

mdf commerce inc.(Q3 2023 results)

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Corporate Speakers:

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

Participants:

- Amr Ezzat; Managing Director & Deputy Head of Research; Echelon Wealth Partners
- Kevin Krishnaratne; Analyst; Scotiabank
- Deepak Kaushal; Managing Director, Equity Research; BMO Capital Markets

PRESENTATION

Operator^ Thank you for standing by. (Operator Instructions) Welcome to the mdf commerce Q3 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 Lucas Filiatreault, President and Chief Executive Officer; and Deborah Dumoulin, Chief Financial Officer.

If you have any 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.

This call is being recorded. 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 December 31, 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. Mr. Filiatreault, your line is opened. Mr. Filiatreault, you may be muted. Ladies and gentlemen, please stand by

while we reconnect the speaker. Thank you for your patience. (Operator Instructions) I will now hand the call over to Mr. Filiatreault. Please go ahead, sir.

Luc Filiatreault^ Good afternoon, everyone. Excuse us for these technical issues. Thank you for joining us for our Q3 fiscal 2023 financial results call.

Before turning to the financial results that we filed this morning, I would like to provide an operational update. mdf commerce is a developer and operator of digital commerce platforms that facilitate billions of dollars per 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.

We reported Q3 fiscal 2023 revenues of \$31.7 million with recurring revenue representing 78% of total revenue. Also, we are pleased to report positive adjusted EBITDA, again, this quarter of \$0.9 million. We completed the sale of InterTrade Systems on October 4, 2022. InterTrade was a wholly-owned subsidiary of the Corporation and we sold for a total cash consideration of C\$65.8 million, it was US\$48.5 million, representing evaluation of approximately 5x annual revenues.

The net cash proceeds received on closing were used to paydown our long-term debt, which was mainly related to the strategic acquisition of Periscope Corporation in August, 2021. At the end of Q3, the net cash position net of debt from the revolving facility represented \$2.1 million compared -- which compares to a net debt position of \$57 million at the end of Q2 fiscal 2023. The sale of InterTrade strengthened our overall balance sheet position and added focus to our operations. Deborah, will present the financial results in more detail in a few moments.

During the quarter, we continued to add focus and simplify operations across the corporation with our near-term priorities being the reduction of operational costs and improving margins and cash flow. In response to macroeconomic conditions and shifting client priorities, workforce reduction has been implemented across the corporation, including practically eliminating the use of contractual consultants. Adjustments were made to right-size and aligned with software demand from our products and services.

From the beginning of October, 2022, we have reduced our global workforce by approximately 10%. When added to the 9% workforce reduction from the sale of InterTrade, this represents a total workforce reduction of approximately 19%. Another step to significantly reduce costs is optimizing our office footprint. As our hybrid work model has evolved, so has our need for our office space. In December 2022, we closed our offices in Laval and we plan significant reductions in office space across all of our offices, including our headquarters in Longueuil.

The adjustments made should start generating annual cash savings of \$0.5 million starting in Q4 fiscal 2023, and with additional cash savings expected to increase over the next few quarters as lease end dates negotiations continue. These decisions were made as

part of an effort to ensure the long-term sustainability and competitiveness of our business and improve company profitability.

The composition of the Board and Executive Team has also evolved and we are now operating with a simplified structure with five Board members and an Executive Team of eight, including myself. These adjustments lower costs while adding a higher degree of focus and operational efficiency.

In the next quarters, our operational focus remains on our eprocurement platform, which targets government agencies across North America. We intend to continue our efforts to leverage our unique market position and ability to serve the needs of the public sector. To date, this sector is focused on digitizing their procurement processes and the interest level in our technology remains high, including for our transactional model, which is branded the TRX. As such, we are pleased with the progress on pipeline conversion in eprocurement during the quarter.

Since the November mid-term elections in the U.S., the corporation has signed new contracts in U.S. counties and cities for ePro and for our contract lifecycle management technology solution. We have now implementations activities beginning over the next few quarters. We are also pleased that as public announcement recently made by various U.S. state governments about committing to replace their paper-based procurement systems by state-of-the-art technology platforms, which is exactly what we provide.

Another key development for eprocurement announced in October 2022 was our collaboration with Walmart in delivering an integrated shopping solution to the State of Arkansas, an existing client of ours.

