mdf commerce inc.(Q2 2023 results)

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Corporate Speakers:

- Luc Filiatreault; mdf commerce; President & CEO
- Deborah Dumoulin; mdf commerce; CFO

Participants:

- Kevin Krishnaratne; Scotiabank; Analyst
- Amr Ezzat; Echelon Partners; Analyst
- Deepak Kaushal; BMO Capital Markets; Analyst
- Unidentified Participant; National Bank Financial; Analyst
- Nick Agostino; Laurentian Bank Securities; Analyst

PRESENTATION

Operator^ Thank you for standing by. This is the conference operator. Welcome to the mdf commerce Q2 Fiscal 2023 Financial Results Investor Conference Call. Today's call will provide information and commentary on the company, with a focus on the financial results released this morning before the market open.

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 September 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.sedar.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^ Good morning, everyone. And thanks for joining us for our Q2 fiscal '23 result call. We will turn to the results we filed this morning in a moment. But first I would like to take a bit of time to tell you about mdf commerce and the state of operation. mdf is a developer and operator of digital commerce platforms that facilitate billions of dollars of year of digital commerce transaction for well over 550,000 end user companies mostly in North America. Our mission is to enable the flow of commerce.

Subsequent to the end of the second quarter, we executed a consequential transaction that significantly improved our balance sheet and further streamlines our strategic focus. As we've announced previously, the sale of InterTrade generated cash proceeds of approximately CAD66 million, that we use to repay long-term debt which has strengthened our balance sheet. Deborah, our CFO will provide more details on the positive financial impact of this transaction in just a few minutes.

In Q2 fiscal '23 results released, we also disclose a non-cash goodwill impairment charge of a Canadian $85 million. This non-cash accounting charge has no impact on the availability of working capital, that covenant, cash flows, our operations or on our ability to execute our strategic plan.

This impairment is due to significant increases in the interest rates by the U.S. Federal Reserve, as well as the revised financial forecasts on the expected timing of achieving certain growth objectives, particularly in our e-procurement line. This essentially means that some of the deals that are in our pipeline are taking longer than previously expected to convert. As you know, conversion cycles for the public sector are typically longer than in the private sector. And U.S. states have not awarded any significant e-procurement contracts in the last year.

In order to address our go-to-market strategy, we've recently hired Thierry Jaffry, eprocurement Chief Growth Officer, who comes to us with more than 15 years of experience in selling large procurement system. Deborah will go into more detail about the impairment charge during the prepared remarks.

When we look at our Q2 performance, we're pleased to report that with prudent cost management, operational streamlining and strategic focus, we've achieved a positive adjusted EBITDA of $1.4 million in the quarter. We are focused on maintaining positive adjusted EBITDA, going forward, and we remain focused on our organic growth objectives.

Now in terms of operations, our focus remains on two core platforms, eprocurement, and Unified Commerce, which includes ecommerce and the recently sold InterTrade, our supply chain collaboration platform. After this quarter, we will report on this platform, since we add ecommerce.

Current market conditions remain favorable for our eprocurement technology, which targets state and local governments across North America. Despite uncertain global macroeconomic conditions that are impacting many sectors of the economy, these government agencies continue to just digitize their procurement function. In August

2021, at the time of the Periscope acquisition, we were active on less than five large ePRO TRX stake opportunities.

Today, I am pleased to say that we are now active on approximately a dozen different ePRO trends TRX opportunities across Canada and in the U.S. Our leadership position in North American Public eprocurement combined with our innovative transactional model that we call the TRX, position us favorably to capitalize on this growing market.

For example, subsequent to quarter end, we announced that Walmart is now integrated in our Arkansas TRX model branded ARBuy. We are working to bring more suppliers to our platform in order to capture maximum spending budgets and create more long term stickiness for the state that we are deploying. We have now fully gone live with our Contract Lifecycle Management solution and fully integrated with ePRO in Massachusetts. And we are progressing on the TRX deployment in New Jersey.

Switching to ecommerce. For the quarter, the total revenue was slightly down by $0.7 million. But the recurring revenue as a percentage of total revenue was up from 57% to 61% this year, as we have completed the integration for certain customers.

We continue to see some challenging market conditions for the ecommerce business or the other order volume and the opportunities pipeline have been impacted by sustained inflation even more significantly over the past three quarters. For example, there continues to be a pullback online ordering in some of our key inflation sensitive verticals like grocery.

