June 30, the corporation was in compliance with both of these financial covenants. The fixed charge coverage ratio makes use of last 12 months' EBITDA as defined in the credit agreement.

The corporation prepares financial forecast and stress test assumptions to evaluate the risk that significant differences could result in noncompliance with these covenants.

Subsequent to quarter end, we initiated proactive discussions with the lender and on August 11, the credit agreement was amended to provide for a reset of the fixed charge coverage ratio from the 1.2:1 to 0.5:1 for the next 3 quarters, ending on September 30, December 31 and March 31, 2023.

Based on our financial forecast, the corporation has sufficient capital resources available to maintain its capacity to meet its working capital requirements to finance its commitment for planned growth to fund activities of its business plan and to maintain an appropriate level of capital spending as well as to comply with the financial covenants required under the credit agreement.

So now let's move on to the financial highlights of the first quarter. Q1 revenue was $32.2 million, an increase of $9.6 million or 42.6% compared to $22 million -- $22.6 million in Q1 of 2022.

On a constant currency basis, total revenue was increased by 9.8% or 43.6% compared to Q1 2022. Q1 recurring revenue represents $26 million or 77.8% of total revenue, and recurring revenue grew by $9.7 million compared to $16.4 million or 72.5% of total revenue in Q1 of last year.

Our total consolidated U.S.-based revenue represents $16.5 million, now 51% of the $32.2 million of total revenue for Q1 compared to 43% of Q1 revenue in the previous year, mainly from the acquisition of Periscope, which is a U.S.-based subsidiary and eprocurement that had revenues for Q1 of $8.1 million.

Revenues for Q1 were impacted by a fair value adjustment of the Periscope deferred revenue which occurred at the closing balance sheet as part of the acquisition accounting and which resulted in a reduction of revenue for the quarter of $1.2 million, while this was not applicable in Q1 2022 because it was pre-acquisition.

The eprocurement platform generated $17.9 million an increase of $9 million or 101.4% compared to $8.9 million in Q1 of '22. The corporation U.S.-based be procurement revenue grew by 187.5% or $8.6 million in up to 13.2% in Q1 2023 compared to 4.6% in the same quarter of the previous year and again, mainly related to the Periscope acquisition.

Monthly recurring revenue for the eprocurement platform represented $16.6 million or 86.8% of platform revenue for Q1 compared to $8 million and 89.9% in Q1 of the previous year. Our other core platform, Unified Commerce, which includes both e-commerce and supply chain collaboration solutions, generated $9.8 million for Q1 of this year. A slight decrease of $0.1 million or 1.2% compared to $9.9 million in Q1 of the previous year.

Monthly recurring revenue for Unified Commerce platform, represents $5 million -- $5.8 million or 59.6% of platform revenue compared to 57.1% in Q1 of 2022. The emarketplace platform generated revenues of $4.6 million for Q1 of the current year, an increase of $0.8 million or 19.9% compared to $3.8 million in Q1 of the previous year.

Revenue growth in the marketplaces was driven primarily by the broker forum, which is an electronics parts marketplace where volumes have continued to increase due to global supply chain shortages.

Turning now to gross margin for Q1 of 2023. It was $18.5 million or 57.4% compared to $13.2 million or 58.7% for Q1 of the previous year. The slight decrease in the gross margin percentage is mainly due to higher total salary expense, higher headcount, higher professional services to support customer implementation mainly consultants on large deployments, and higher hosting and licensing costs directly related to the Corporation's migration to a cloud strategy.

For Q1 2023, operating expenses were $25.5 million an increase of 45.3% compared to $17.5 million in Q1 of 2022. General and administrative expenses were $7.3 million in Q1 of 2023.

Selling and marketing expenses were $8.7 million, and technology expenses were $9.5 million compared to $5 million for G&A, $6.1 million for sales and marketing and $6.4 million for technology in the previous Q1. Higher total operating expenses in Q1 2023 are mainly due to the acquisition of Periscope.

Q1 2023 amortization costs were significantly higher at $4.5 million compared to $2.3 million in Q1 of '22, mainly due to the acquired intangible assets from the Periscope acquisition. Other increases are the professional services relating to support the Corporation in implementation of its strategic activities, its transformation plan and to support large deployments of client contracts.