With the integration of walmart.com to ARBuy, the transactional eprocurement system developed by mdf commerce buyers can now add items from Walmart to their carts and check out all within the ARBuy system. This innovative collaboration makes it even more efficient for Arkansas buyers to shop while generating savings for the state and ensuring greater transparency and visibility. This collaboration is a great example of the type of private public opportunities available to our eprocurement platform.

Parallel to our efforts of onboarding new buying organizations, we continue to add suppliers to our supplier portal via paid subscription and are constantly looking at additional value add services, which can generate higher revenue per customer and increase loyalty.

For the eprocurement platform, we continue to simplify our operations on our various supplier portals and I'm happy to report that by the end of calendar 2023, we expect to complete the full migration of seven of our small supplier portals into our main BidNet Direct platform, plus continuing our simplification efforts. The integration of our three major supplier portals, which are BidNet Direct, MERX, and S2G to a unified supplier hub, is next on the product roadmap horizon.

As for our e-commerce platform, in particular, Orckestra, after hiring rapidly over the past few years to keep up with customer demand for large deployment and solution integrations, we have seen large e-commerce customers cutting back on their spending or delaying projects.

The impact of this market shift is self primarily in professional services revenue with some impact on volume-based revenue. To offset these impacts, we have recalibrated and rationalized the workforce and professional services significantly reducing contractual consultants and curbing expenses.

The commercial focus for Orckestra remains our order management system, which helps retailers ensure an optimal consumer experience with a hybrid shopping environment. This product does not require a client to re-platform is out of the box already and can easily be layered onto existing tech stacks in a relatively short timeframe. This approach increases our addressable market by allowing us to pivot from being a competitor to becoming complementary value added partner to any e-commerce technology.

For our K-eCommerce, which offers e-commerce solutions to SMBs in the B2B space, a new integrated payment solution named KIP was launched in October 2022. This omnichannel payment processing software offers invoice payment and transaction processing, connects seamlessly with a client's ERP and is offered at very competitive pricing.

Another key achievement for our K-eCommerce is the new partnership with Acumatica announced in January 2023. An ERP integrated e-commerce platform developed specifically for Acumatica Cloud ERP users and an all-in-one e-commerce, including a CMS, cloud hosting, as well as a complete post-implementation service and training. The general availability of K-eCommerce for Acumatica on the Acumatica marketplace is scheduled in February 2023, just days away. And now, I'd like to ask Deborah to provide some details on the corporation's financial results.

Deborah Dumoulin^ Thanks, Luc. Good afternoon, everyone. I'd like to remind you that you can find our Q3 financial results, including the press release, the management discussion and analysis and financial statements on www.sedar.com and on the company's website.

As Luc mentioned, the sale of InterTrade, which we closed on October 4, represented another significant step in our efforts to add strategic focus to the corporation and also allowed us to significantly deleverage our balance sheet.

The cash consideration transferred at closing, which was almost \$64 million and included closing cash, working capital and customary post-closing adjustments. The all cash total purchase price, which includes a transition services amount of US\$2 million or C\$2.6 million that we expect to collect in cash over the next few months. The amount is currently held in escrow pending the completion of these transition services.

As a result of the disposal of InterTrade, the corporation recorded an accounting gain of \$22.9 million and we are pleased to report that on a tax planning strategy basis, we expect to have no taxes payable on this capital gain. At closing, the corporation repaid the term facility, which had a balance of \$21.7 million and made a payment on a revolving facility in US\$6.8 million and repaid the revolving facility in C\$32 million.

At the end of Q3, the cash position net of debt drawn on the revolving facility represented a net cash of \$2.1 million compared to a net debt position of \$57 million at the end of Q2.

Restructuring costs paid in a quarter related to reducing the workforce, our transaction-related costs paid on the sale of InterTrade had an unfavorable impact on our closing cash position. But as mentioned, the company expects to collect the full amount of the transition services escrow of \$2.6 million related to the sale of InterTrade, which will be used to pay down the debt when received.

Q3 revenue was \$31.7 million compared to \$30.7 million in Q3 of last year. This represents an increase of 3.3% year-over-year. I would like to highlight that Q3 revenue from InterTrade was only \$400,000 and this is the revenue from four days of operation before the sale in Q3, and this represents a decrease of \$3 million in revenue compared to both Q2 this year as well as to Q3 last year.