We continue to right size operations for current market conditions, with an emphasis on improving profitability. That being said, we have had success during the quarter, launching two sites Pro-Hawk which is a Danaher subsidiary, and renewing Dollarama for another three years. Last quarter, we announced that we changed our sales emphasis in ecommerce away from large platform sales to focus on our order management system that we call the OM. This helps retailers ensuring optimal consumer experience within a hybrid shopping environment.

Out of the box product does not require a client to replatform and can easily be layered onto existing tech stacks in a much shorter timeframe. Another product that we are focusing on, is our integrate -- integrated payment solution for small medium businesses where we've made solid sales progress.

Moving forward, after the sale of InterTrade, the Unified Commerce platform will simply be remained renamed Ecommerce. Our emarketplaces perform well during the quarter primarily due to the unique market conditions created by the supply chain challenges. And both the electronic and automotive market sectors. Cash flow from our legacy solutions remains helpful to fuel investments in our two core platforms.

Finally, I'd like to update you on some changes within our Board of Directors. Zoya Shchupak and Christian Dumont have resigned effective November 11 2022. The members of our Board and the management team are very grateful to both for their support and valuable contribution over the years.

Now, I'd like to ask Deborah to provide information on the company's financial results.

Deborah Dumoulin^ Thanks, Luc. Good morning everyone. I'd like to remind you that you can find our Q2 results press release MD&A and financial statements both on SEDAR and on our website.

Subsequent to quarter ends on October 4, we close the sale of InterTrade, for a total cash consideration of CAD65.8 million Canadian. That's U.S. $48.5 million. Subject to certain closing adjustments and amounts held in escrow up approximately CAD3 million. The net cash proceeds represents approximately five times revenue on a last 12 months basis, based on the year ended March 31 2022.

By executing on tax planning strategies, the net proceeds from the sale are expected to be completely sheltered from taxes payable. We also benefited from the U.S. to Canadian FX rate. That was CAD1.3574 at closing, which was favorable to the corporation, with the cash consideration from the sale being in U.S. dollars.

While we close out Q2 with long term debt, net of cash at CAD57.5 million, which compares to CAD49.5 million in June of 2022. With the net cash at closing, we fully repaid the term facility, which was $16 million U.S. or approximately CAD20.1 million, and the remaining amount was used to pay down the revolving facility. This debt repayment subsequent to quarter end significantly deleveraged the balance sheet, therefore improving our capital structure and liquidity and provides additional flexibility to execute on our strategic plan.

As a consequence of the closing of the transaction, our third amendment to the credit agreement was signed on October 4 2022. It provides for a waiver of the fixed charge coverage ratio which is replaced by a minimum EBITDA and this is EBITDA as defined under the credit agreement which is more similar to adjusted EBITDA that we published publicly. And this is required for the quarters ending December 31 2022, March 31 of 2023 and June 30 of 2023. As well until June 30 2023 any borrowings in excess of CAD30 million will require approval of the lender. The company is in compliance with all of its financial covenants at Q2 of this year.

The repayment of debt combined with a minimum EBITDA and the cost containment strategies that were initiated and executed on in Q2 and in early Q3, further solidify our focus on managing the business to positive adjusted EBITDA.

As Luc mentioned earlier, I'll provide a bit of further context on the $85 million goodwill impairment loss that we've recorded in the quarter on the Periscope cash generating unit. The impairment loss is based on an impairment test, which was performed in accordance with the International Financial Reporting Standards or IFRS. The goodwill impairment charge represents the amount by which the carrying value or the book value of the Periscope cash generating unit exceeds the estimated recoverable amount.

As of September, the recoverable amount was determined using a value and use approach which uses management's estimates of the discounted future cash flow forecast for the next several years. There were two main factors that contributed to the goodwill impairment loss. First, interest rate increases by the U.S. Federal Reserve in both Q1 and Q2 of this year at 125 and 150 basis points respectively, had a significant impact on the pretax discount rates that we use in calculating the value in use and the recoverable amount for this Periscope cash generating unit.

And that interest rates are quite a bit higher than they were at March and accounts for approximately $35 million of the impairment loss that was reported. Second, longer new business sales cycles in the U.S. public sector has resulted in slower sales growth ramp up as compared to the original business plan and resulted in a downward revision of forecasts for Periscope.