Operating expenses for Q1 included a [private] prior year, excuse me, included a federal wage subsidy of $0.8 million with no subsidies claimed in Q1 of 2023. The corporation recorded an operating loss of $7 million in Q1 of the current year compared to $4.3 million loss in Q1 of 2022. The net loss was $6.3 million or $0.14 per share basic and diluted in Q1 of the current year compared to a loss of $4.3 million or $0.15 per share basic and diluted in Q1 of 2022.

The adjusted EBITDA loss was $1.1 million for Q1 of 2023 compared to an adjusted EBITDA loss of $1.5 million reported in Q1 of 2022. The company's annual salary increase took effect in Q1 of 2023 on a higher headcount than in prior year, mainly due to the Periscope acquisition.

The $1.2 million impact in Q1 that I mentioned earlier on the fair value adjustment of the Periscope deferred revenues that occurred at the opening balance sheet of that acquisition also had an unfavorable impact on revenues but also gross margin, net loss, adjusted EBITDA loss and loss per share during the quarter. With that, I'll turn it back over to you Luc.

Luc Filiatreault^ Thanks, Deborah. See, that's a lot of numbers. Over the next few quarters, our strategic focus remains on accelerating organic growth. Although our operational focus is both on eprocurement and Unified Commerce platform, our near-term emphasis is on eprocurement, which has strong market tailwinds and an efficient and appealing business model. We believe that by concentrating our operational efforts on this market vertical we can yield higher margin, high-quality revenue growth.

The investments that we have made in our platforms over the past few quarters, which have greatly improved customer satisfaction, product performance and our ability to scale the business will be rightsized to the current market conditions and will be focused on elements that have higher impact on margins.

Management will continue to work diligently on operational efficiency with additional efforts to reduce costs and prioritize the critical aspects of our business that drive organic growth and contribute to our goal of returning to profitability.

Though our Unified Commerce platform is impacted by current macroeconomic trends, we believe that our ability to capitalize on the continued acceleration of digitization of processes within the gov-tech sector will allow us to navigate the current and challenging macroeconomic circumstances.

Over time, we expect our eprocurement platform to play a larger role in our ability to scale, and we are structuring operations accordingly. We continue to execute as planned on the integration of Periscope in adopting and leveraging the unique transactional model for the entire eprocurement platform.

Concurrently, we are accelerating and onboarding new U.S. states and public agencies. Consequently, we remain confident that we are on the track to realize stated synergies with the stated time line. Despite macroeconomic uncertainties, we are confident that the digital transformation of our business processes will continue and that the corporation will be able to benefit from this trend through its main platforms.

Our diversified and unique business solutions, combined with our industry expertise, position us well to capture new market shares while continuing to support our long-term customers in unprecedented times.

I would like to remind that only approximately 20% of our business comes from large customer engagements that can be press released. The majority of our revenue, and that's about 80% comes from more than 100,000 paying customers on our various networks such as SQDC, MERX, BidNet and the various SMBs that use c-commerce in our marketplaces.

And with that, we are happy to open up the line for questions. Shannon, if you could open up, we'll be happy to spoke with the people on the phone.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) And our first question comes from the line of Amr Ezzat with Echelon Partners.

Amr Ezzat^ In your -- the first one I've got is on Periscope. Can you update us on the growth prospects there? I mean, you spoke to the challenges and it looks flat post IFRS deferred revenue adjustments and I recall the expectations when you acquired the platform last year for -- were for a much more aggressive growth profile. You spoke early in your prepared remarks to, I think, issues in your conversion cycle. So can you walk us through that and tell me how should we look to model Periscope going forward?

Luc Filiatreault^ Well, thanks for the question, Amr. I mean, we're still very confident in the pipeline that we have with Periscope. And as we've shared with you before, the larger deals that Periscope enables us to acquire our with the TRX models. And we have a very strong pipeline of various states that are highly interested in establishing that type of model for their procurement.

Unfortunately, it was just lower than we expected to convert those deals. We have not lost any work. We still are in the process of actively negotiating with various states, the impact of moving to a strong digitized model like we have. So at this point in time, we expect that this growth is still there. It's only pushed out.