Despite total Q3 over Q3 revenue growth of 3.3%, I would like to highlight that right of use revenue, so what we refer to as SaaS subscription revenue increased by 9.9% or \$2.2 million from 21.7 to 23.9, which we believe represents solid growth from this revenue source, which is considered recurring in nature as subscriptions are renewed. We also benefited from an another revenue of \$0.9 million recorded in the quarter for post-closing transition services, which were provided to the acquirer of IntraTrade.

Yet despite positive growth and right of use revenue, we did see a decline in transaction fee revenues of \$1.7 million of which \$1.3 million relates to the sold business of IntraTrade and professional services revenue, which decreased by \$0.6 million as compared to Q3 of the prior year. Overall recurring revenue was 77.8% of revenue for the quarter compared to 75.1% of revenue in Q3 of 2022. Recurring revenue as a percentage of total revenue has continued an upward trend from Q3 prior year.

I'd also like to highlight that the InterTrade recurring revenue was approximately 90% of revenue for that particular platform, therefore, explaining the reduction in total dollars of recurring revenue for the third quarter compared to the same quarter in prior year. We are seeing the impact of macroeconomic environment. In Q3, we had low net single-digit organic growth revenue as compared to the same quarter prior year, but to address profitability, we have made cost adjustments across the company to right-size our cost structure and align with softer client demand.

As Luc mentioned during the quarter, we significantly reduced contractual consultants, adjusted our workforce by 10% and have taken steps to reduce operating costs, including a reduction in our global real estate footprint, which has begun in Q3 as Luc mentioned,

and we do continue to perform these negotiations and we expect further annual cash savings starting in a few quarters.

I'd like to highlight a few items on a platform-by-platform perspective. Our eprocurement platform revenue was \$19.8 million, an increase of \$17.3 million compared to \$16.9 million in the last year. Our U.S.-based procurement activities contributed positively to revenue growth with an increase in revenue representing 23.2% over the same period last year. Recurring revenue as a percentage of total revenue for eprocurement continue to increase from 83% last year to 88.6% for Q3 this year.

Our main eprocurement products, namely MERX, BidNet and S2G, have continued to perform well with combined revenue growth for Q3 this year over Q3 last year of approximately 7%.

As we continue to consolidate our platform technology and simplify our product offering in eprocurement as mentioned by Luc earlier, we may experience some revenue growth compression over the coming quarters. However, it is a priority to ensure that this product offering simplification and product improvements will improve the commercial benefits. We had revenue growth in the eprocurement platform even as we migrated clients on to these new eprocurement products.

The Periscope revenues for the quarter were \$10.3 million, and this compares to \$7.7 million in the previous year. However, for those who have been following along in the last year since the acquisition, we did have an accounting fair value adjustment related to the Periscope acquisition that caused a reduction in revenue for the current quarter Q3 of \$0.1 million, but that compares to \$2.6 million for Q3 of last year. So with the Periscope revenue of \$7.7 million and the additional deferred revenue, which we actually got to take this year, we do see growth in the Periscope technology.

For the ecommerce platform, which we used to call Unified Commerce before the sale of InterTrade, it generated revenue of \$6.8 million, representing a decrease of \$3 million compared to Q3 last year, but there are two main reasons. One, of course, being the sale of InterTrade, which I already mentioned, reduced revenue by \$3 million compared to the previous Q3, and this was partly offset by an additional other revenue in the current order that relates to the post-closing transition services that I mentioned earlier, provided for the sale of InterTrade.

From an ecommerce perspective, we did see lower professional services revenue in the Orchestra platform as large deployments and solution integrations were completed. And we've seen a shift where large ecommerce customers have been cutting back on their spending and delaying some projects that generate professional services revenue. The impact of this market shift is felt primarily in professional services with some impact on volume-based revenue.

From a recurring revenue perspective for e-commerce, it represented 43.5% of platform revenue compared to 59.3% for Unified Commerce for the same order last year. The

lower percentage of recurring revenue is due to the sale of InterTrade, which as we mentioned earlier, had a recurring revenue rate that was trending around 90% of total revenue.

We saw a decrease in the professional services that we do not consider recurring revenue, which decreased in Orchestra and was consistent with the completion of large client deployments and revenue generating integration projects. And again, this was partly offset by that \$0.9 million relating to the transition services on the sale of InterTrade.