I reiterate what Luc said earlier, that this noncash IFRS impairment charge does not impact our cash position, or cash flow from operations, financial debt covenants or liquidity and does not have an impact on our future operations or on our strategic plan. So we'll move on now to the financial highlights of the second quarter. And I'll cover Q2 of this year, which you can find summarized on page seven of the Investors Presentation. And I'll refer you also to page eight for the year to date results which I won't cover specifically in my remarks.

Q2 revenue was $33.2 million compared to $25 million in Q2 of last year. This represents an increase of 32% year over year, and an increase of $3.2 sequentially from the $32 million in Q1. Q2 recurring revenue represents $26.5 million compared to $19.4 in Q2 prior year, representing an increase of 36.5% year over year. Recurring revenue as a percentage of total revenue was 79% for 2Q, compared to 74.3% in Q2 last year. This recurring revenue is now trending towards 80% recurring revenue.

Subsequent to the August 31 2021 acquisition of Periscope, revenue from U.S. clients represents a larger portion of our business in 2023, at just under 61% for Q2 this year, compared to 50% last year. For the e-procurement platform, the largest of our two core platforms, it generated revenue of $19.3 million, an increase of 71% compared to $11.3 million in Q2 2022, which included only one-month post acquisition of Periscope. Due to Periscopes U.S. focus, the corporation's U.S. eprocurement revenue grew by 106.6% to $14.4 million in Q2, compared to $7 million reported in the same quarter of the prior year.

Total consolidated U.S. base eprocurement revenue represents $14 million or 74.7% of the $19.5 million for Q3 -- sorry, for Q2 2023, compared to 61.9% of Q2 2022 revenues which were $11.3 million.

Ever since the acquisition of Periscope, we've been disclosing that there was an unfavorable impact on revenues of a fair value adjustments on deferred revenues at the closing balance sheet date of the acquisition. And this was an accounting adjustment that was required as part of the acquisition accounting. For Q2 this year, this adjustment resulted in a reduction in revenue of $0.3 million, compared to $1 million in Q2 of last year, and $1.3 million in Q1 of this year. Q2 represents the last quarter of this adjustment. Monthly recurring revenue for the eprocurement platform was $16.9 million for Q2 this year, compared to $10.8 million in Q2 of the prior year. Recurring revenue as a percentage of total revenue was $86.3 million compared to $87.8 million for Q2 of the prior year.

For other core platform, ecommerce, which includes both ecommerce and supply chain collaboration solutions generated $9.2 million for Q2 this year, compared to $10 million for Q2 of the prior year, a decrease of 7.9%. The decrease is partly explained by lower transaction volumes this quarter compared to prior year, but more significantly, due to lower professional services revenue of $0.7 million. As we complete customer deployments and integration work, we expect that total revenue from this platform will decrease, however, the percentage of recurring revenue will increase.

Recurring revenue from the Unified Commerce platform represents $5.9 million or 63.5% of platform revenue, compared to $5.8 million or 57.4% for Q2 last year. As previously mentioned, our customer deployments are completed, the percentage of recurring revenue will increase.

For emarketplaces, we generated revenue of $44.7 million in Q2 of this year, which is an increase of 24.1% compared to revenues in the same quarter of last year of $3.7 million. The revenue growth in emarketplaces continues to be driven primarily by the broker forum, which is an electronic parts marketplace where transaction volumes have increased, mainly due to the global supply chain shortages.

Turning now to gross margins for Q2 of this year, it was $19.4 million or 58.3% compared to $14.3 million or 56.9% for Q2 of last year. The improvement in gross margin percentage is mainly from lower professional services expenses, which have lower margins than our typical write of reduced revenue.

For Q2, total operating expenses were $23.3 million an increase of 1% compared to $23.1 million for Q2, witching of the previous year, which included only one month of Periscope. Q2 2023 had a significant decrease in acquisition related costs of $4.6 million in Q2 to of last year and only $0.8 million in Q2 of this year relating to the sale of InterTrade.

The corporation recorded an operating loss in Q2 of 2023 of $3.9 million compared to $8.8 million in Q2 of the previous year. The lower operating loss is mainly due to the decrease in acquisition related costs, as previously mentioned, offset by higher amortization and depreciation mainly on intangible assets from the Periscope acquisition. While net loss was $89.8 million or $2.04 per share, basic and diluted in Q2 of this year, $85 million of this is the noncash goodwill impairment charge. Therefore, adjusted net loss which excludes the goodwill impairment charge was $4.8 million or $0.11 per share basic and diluted, compared to $6.3 million or $0.19 per share basic and diluted in Q2 of the previous year.