And as I mentioned, we still are adding lots of suppliers, lots of agencies to the network, but that's what contributes to our, let's call it, normal organic growth rate and the addition of any given state to the TRX model would create a discontinuous growing opportunity, which would be substantial but at this point in time, it's -- they're all coming.

Amr Ezzat^ So if we could just like speak to the TRX or transaction fee model. When you speak to conversion cycle issues, is it at like lack of staff, it's the negotiation with the clients? Like what are the pain points that we should be thinking about?

Luc Filiatreault^ It's a little bit of all of the above. As you are probably aware, many -- well, there's still a lack of staff pretty much all over the place and particularly in those U.S. agencies. So the time to move certain of the discussions is just longer than it usually is. We even see that here in our local government, which is telling us that our credits, our [CTA] credits will be taking longer than usual to process, and we all saw what happened with the passports and the airports and everything else.

So there's some of that. There is also potentially the summer, which, for the first time, people are seeing the summer arrives without any COVID black clouds and that's been a long time in the making. Many people were just out. And we ourselves are increasing our knowledge of the intricacies of negotiating these deals which are, by definition, relatively complex because they touch complete states with large bodies of people.

Amr Ezzat^ Okay. Then just on one specific contract, you won last quarter where you had updated the contract value for one of these states. Can you give us an update on how things are evolving for that set of clients? Is that still the same sort of pain point that you were referencing or is there a line of sight for implementation?

Luc Filiatreault^ No. Actually, we've progressed significantly on that. We put -- I'd like to call it a Squat team under the leadership of one of our guys who actually came from our Vendor Registry acquisition. And we have caught up a significant amount of those unreported spend that we had talked about.

As you're aware, the TRX model is not something we revisit every quarter, but we are so far pretty confident that, as we mentioned last quarter, the $2.2 million adjustment is potentially being recuperated then we'll be able to recount that probably later in the year.

Amr Ezzat^ Okay. On OpEx, a decent uptick for the quarter to $25.5 million, which is a theme we're certainly seeing with a bunch of companies. What does OpEx look like over the next couple of quarters? I believe Luc you spoke to reducing costs. So do we expect dollar amount the $25.5 million to go down or does it stay flat?

Luc Filiatreault^ As you know, Amr, we don't really provide guidance, forward-looking guidance as we mentioned in the remarks, we are looking at various cost containment strategies. Now at this point, I'm not going to be able to comment on how much that could contribute.

Amr Ezzat^ Okay. You spoke to salary increases? Are these like implemented like throughout the organization already? Is that the beginning of the quarter?

Luc Filiatreault^ Yes. Correct. Our salaries change in April 1 with the beginning of the year. So most of that work is accomplished in, let's call it, February and March. And obviously, those salary increases were activated starting April 1.

Amr Ezzat^ So it's fully reflected in the quarter. So when I'm thinking about profitability of your different divisions, and I know you don't segment this way, how do I think about Unified Commerce versus strat sourcing, I recall in the various forms, like the messaging was like Unified Commerce is in the negative strat sourcing, isn't the positive -- is that still the same? Are we seeing the profitability of strat sourcing decline or how do I here an update there?

Luc Filiatreault^ I think that the assumption that you were making earlier are still valid. eprocurement generally is, yes, on the positive side, and e-commerce, as you know, needs to scale substantially.

And when we saw really the higher ordering volumes that we saw in and around the pandemic years, our e-commerce solutions generated positive. Unfortunately, with the lowering of the volumes that we see across the board, it does go back into negative territory.

Amr Ezzat^ Okay. Maybe one for Deborah. So on the amendment to the fixed charge coverage ratio, can you walk us through that? I believe last quarter, you said that you were very much on site there than you'd amended not -- well, not this quarter yesterday. Then when I'm thinking about like what steps are you guys taking to deleverage over the next 3 quarters to ensure you won't be in breach once the covenant is reset to its original 1.2:1 ratio.

Deborah Dumoulin^ Yes. So we were very much -- we do have pass the compliance at Q1, we're in compliance in the past on our ratios. This is really preventative discussions just in case there is any kind of slippage. As you know, it's the last 12-month EBITDA calculation. So the fact that we have had some quarters in the last 12 months where there has been negative EBITDA does put some pressure on that calculation. So it's really that preventative side of things where we have requested this reset of the ratio.