Our emarketplaces platform revenues accounted for \$5 million of revenue, which is an increase of \$1.1 million or 27.5% when compared to Q3 last year. The increase relates mainly to the Broker Forum, which is our electronics parts marketplace, which continues to benefit from the global supply chain shortage in electronic components, and this marketplace continues to generate higher transaction volumes. From a recurring revenue perspective, the emarketplace also saw an increase in recurring revenue percentage from 75.4% last year to 81% in the current year.

For Q3, operating expenses were \$23.6 million, an increase of 4.2% compared to \$22.7 million in Q3 2022, while total operating expenses decreased relating to the sale of InterTrade and decreased from workforce reduction since the beginning of Q3. Total operating expenses in total increase compared to Q3, mainly due to higher web hosting costs, transaction-related costs and restructuring costs, and the total operating expenses were also unfavorably impacted by lower internally developed software costs in Q3 of the current year.

The corporation recorded an operating loss of \$5.8 million during Q3 2023 compared to \$5.5 million in Q3 of 2022. Net earnings were a positive \$15.1 million or \$0.34 net earnings per share on a basic and diluted basis compared to a net loss of \$4.1 million or \$0.11 net loss per share basic and diluted in Q3 of prior year. The increase in net earnings for Q3 includes the gain in the disposal of the subsidiary InterTrade, the \$22.9 million, which was recognized in Q3 2023.

Adjusted net loss was \$7.8 million compared to \$4.7 million for Q3 of the prior year. The increase of adjusted net loss in Q3 compared to the prior year is mainly due to higher operating expenses and from the transactional-related and restructuring cost as explained previously.

We are pleased to report positive adjusted EBITDA again this quarter, adjusted EBITDA was \$0.9 million for Q3 this year compared to \$0.7 million for Q3 2022. I invite you to refer to Appendix A of the slide deck for the reconciliation of net earnings to adjusted EBITDA and to adjusted net earnings. With that, I'll turn the call back over to Luc.

Luc Filiatreault^ Thanks, Deborah. The sale of InterTrade was an important strategic step for the corporation. It allowed us to significantly improve our balance sheet, simplify our operations, and add focus on procurement and ecommerce. Q3 marked our second quarter in a row with a positive adjusted EBITDA.

As I previously mentioned, our goal moving forward is to maintain positive adjusted EBITDA with near-term priorities bringing the reduction of operating costs and improvements of margin and cash flows. We are confident that we can achieve this through continued cost containment efforts, operational efficiency and organic growth.

Considering the current macroeconomic environment as well as the opportunities related to government spending initiatives in the U.S., our operational focus and growth efforts will be mainly on our eprocurement platform.

Pipeline conversion has picked up as expected and we are focused on further exploiting the opportunities for this market segment. Due to its unique leadership positions in the public sector and firmly established footprint occur across North America, we expect our eprocurement platform to play a growing role in our ability to scale, and we are structuring operations accordingly.

Looking forward over the next few quarters, our strategic focus will continue to be cost containment, operational efficiency and focus as well as organic growth. The balance sheet de-leveraging following the sale of InterTrade, ongoing cost containment, right-sizing efforts and higher operational focus on eprocurement are all significant steps towards our vision of a sharper, crisper structure, which will allow us to fully capitalize on market opportunities. With that, we would like to open the line up for question. [Dave], pass the call over to you to facilitate.

QUESTIONS AND ANSWERS

Operator^ (Operator Instructions) The first question comes from Amr Ezzat with Echelon Partners.

Amr Ezzat^ Luc, Deborah, good afternoon. Thanks for taking my questions. My first one is on the timing of the workforce reduction. You guys mentioned 10% since early October. I wonder how much of that is reflected in your numbers. Was it a beginning of quarter event?

Luc Filiatreault^ Maybe Deborah, you have some further comments. We kind of gradually started this at the beginning of quarter, so there are -- the numbers are certainly not fully reflected in the Q3 numbers. You'll have a better view in Q4 as we've completed some of that right-sizing actually today, this morning.

Amr Ezzat^ Okay. Then maybe like, is that -- are you done in terms of right-sizing when it comes to the workforce? I know you're working on real estate as well, but in terms of workforce reductions, is that the end of it?

Luc Filiatreault^ Yes. It would be.