Adjusted EBITDA was positive for Q2 at $1.4 million compared to an adjusted EBITDA loss of $0.4 million in the previous year’s Q2, and an adjusted EBITDA loss of $1.1 million that we reported in Q1 of this year. Year-to-date Q2 2023 positive adjusted EBITDA is $0.3 million compared to $1.9 million EBITDA loss for the first six months of last year. With the sale of InterTrade our annual consolidated revenue is expected to decrease by approximately $14 million on a going forward basis.

With that, I'll turn the call back over to Luc.

Luc Filiatreault^ Thanks, Deborah. So over our next the next few quarters, our strategy continues to be adding further focus and simplification to our operations. Our key focus is organic growth in our core platforms, eprocurement, and ecommerce. Our near term emphasis is on accelerating the conversion of our growing eprocurement pipeline.

Despite some temporary slowdowns and deployments, and platform had strong market tailwind, as well as 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.

With that, we've added sales leadership to the platform to help drive conversion and deployment of the TRX model. In addition, over the next few quarters, we will be consolidating our brands into a single offering to help maximize our sales and marketing effectiveness and reduce overall costs.

As I mentioned in my opening remarks, as we continue to right size our operations to the market realities of the ecommerce platform, we've experienced encouraging sales for our payment solution which targets SMBs in the b2b segment, and then the emerging pipeline of opportunities for our order management system, the OMS.

Within ecommerce, we will continue to drive towards improving profitability, while exploiting the opportunities for new revenue in order management and payment products. Although volumes at egrocery have been impacted negatively by inflation, volumes within other ecommerce sectors remain more stable, providing a stable and recurring transactional revenue base for the business.

We expect that Q3 will benefit from seasonal volumes, which typically increase due to Black Friday, Cyber Monday, and a general pickup in volumes that occurs over the holiday season.

Management will continue to work diligently on operational efficiencies, with additional efforts to reduce costs and prioritize the critical aspects of our business that drive organic growth and contributes to our goal of maintaining positive adjusted EBITDA and improving profitability.

Despite macroeconomic and uncertainties, we are confident that the digital transformation of businesses process 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 share while continuing to support our current long term customers in unprecedented time. With that, we're happy to open the lineup for questions. Rocco, can you please take care of that?

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) Today's first question comes from Kevin Krishnaratne, with Scotiabank.

Kevin Krishnaratne^ Hi there. Good morning. I had a question for you on the eprocurement side of things, the organic growth there. Maybe if you could talk about the near term expectations there, I think Periscope now you did $9.6 million but adjusted for the deferred revenue about $10 million. Can you just talk about what you're seeing near term you?

There's a couple of things going on there. You've got the sales cycle increasing, but you've got some sort of new opportunities that you're working on. And then on things other than Periscope, I think you're growing sort of in the 8% 9% range organically. Can you just help us understand the near term trends?

Luc Filiatreault^ Well, thanks, Kevin, for the question. As we mentioned, we about a year ago, we were really working on basically a handful of opportunities for the large procurement systems deployment. And today with some focused on growing our pipeline, we have approximately a dozens of these opportunities across both Canada and U.S.

Now, the sales cycles were definitely longer than we had expected. And we have confirmation that no large procurement deals were awarded by any states or provinces in the last 12 to 15 months. So the pressure is building up to get something in the works. And we're confident that over the coming quarters, this pipeline will materialize into some large size procurement implementation.

I would say the general term in the technology market where many large tech companies have proceeded to quite significant layoffs should also ease the pressure on recruiting folks. So we expect to be able to gain back some speed on the implementation. So more to come. But clearly, some good tailwinds and some very strong demand.

Kevin Krishnaratne^ Okay. Sorry, go ahead.

Luc Filiatreault^ I was going to say what -- when you refer to what we call the classic eprocurement business, which does grow at approximately 8% 9% per year, that part of the business is the part that currently touches approximately 6500 agencies across North America in Canada. And we keep adding agencies there all the time.

We currently have a base of approximately 550,000 suppliers that continue to use our various portals in order to obtain business from the government. So that's basically our sourcing capabilities, where we have multiple brands that serve the market. And we're also in the final stages of bringing all those brands into something a bit more comprehensive, so that we have better sales and marketing efficiency, but also lower costs.

Kevin Krishnaratne^ Okay, thanks for that color, Luc. I just wanted to confirm on the Periscope side, there is, obviously, you had softness to from the macro and the spending. But, you also alluded to the fact of resource. So with some of -- was there some impact that you think will ease on your end by being able to have access to better talent, and that should resolve in the coming quarters?