Obviously, as Luc mentioned just earlier, there's many things in the pipeline, especially in procurement that we hope are in the near-term perspective, and also combined with the cost containment measures that we will put in place. We are negative $1 million EBITDA for the quarter. Most of that is driven by the salary increases in the quarter, and we are looking at what we need to do from a cost containment perspective to manage those -- not only the ratios, but also the profitability of the company.

Luc Filiatreault^ One thing to add to that, Amr, is that we will stop having that deferred revenue number. Actually, next quarter, it's a pretty small number. And I think we can disclose that, right? It's going to be around 300,000, and then that's the end of it. So in itself, that will help because it's a number that goes directly to bottom line.

Operator^ Our next question comes from the line of Deepak Kaushal with BMO Capital Markets.

Deepak Kaushal^ I just wanted to clarify on Amr's last question or maybe just at a high level. When do you guys expect to be cash flow positive, notwithstanding the working capital as well. When is that working capital versus are you expecting it to come? And when do you expect to be cash flow positive on an operating basis helpful?

Luc Filiatreault^ I guess by -- I'd say that as we will work towards achieving that as soon as possible, Deepak, but as we don't provide forward-looking guidance, I obviously can't give you a date.

Deepak Kaushal^ Okay. And then if you can just remind me, how much room is available still on the credit facility?

Luc Filiatreault^ Approximately $15 million with the current $50 million revolver, and we have a $20 million accordion that is approved, but we require an approval from the lender to use.

Deborah Dumoulin^ And today, if we were to use our MRR calculation and eligible accounts receivable, the ability to grow is in excess of the $50 million.

Deepak Kaushal^ Sorry, is in excess of -- pardon me, I missed it?

Deborah Dumoulin^ Yes. The facility is the $50 million facility. So when we talk about room, we have [$35.5 million] for that today. However, if we look at calculating our MRR and ARR forwarding base, we could borrow greater than the $50 million limit, meaning if we want to, we can request use of the affiliate feature from the lending.

Deepak Kaushal^ Okay. Okay. That's helpful. And then just shifting to the operating businesses. On the procurement side, have you converted any of your existing customers to the transaction-based model? And what might the mix?

Luc Filiatreault^ We have not converted new customers to the transaction models. We continued to add various departments and agencies within the states that we had at the time that we acquired Periscope.

Deepak Kaushal^ Okay. But the customers that you had organically before Periscope they're still on the old subscription model, is that correct?

Luc Filiatreault^ I think we're -- I'm not sure I follow your question, Deepak, because the transactional model applies to the state for procurement, right? And the model there is when they ultimately acquire the goods and services on the portal, which is, call it, an Amazon-like for government type of portal that contains all of the logic to get rid of all the red tape, the RFPs and everything else. So we today have 3 states that are have adopted that model and are in various phases of implementation. All of our other business still uses the supplier RFP, right?

You're talking about MERX, business, et cetera, which we continue to develop. We indicated here that we've added about another 100 agencies during the quarter and about 38,000 suppliers on that. But that portion is not transactional. The suppliers, the customers cannot actually execute the order of the goods or the services. It simply manages the RFP and the contracting process.

Deborah Dumoulin^ Maybe just to add to use the ePro technology with -- in the non-transaction model. So there are some states that are paying us a significant let's say, a very high annual sub subscription to use, they just pay it with an annual size subscription. But we do have other states other than the three transactions that do use that full procure-to-pay ePro division. And we continue to market and look to sell that ePro solution to even those that won't be big enough to make it economically efficient to use the transaction model.

Luc Filiatreault^ Maybe I could just take a pause and explain that there are -- it's obviously all the same technology called ePRO, and we sell it under 2 different commercial models. The first, which typically addresses smaller states and cities because we also have cities that have that. is a regular SaaS model where the customer pays a monthly fee to use the technology. And I believe we have about 5 or 6 of these customers across the states.

Then we offer a second commercial model, which is the transaction model. It's the same technology, but the business model differs here where the customer being the state does not have to pay a monthly usage fee, but we collect a transaction fee on each of the transactions that flows through the system. That model generates significant more income over time. And it's really interesting for the state because it's a self-funded model.