Amr Ezzat^ Okay. Then if we move to your real estate footprint, you spoke to Laval and Longueuil, which is \$500,000 in savings. Then you guys also alluded to the U.S. side. What should we expect there? Like what sort of magnitude I guess?

Luc Filiatreault^ We are below the.

Deborah Dumoulin^ Perhaps I could?

Luc Filiatreault^ Go ahead, Deborah.

Deborah Dumoulin^ I was going to say that \$500,000 is actually what we've done in the Laval offices and the Longueuil offices, we haven't yet provided some information on that. The lease does end in October, however, we'll probably wait till Q4 to provide the annual savings relating to that particular lease. And then I'll let Luc comment on the U.S. portfolio.

Luc Filiatreault^ And so in the U.S., Amr, we have reduced our office space in Albany already. We are working on the Texas offices also, which will be again reducing given that the company has really adopted a hybrid work methods. And we only partially use the square footage tech we had before. We should generally expect a reduction of something between let's say 50% and 70% of the square footage in pretty much every one of our offices.

Amr Ezzat^ Okay. And without giving timing, because I appreciate like leases don't go and in the same time when you guys are negotiating, but what sort of like dollar magnitudes can we eventually have from your efforts in the U.S.?

Luc Filiatreault^ As Deborah said earlier, we'll probably be in a better position to give you some answers to that when we report our Q4 numbers.

Amr Ezzat^ Okay. That's great. Then it's been a couple of quarters of, I'd say like a decent uptick in Periscope revenues, like after all the adjustment. In your prepared remarks, you spoke to an accelerated pipeline conversion. I just wonder what is driving that. Is it just like the mid-term elections or is there anything else that we should be thinking about?

Luc Filiatreault^ Well, certainly we saw significant slowness in customers attributing contracts during let's say all of the calendar 2022. And shortly after those elections, a lot of projects that had been in our pipeline in some cases for a very long time were rapidly approved. And we are starting those various implementations.

As I mentioned, we have signed multiple counties, cities. We haven't added any large states yet. However, there are some quite large states that have publicly announced that they're in the process of replacing their paper-based system for procurement. So in many cases, we're in direct discussions with these states and expect that momentum should continue.

As Deborah mentioned, or call them classic eprocurement products are also seeing a 7-ish percent continued growth, and that's very high-quality recurring revenue because these are subscription based. So I think the efforts that we were doing especially in the classic products in streamlining, simplifying the offering are giving fruits.

And on the other side, I think the market was just waiting to see before making some understanding -- understandably some significant commitments when you go into digitizing a full procurement function at a complete state level. So we're happy to see that things are finally moving. But I remain prudent as generally government business is slow to obtain, but once started, it's extremely resilient, it's a lot less impacted by recession. And when we look at our transactional model, we have a natural protection against inflation there. So we're very confident in the future.

Amr Ezzat^ Fantastic. Then maybe one last one. Deborah, in your prepared remarks, you spoke to, and maybe I missed it, the compression of growth as you migrate to clients into a common platform in eprocurement. Then correct me, if I'm wrong. But do you still feel eprocurements overall would showcase positive growth through that period?

Deborah Dumoulin^ For sure, we expect there to be positive growth and the compression we are talking about is these smaller platforms. Luc, I think mentioned there were seven of them. So as we take subscription revenue off of the seven platforms and transition them to a common platform, we expect that there will be some clients that may not follow or there could be some lag. But we're seeing so far that, that there has been growth even as we've been notifying clients and switching platforms. So we don't expect there to be any kind of complete slowdown of growth. And I let, Luc further comment on that.

Luc Filiatreault^ Yes. Maybe I could give examples. These really small portals had much more of a local reach, I would say, and prices paid by these customers were lower as we're migrating them to the full BidNet Direct platform, which has complete national access obviously fears the subscription fees increase.

Some customers just don't have the ability to benefit from these higher services and some do leave, so I think that's what Deborah was referring to. If once we're on the full, one hub spot for -- one hub for our suppliers, then I would say, we'd have -- we get back to normalized growth. As we transition this, some of the customers may not follow.

Amr Ezzat^ And is there a timeline or a set goal as to when you'll complete that transition?

Luc Filiatreault^ As I said, for the seven small ones, it'll be completed during calendar 2023. We've already started and converted some of them, but it's like a (inaudible) approach because we have some customers that have bought a, let's call it a one-year subscription, and we keep the platform on until all customers finish, and then they're transferred over to the bigger platforms, which are, as mentioned BidNet, MERX and

S2G. And we'll be doing the same thing with those three platforms, but that's next year projects.