Luc Filiatreault^ Definitely, right. Periscope was -- Periscope is what brought us the complete source to take capabilities in with the transactional model. And as we had mentioned in multiple other quarters, there are some projects on which that we’re working, where availability of tolerance was difficult and made us experience slower than expected progress.

We're starting to see some ease of that are -- we're starting to see less people go. Although it's still early days. I'm expecting that we'll see a lot less poaching happening in our ranks. So keeping our resources, having a bit easier time to hire people as needed in order to execute on the projects should definitely be create positive outcomes in the coming quarters.

Kevin Krishnaratne^ Okay, good to hear. Maybe a question for Deborah on EBITDA. In the quarter, can you can you talk about that there was a restructuring charge added back as well as acquisition costs? Can you just walk us through those? And how do we think about those two line items going forward? And I guess related to that, do we expect to see adjusted EBITDA, continue to move up here? Or is there kind of going to be a walking back down, I know that there probably was some benefit from InterTrade in the quarter that goes away. If you can just talk about the different pieces there on adjusted EBITDA.

Deborah Dumoulin^ Right, so in terms of the adjusted EBITDA, with respect to acquisition costs, so there was $0.8 million in the quarter that is related to the acquisition of InterTrade. So again, we don't give forward guidance on whether there's anything in the pipeline, but essentially, that is the one time cost. So that will go away. In restructuring costs, we do had some terminations in the quarter. But I would say that we did more of a restructuring exercise at the beginning of Q3. So there will be some additional cost there in Q3.

With respect to EBITDA, as you know, we don't give guidance on the EBITDA. But there was positive EBITDA from InterTrade so that will obviously put some pressure on adjusted EBITDA after the quarter. But again, we've done quite a bit of cost containment considering that. I think that sums up what I would be able to say at this point.

Kevin Krishnaratne^ I think, and one last small one there, is there any benefit on FX moves in the quarter on EBITDA, given your cost basis, can you just remind us of your exposure, you've got a Canadian cost base, U.S. dollar revenue?

Deborah Dumoulin^ Yes. So we do some hedging to protect that. But we do have a favorable impact in the sense that a lot of our revenue is in the U.S. But we've still continue to have a cost basis of people that are in Canada. But more and more of the U.S. revenue is serviced by U.S. employees. So there's less of a revenue and cost impact. But we do have approximately 60% of our revenue in the U.S., which is obviously benefiting from a higher conversion to Canadian dollar where the rates has been close to 1.35. Certainly at the end of September beginning of October.

Kevin Krishnaratne^ Got it. Okay, thanks. That's all for me. I'll pass it on.

Operator^ Our next question today comes from Amr Ezzat with Echelon Partners.

Amr Ezzat^ Good morning. Thanks for taking my questions. I just want to circle back on Kevin's question on Periscope. What the -- I guess you guys reset your internal forecasts with that impairment charge. I'm just trying to think about the growth prospects of the platform over the next couple of quarters in light of these revised forecasts. Is it a fair statement to say high visibility platform but flattish medium term topline? Do you feel that's a fair statement to make? Or should we be expecting some sort of growth?

Luc Filiatreault^ Hello, Amr, well as you saw we've moved proactively in terms of strengthening our bench in terms of sales and marketing, because we were seeing some softness and delay. And we again mentioned that we were active on many more of these opportunities. And, some should materialize in the coming quarters. The reason we had to make that impairment adjustment and Deborah can comment further, is we had expected initially some of these deals to close earlier, which obviously when you look at it, in the long run, generate revenue for a longer period of time. When you push them out, the revenue isn't lost. But as it starts further, you also accumulated for less time, at least that's my understanding of it. That being said, we're very confident that the demand is very strong. The various discussions that we have with the various states and counties and municipal and large municipalities are very positive.

It's really a question of pushing through and making sure that these deals end up happening. We're very well positioned from a competitive perspective, we certainly see that our product is getting more and more traction. That is, it is really specifically tailored towards meeting public sector requirements and procurements.

And on that sense, what we did with Walmart in Arkansas, is rather unique. And it allows Arkansas employees Arkansas State employees, of course, to buy from Walmart, Walmart, the website inside of their regular operation. And that's, again, quite unique. And we're trialing all that out.