Deepak Kaushal^ Got it. I guess what I'm trying to get at is the existing customers you had before acquiring Periscope, is there generally an interest in those customers converting to the Periscope technology in this new type of model.

Luc Filiatreault^ Absolutely. We have -- yes, okay, I get your question. We have many of those that are in the process of doing that. And that's the part where I did have to say that it's a little longer than we expected to convert these customers and get them over the hump but the interest is still very, very high.

Deepak Kaushal^ Okay. So that was the nature of my question. I'm just trying to understand in converting that customer base, what is the what is the incremental value for the customer to move to the transaction model? And what's the incremental economic pickup for you guys? If you convert a customer, are you making 25% more from that customer over 2 years, and they're saving 25% more like what's kind of the magnitude of the benefit to both parties in transitioning to transaction model?

Luc Filiatreault^ Well, that's not something we would disclose publicly for mostly competitive reasons because we obviously compete in the markets and we wouldn't want these numbers to be out there too much.

Deborah Dumoulin^ Model is the set that the transaction when we enter into a transaction model, we expect that we will receive income and cash that is much larger than the current subscription fee, and that's just about because it's based on the volume of all the sales of good services that go through the model. So the interest when there is a transaction model is both the state as well as us profit from that convenience fee arrangement. So the more agencies, the growth upside is certainly there in terms of the way the model works.

Operator^ Our next question comes from the line of Richard Tse with National Bank Financial.

James Burns^ It's James Burns sitting in for Richard today. I was just wondering if you could kind of speak to like once the synergies of Periscope have been fully realized, like what's the margin profile, both gross margins and on the EBITDA line might look like at scale?

Luc Filiatreault^ Trying to think of how to -- I'm really sorry, I can't give you a precise answer, James, because that would basically be giving you some forward-looking guidance. And at this point in time, we're not doing that. So -- and -- but we did mention that the synergies would take approximately 3 years to realize, and we are well on our way to doing that. But we are -- I'm not going to be able to give you any specifics.

Deepak Kaushal^ Okay. Okay. Just one more then. Could you just speak a little bit to how the Aldi implementation are tracking at this stage? Or have they largely been put on hold or kind of what's going, given the tougher macro?

Luc Filiatreault^ No. The Aldi implementation, while it's actually completed, they are using -- I mean we are seeing traffic and volumes and consumers are coming on the site and buying. They continue to add stores at a slower pace. That doesn't require a lot of work from us. Like we mentioned earlier, the grocery are seeing traffic and volumes and consumers are coming on the site and buying. They continue to add stores at a slower pace that doesn't require a lot of work from us.

Like we mentioned earlier, the grocery ordering online is currently at a lower level than it was during the pandemic and potentially also during the summer. We might see some elevation of -- or seasonality, I should say, once the colder weather starts to come in. But the relationship with Aldi is very good.

We've actually had some of our first on-site meetings with them because we have been working with them since the beginning of COVID, but had never actually spent any time locally over there in the U.K. So might see some elevation of -- or seasonality, I should say, once the colder weather starts to come in.

But the relationship with Aldi is very good. We've actually had some of our first on-site meetings with them because we have been working with them since the beginning of COVID, but had never actually spent any time locally over there in the U.K.

So all is good, and we still see some significant volumes of transactions, but not to the extent that we had seen prior to -- well, during the pandemic, I would say when people were stranded and just could just not go to the stores.

Operator^ (Operator Instructions) And I'm currently showing no further questions at this time. I'd like to turn the call back over to Luc Filiatreault for closing remarks.

Luc Filiatreault^ Well, thank you very much, everyone, for being with us this morning. And we are all very excited about the three new members that I've joined our Board over the last few weeks. Basically, will be obviously is really now in full action in our document, so we invite you to consult it and turn in your votes and be with us at the AGM on September 20, which is just about, what, five weeks from now. And we're looking forward to continuing to drive the company where the strategy that we had defined is really now in full action. So thanks very much, and we'll speak soon.

Operator^ This concludes today's conference call. Thank you for participating. You may now disconnect. The conference will begin shortly.