Amr Ezzat^ Okay. And these are the very old platforms that were acquired like 20 years ago, like government bids, IPT and so on?

Luc Filiatreault^ Exactly. Those small -- most of them were quite small in nature and offering similar products and services, which is access to bids from various state and local agencies. Now we're bringing all the state and local agencies to the major platforms, so that it's all a one stop shop with division ultimately having a one centralized hub for suppliers, which will offer much more functionality and have access to all of our network currently shy of 7,000, buying agencies.

Amr Ezzat^ Great. Thanks. Congrats on the quarter. I'll pass the line.

Luc Filiatreault^ Thank you, Amr.

Operator^ (Operator Instructions) Our next question comes from Kevin Krishnaratne with Scotiabank.

Kevin Krishnaratne^ Hi there. Good afternoon. Thanks for taking my questions. Just one on the services that you are providing to SPS, I guess related to InterTrade, I think there were 900,000 of related services in the quarter. Deborah, maybe can you tell us is that -- can you assume that that all drops down to the bottom line?

Deborah Dumoulin^ Yes. In fact from an accounting perspective, it's carved out of the total gain. So the gain that we reported for accounting purposes of 22.9 would've been higher if there wasn't this accounting. So essentially it gets showed as deferred revenue, and then we recorded over time as we continue the services. So we will see this again in Q4, probably to the extent of about 600,000, and then it will drop off as we've completed the work.

Kevin Krishnaratne^ Okay. So in this quarter there was a \$900,000, I guess, benefit to EBITDA from that, and in the next quarter there'll be a, let's call it a \$600,000 and a little bit after that in Q1?

Deborah Dumoulin^ Correct.

Kevin Krishnaratne^ Okay. Thanks for that. And then the second question I have is just on the ecommerce business, \$5.5 million between Orchestra and K-eCommerce, it's probably in the MD&A. Can you remind us, is that -- how much of that is recurring? And I guess maybe not related to volumes, I'm just trying to understand how to think about the base of really good recurring revenue that you can use for Q4?

Deborah Dumoulin^ Right. So essentially we've not usually provided all this breakdown, but I guess the wave that what is available as information at is the total procurement. So

yes, sorry, the total ecommerce revenue, and then the recurring revenue is about 46% of that number.

Remember though that the other revenue of \$900,000 is sitting in that information. So if we didn't have higher revenue from that other revenue, we would actually have more positive recurring revenue. So it trends around the 55% the recurring revenue for e-comm.

Kevin Krishnaratne^ Okay, I understand. Okay, thanks for that. And then maybe to Luc or -- and to you both that Deborah, just a higher level question just on eprocurement. Over the past year there's been a few transactions in this space. Some competitors, the Periscope, have been acquired. They're going through various ownership changes. Can you maybe just talk about the competitive landscape, what you're seeing, and maybe how Periscope is positioned relative to some of these other entities that are out there in the U.S.?

Luc Filiatreault^ Thanks, Kevin. I assume you are mostly referring to some of the acquisitions that insight partners made with GTY where we saw Bonfire acquired DemandStar and IGOV, I forgot the exact name. In those specific, these really compete in what I call our classic eprocurement products, where they compete with MERX, BidNet and S2G, and we really have a dominating position in that area with the almost 7,000 agencies and 550,00 suppliers. We trump them very, very significantly.

The other areas where we provide services are with our ePro technology and our contract lifecycle management, which we have integrated together and offer as a full source to pay procurement solution to large states, counties, and cities. We're not talking here about small customers.

We're talking about, in most cases, multimillion dollar engagements. In those, we would compete with guys like Ivalua, which is a private company. We sometimes will see some modules from the large ERP providers, which might have a procurement function, but is not specifically adapted for government purchasing.

And with our vision to ultimately have a completely integrated portal for making all of the government purchases, which will contain all of the contract attribution rules and regulations adapted to a specific government, we again think that we have an ability to trump the market here. So very confident in our ability to really master this area. And as I mentioned multiple times in the past, really take a leadership position in public procurement.

Kevin Krishnaratne^ Thanks very much, Luc. I really appreciate the commentary and context there. I'll pass the line.