If it works, as we expect, it could lead to some significant increase in the stem happening through retailers, such as the Walmart's of the world. So very positive developments on many fronts, but yet delays which have multiple causes, that, we even see in some various Gartner reports, that, definitely, we're not the only ones feeling this and it seems to be across the market, a bit more specifically in the U.S. But expect that to resume a bit more normal pace, giving the ease on resources and the general better availability of tech talent.

Amr Ezzat^ So, flats with a positive bias, hopefully, is what I'm hearing. On the cost containment efforts. Are they only targeting like ecom? Or are there like other areas of the business where you guys are seeing opportunities. How far along are we in these efforts like, when you guys like set and think about your cost structure? Are you guys seeing a lot of other opportunities to sort of right size the business? Are we in the very late innings of that?

Luc Filiatreault^ It's all a question of the simplification of the model. As you know, we're integrating multiple platforms continuing to move legacy applications that are still in some cases running on servers on local servers. So we're moving all that the cloud and that's in good part complete, we now are into the process of gradually retiring everything we no longer need, continuing to simplify the applications and run everything on a single platform. And that's what will create the economies of scales that we're starting to see appear.

So it's not just ecommerce, it's across the board, where we were various simplification tasks that we undertook many quarters ago are starting to produce fruit.

Amr Ezzat^ Okay. Than in ecom, like how far along are you guys with that process? Like are we do you guys still see a lot of opportunities to right size? Or are we largely done?

Luc Filiatreault^ In ecommerce, I'd say it's a question of market, where the platforms that we have an ecommerce are significantly more recent, we'd have less of a legacy issue there. We're more adjusting our costs our capabilities to the current market demand. As we've said, in previous quarters, online ordering of certain goods and services is at a low point compared to what it was during COVID where restrictions probably created the urge to do a lot of ordering online.

So we're adjusting the cost base to that while we are releasing certain products that proved to have some legs. The LMS on the orchestra is definitely showing a lot of interests. We see some good demand, but it's early days in the building of that pipeline. And where we're definitely having some significant success is through the selling of the payment application, KIP application into ecommerce. And that's something we're upselling first to our existing customer base. So we should gradually start to see some positive outcome of that aspect.

Amr Ezzat^ Great. I'm wondering if, and I'm not sure you'll have an answer for me or maybe arrange like if I were to exclude orchestra, what does EBITDA look like for the rest of the MDF? Like, does your 4% EBITDA margin reported this quarter? Both like 15% to 20% without orchestra is that fair?

Luc Filiatreault^ As you know, Amr, I think you said it in your intro. We don't publish or we don't comment on profitability per sector. So I'll have to defer to your calculations there.

Amr Ezzat^ Okay, then maybe another way to add this question like, do you guys have some profitability targets or an EBITDA margin range that we should be thinking about to be a medium term or long term? Are you guys like targeting like 4% or 5%? Is it like 10% to 15%? And I understand you guys don't give guidance, but maybe like a range would be helpful?

Luc Filiatreault^ Potentially, Deborah, you can add some further color to this. But right now, we're really working and focusing on improving, driving towards greater targets. As you saw, we've already accomplished inroads into Q2. So we definitely are continuing to do that, but I won't comment on long term targets.

Amr Ezzat^ Okay, that's what I expected. One last one. Are you guys like resizing the Board to five members? Or will you be looking to replace the two Board members who stepped down?

Luc Filiatreault^ Short term, we'll operate with the five members, the wealth of experience that's there is very helpful. So this Board, is just starting, it only was elected just in September during the AGM. So we'll probably let a couple quarters go by and then see where we end up. But for now, I'd say that it's quite efficient to have it this way. And it certainly goes into focus simplification, elements that are in the rest of the company.

Amr Ezzat^ Great, thanks. Congrats on the positive EBITDA prints. I'll pass the mic.

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

Deepak Kaushal^ Hi, good morning, everyone. Thanks for taking my questions. Just a quick follow up before I have a couple more. Luc, just on the impairment charge. Am I hearing it correctly that the change in the demand outlook is really as a result of the macro or is there anything specific that's delaying some of these deals? Like, what other nuance or color can you give us regarding what's taking longer than you expected originally?

Luc Filiatreault^ I'd say, and you can read up on this, but it seems to be across the board. That generally the public sector has been slower in approving many are getting really the deals done and started. We have many of our states that have passed points where we know we will be the party, but the projects have just not been able to start for various reasons. And we see that across the board.