Luc Filiatreault^ Thank you, Kevin. Nice to speak.

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

Deepak Kaushal^ Hi. Good afternoon, everyone. Thanks for taking my questions. I've got a couple follow ups. First, Deborah, just on the cost cut. So just to make sure I'm clearly understanding this, the 500K in savings is just from the leases. There'll be additional savings from the 10% employee reductions and then there'll be an additional set of savings from other leases that are expected to be canceled through Q4. Is that correct?

Deborah Dumoulin^ Right. So the 500,000 is just our Laval office and existing leases that occurred in Q3, that's a 500,000 annual cost savings. The Longueuil office lease, which we are planning to reduce by about 75%. It doesn't come for renewal or won't be reduced until October unless we can sublet it earlier.

So that will come later. That's what we haven't communicated that the Longueuil lease is much bigger than the Laval lease. And then the headcount reduction or workforce reduction, because it does include contractual consultants, not just employees that occurred as Luc mentioned, starting at the beginning of October, and then all the way up to today.

Deepak Kaushal^ Okay. And so if you can offer a bit -- maybe a bit of help in understanding how you guys are budgeting your costs going forward? Are you guys targeting to manage to a specific margin? Are you targeting to manage to a specific dollar? How should we think of that over the next, let's say, 12 to 18 months?

Deborah Dumoulin^ Well, we're certainly focused on increasing margins, but we are managing towards remaining positive and increasing our positive EBITDA and making sure that it translates into cash flow positive as soon as possible. So we think about it as managing the profitability. As long as the topline isn't growing as fast as we want, we will be managing the bottom line through EBITDA -- EBITDA margin and cash flow.

Deepak Kaushal^ Okay. Any targets you guys are willing to share at this stage or?

Deborah Dumoulin^ Yes. We've not generally given any forward-looking information, so I think we'll be able to see a little bit better in our Q4 where the cost savings on the workforce reduction will become more apparent.

Deepak Kaushal^ Got it. And just -- so going -- shifting now to the topline, I'm trying to get a better understanding of how the eprocurement business is growing organically. I think you mentioned positive organic growth.

When I look at that business and I add back the deferred revenue adjustment, it looks like, Periscope is 10.4 million versus 10.3 million last year, and then the total business is up 2% year-over-year.

But on a headline basis, it's up like 17% year-over-year, which seems to be the return of the deferred revenue recognition. How much growth is coming from that versus pure organic growth in the end market demand? Any sense or color you can give us on that?

Deborah Dumoulin^ Well, one of the things to remember is that in our Q4 results, we had to do an opening balance sheet adjustment to the transaction model revenue so we recorded an adjustment in Q4 of \$2.2 million, but that \$2.2 million of, call it revenue reduction, went all the way back to the acquisition.

So that represents about \$900,000, had we put the adjustment in last year's Q3, so the 10.3 that you referred to as being Periscope plus the deferred revenue adjustment also would've had an implied impact of \$900,000 negative revenue. So you're actually comparing 9.3 to 10.3 for Periscope. So there's almost 10% growth there year-over-year. And then the U.S. business, which now includes Periscope, has been growing at over 25%. So that's again, positive. And then when we break out the traditional platforms that are the non-transaction model, we talked about 7% organic growth.

Deepak Kaushal^ Got it. That's extremely helpful. I appreciate that. I'm always challenged with mass, so that's helpful. And then just the last question on the procurement business, maybe to Luc. I remember years ago you guys had a great contract opportunity with NHS in the UK. I'm just wondering if you have an update on that contract, how is that progressing? Is it stalled? Is it ended? Are they looking at the transaction model? Any kind of color you can give on that would be helpful. Thank you.

Luc Filiatreault^ Well thanks for that, Deepak. Unfortunately, after we had this deal, which was, geez, I think it was pre-pandemic, it unfortunately never generated. This was a sort of a blanket agreement to go and present our offers and solutions to all of the buying organization within NHS. And at the beginning of the pandemic, it all kind of backfired and ever since it's not never been resumed, they got into Brexit issues, supply chain issues, it's not much happened there.

Deepak Kaushal^ Okay. Okay. Well Luc, I've had a few questions in there. So maybe I'll pass the line and follow-up with you guys with additional questions later.

Operator^ (Operator Instructions) At this time, we are showing no more questions. This concludes our question-and-answer session. The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.