We feel that, this now is in part, I hope behind us. And the strength of the talents that we brought in, in terms of additional bench power in sales marketing, should really help ease that off. So we're positive about those possibilities, Deepak.

Deepak Kaushal^ Okay, so you've been selected for some of these, but they're just slower to get started for various reasons? Is that correct?

Luc Filiatreault^ Yes.

Deepak Kaushal^ And I'm just curious, what's the pressure on the government for doing nothing pin for staying with their incumbent system here? Like, either increasing costs or increasing efficiencies? Does something become obsolete? Or can things function as they are now, maybe you can give us a sense of their motivation to actually start this stuff in a tougher macro?

Luc Filiatreault^ Multiple elements that carry that. One is that there are definitely some efficiencies from digitizing process. And in almost all cases, we're not replacing any existing technology platforms other than email faxes, and in some cases, still some lots of paper trails and paper processing of RFP. So a digitizing process is very effective and does bring costs down.

Of course, when you deal at the government level there, there's always the notion of the balance between managing costs and making sure you don't have large side layoffs or things like that. So the additional pressure that comes at the various procurement departments that we are in touch with, come from the fact that they're very -- the staff is, unfortunately, pretty old. And there are many, many people are retiring, Procurement is not exactly the sexiest area of studies. So it's quite hard for most of our governments to continue to attract new people.

So the fact that they have large, large pieces of their workforce retiring, creates the additional pressure to bring in digitizing systems, which can function with less people. And the third is, as you know, in our TRX model, we actually return some money to the government. So these additional revenues are being budgeted inside of the various procurement division. And that creates the third incentive on which to get this up and running. So we clearly have articulated way better value proposition over time, and we're starting to see the results of that.

Deepak Kaushal^ Okay, that's very helpful. Any changes on the competition side, and particularly procurement, given there has been consolidation in the sector, including your acquisition of Periscope?

Luc Filiatreault^ We still feel that we're pretty much the only guy -- the only company with a complete procure to pay solution that's 100% adapted to the public sector. We've seen some of the existing competition actually move away from the public sector. And of course, the large guys always offer some form of or another of, of a solution, and I'm thinking the usual suspects like SAP or Riva, Oracle, NetSuite are those guys. But they don't have anything that's tailored to the public sector the same way we do, which covers the complete procure to pay, including all of the RFPs, the Contract Lifecycle Management and all that.

Deepak Kaushal^ Okay. That's helpful. On the ecommerce side, so you mentioned payments, should be an order management commission slowdown and I presume, the groceries side, where are the other verticals, where you guys have the most differentiation and where there's the most opportunity here?

Luc Filiatreault^ Well as the OMS, clearly is of significant value for all the retail chains that offer hybrid experience with that continue to drive, physical buying in store, but also want to cover return to store returns, is handled by the OMS. And that's a costly proposition for retailers. So in, the areas in which retail is effective is a lot with clothing, luxury operators and things like that.

On the kcommerce side, we're into b2b manufacturing that are creating some of their initial efforts, digitizing -- digital channels. So the additional payment capabilities, really eases off and creates significant savings that our customers because in the b2b, unlike b2c commerce, it's not paid at the time to purchase. It is invoiced and paid at a later date, so needs to be reconciled in the financial systems with the ERP et cetera. And we are not we now have the ability to take care of all that. So we see some good positive signals there. But obviously, it's in the SMB market. So we need volumes in order to make a significant difference on the dollars and that's going to come with time.

Deepak Kaushal^ Okay. Thank you for that. And then one last question for Deborah, or you Luc as well. Just when you look at your portfolio of businesses, I know in the past you've tried to divest some emarketplaces, businesses you've now have invested InterTrade? How are you thinking of portfolio? Is there more to prune here or monetize? Or are you kind of at the streamline you want to be for now? How should we think about? And I'll pass on?

Luc Filiatreault^ Well, as you know, I think we've always mentioned, so we will -- we don't have any assets that are considered actively on sale at all. However, should the right opportunities present themselves, we'll definitely have a serious look. So, I know I'm being a bit vague and opportunistic here. But every asset that we have has a piece in the global plan.

Deepak Kaushal^ Okay. Well, let's leave it at that for now. And then look for the next quarter. Thank you.

Luc Filiatreault^ That all of the risk elements that you had on your last report.

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

Unidentified Participant^ Yes, hi, it's James sitting in for Richard today he's traveling. But, I understand that you revise the revenue synergy expectations on Periscope from three years -- three to five years now. Does that also apply to the cost synergies?

Deborah Dumoulin^ We didn't change the assumption on the cost synergies because the cost synergies is much more relating to the integration plan, which is well underway. So maybe I'll leave it at that. And Luc, you might want to add some color to that?

Luc Filiatreault^ I think you've just started, Deborah like the slow conversion of the pipeline was really what we had not envisioned on the integration of the platforms, et cetera. That's something that's well under control and well underway across the eprocurement division.

Unidentified Participant^ Okay, great. Thanks. And just one more for me. With interest rates continuing to rise, do you expect more impairment charges on the Periscope acquisition moving forward?

Deborah Dumoulin^ Good question. So we essentially build the impairment model with various factors and sensitivities. So there's a range of both the whack or the discount rate, the projections, et cetera. But having said that, typically your write-down the value of the business to its carrying values. So if there were to be significant increases in interest rates in the future, it could happen again. There's a bit of a buffer, but it certainly could drive another impairment at some future time.

Unidentified Participant^ Okay, great. Thanks.

Operator^ Our next question comes from Nick Agostino, from Laurentian Bank Securities.

Nick Agostino^ Yes, good morning. I guess just going back to the Walmart partnership, if you could just elaborate, you mentioned that it's in a trial phase right now. And I'm just wondering what sort of color can you provide as far as what needs to happen? Or what sort of success factors are being looked upon to move it to a full on opportunity? And then assuming that it's successful, as far as going to other states? Is that something that Walmart will promote for you and push for you? Or is that something that's left for you guys to do?

Luc Filiatreault^ Thanks for the question, Nick. Unfortunately, I can't give a lot of color, more than what we've said. As you're aware, Walmart is a very jealously guarded the brand, the fact that they allowed us just to say this was already quite good. This is as I said, yes. Something that they're trying because currently they have no structured government offering. And obviously, successes isn't to user adoption, amounts of transaction profitability of these transactions, et cetera. And that Walmart will be scrutinizing over time. Do they have other plans at this point in time, I not loves to comment on that?

Nick Agostino^ Okay, fair enough. And then my second question, is over the last call it 18 months, you guys have announced a series of other partnerships, logic Valtech, Innovate come to mind and I think KPMG was in there as well. Any -- is there any update you could provide as far as where those partnerships sit? And more importantly, if you've gained any wins as a result of those partnerships?

Luc Filiatreault^ The partnerships were really focused on the ecommerce side of things. And I would even say, a lot more on the orchestra except potentially for innovates, where the plan was always to not develop a very large implementation professional services firm. So we did use various personnel from these firms over time, in order to deliver a certain of our projects. And you saw in our current quarter that some of these are now finally completed. And they were, mostly an answer to shortages of people, more than two actual selling channels. Consultants are rarely very efficient in their sales in terms of technology projects. So we have used them.

Obviously, we are, the market evolves the way it did. So we have a little bit less of these large implementations to perform right now. So, although the partnerships are still active, I'd say that, they're not -- it's not top of mind. It's a lot less on top of mind, that was when we're, you know, dying, because we had like, 50 60 70 open positions to fill up and to get some projects done.

Nick Agostino^ Okay, no, that's a fair response. And then my last one is any thoughts or timing to potential update on the five-year plan, just given the InterTrade divestiture, and the slower sales uptake through Periscope, maybe what your five-year plan is from overall revenue? Is that something you guys have updated? Or is that something you plan to share? Down the road?

Luc Filiatreault^ I think, that right now, we're certainly more focused on that simplification, organic growth. Typically, our strategic plans and put together are done at the beginning of the year. So we'll let the holidays pass. And, you know, we'll relook at that long term and take into consideration the various macroeconomic changes, because if you remember, our strat plan was initially built before COVID happened. Obviously, it sorts of took its twists and turns its turns during COVID.

Now that, significantly behind us, we might need to readjust certain areas, which we obviously could not have predicted even before this whole crazy period started. So more to come on that. But it's not, we haven't changed anything at this point in time.

Nick Agostino^ Okay, thank you. I'll pass it on.

Operator^ Thank you. Ladies and gentlemen, this concludes your question answer session. I'd like to turn call back over to the management team for any final remarks.

Luc Filiatreault^ Well, thank you very much all for being present and for your comments. We are quite positive about our quarter looking forward for the future. And we'll be talking to you soon. Thanks a lot and have a great day.

Operator^ Thank you, sir. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.