

Boardwalktech Software Corp.

Second Quarter Fiscal 2023 Earnings

Event Date/Time: November 17, 2022 — 4:30 p.m. E.T.

Length: 60 minutes

"While Cision has used commercially reasonable efforts to produce this transcript, it does not represent or warrant that this transcript is error-free. Cision will not be responsible for any direct, indirect, incidental, special, consequential, loss of profits or other damages or liabilities which may arise out of or result from any use made of this transcript or any error contained therein."

« Bien que Cision ait fait des efforts commercialement raisonnables afin de produire cette transcription, la société ne peut affirmer ou garantir qu'elle ne contient aucune erreur. Cision ne peut être tenue responsable pour toute perte de profits ou autres dommages ou responsabilité causé par ou découlant directement, indirectement, accessoirement ou spécialement de toute erreur liée à l'utilisation de ce texte ou à toute erreur qu'il contiendrait. »

CORPORATE PARTICIPANTS

Jonathan Paterson

Harbor Access — Investor Relations

Andy Duncan

Boardwalktech Software Corp. — President and Chief Executive Officer

Charlie Glavin

Boardwalktech Software Corp. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Mike Stevens

Echelon Wealth Partners — Analyst

Craig Johnson

Investor — Analyst

Ed Sollbach

Spartan — Analyst

PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the Boardwalktech Software Corp. Second Quarter Fiscal 2023 Earnings Conference Call.

At this time, all lines are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. And if at any time during this call you require immediate assistance, please press *, 0 for the Operator.

Also note that this call is being recorded Thursday, November 17, 2022.

I now would like to turn the conference over to Mr. Jonathan Paterson.

Please go ahead, sir.

Jonathan Paterson — Investor Relations, Harbor Access

Thank you, Operator. Good afternoon, and welcome, everyone, to Boardwalktech's quarterly conference call.

This call will cover Boardwalktech's financial and operating results for the fiscal second quarter ended September 30, 2023. Following our prepared remarks, we will open the conference call to a question-and-answer session.

Our call today will be led by Boardwalktech's President and Chief Executive Officer, Andy Duncan; along with the Company's Chief Financial Officer, Charlie Glavin.

Before we begin with our formal remarks, I would like to remind everyone that some of the statements on this conference call may be forward-looking statements. Forward-looking statements may include, but are not necessarily limited to, financial projections or other statements of the Company's plans, objectives, expectations, or intentions.

These matters involve certain risks and uncertainties. The Company's actual results may differ significantly from those projected or suggested and any forward-looking statements due to a variety of factors, which are discussed in detail in our regulatory filings.

Today we issued our second quarter fiscal 2023 financial results, a copy of which is available in the Investor Relations section of our website, www.boardwalktech.com, and posted on SEDAR.

I would like to remind everyone that today's call is being recorded on Thursday, November 17, 2022.

I will now turn the call over to the President and Chief Executive Officer of Boardwalktech, Andy Duncan.

Andy Duncan — President and Chief Executive Officer, Boardwalktech Software Corp.

Thank you, Jonathan. I would like to welcome everyone to Boardwalktech's quarterly earnings call to discuss the Company's financial results for the second quarter of fiscal 2023 ended September 30, 2022.

Before I begin, please make note that all dollar figures reported on today's call are in US dollars, unless otherwise noted.

We are pleased to report that our business continues to experience solid growth and a healthy amount of momentum, driven by both our land and expand strategy, as well as our new business opportunity in the financial services market.

This momentum is demonstrated by the continued growth in our annual recurring revenue, which now sits at \$5.5 million, representing year-over-year growth rate of 66 percent.

Our actual licence revenue reported at the September quarter grew 95 percent year over year.

Total revenue of \$1.5 million is up 36 percent year over year, though flat sequentially due to the timing of some professional services revenue, a temporary impact which we believe will more than correct itself in the next quarter and subsequent quarters.

I will leave the rest of the financial discussion to Charlie Glavin to provide deeper insights into the financial aspects of the quarter after my prepared remarks.

I would like to touch on the continued success of our land and expand strategy in more detail, as it will continue to be a key growth driver for the business for the foreseeable future.

Before I jump into the recent success of the strategy, I would like to remind everyone about the how and the why behind the strategy and why this is working so well for us.

When Boardwalktech signs a new client, we typically enter into that company to help them with a specific business unit to solve a mission-critical issue by transforming a current Excel-based application process onto our digital ledger platform.

Once we are onboarded with the new client and deliver that first application, the benefits of our platform are readily apparent, as the ROI to our customers routinely exceeds 5x to 6x in the first year of our licence. We have demos and case studies that show these compelling productivity gains.

Work flows are also made easier, which leads to better and faster decision-making, improving the operational performance and profitability of many areas. This is what makes our platform so powerful to our clients.

This positive first engagement typically leads to internal discussions within the organization, which then leads to new incremental business opportunities for Boardwalktech with that client.

As a client begins to experience and understand how our platform can drive better decision-making in a drastically shorter period of time, we start to become integrated into the overall technology

stack of the organization and become the engine that helps them transform and manage their unstructured data applications, ones that are still very dependent on Excel.

It is estimated that the typical enterprise has well over 100 of these separate mission-critical Excel-based applications that would benefit from our digital ledger solution. If that enterprise migrates just 10 percent of these to Boardwalk at roughly \$100,000 per application, that would be \$1 million of ARR per customer.

Thus, we aren't looking for enterprises to switch everything to Boardwalk, at least not yet, but rather acknowledge that while their existing IT systems may be good, they are not good enough in this challenging and competitive market.

This is the essence of our land and expand strategy and it's working, as evidenced by these results, helping us to increase the recurring revenue with every client based upon the ROI we provide.

We had a few wins in the quarter that epitomize our land and expand strategy, starting with the expansion of our relationship with a long-term client, one of the top accounting and tax consulting firms in the world.

This deal grew our recurring licence revenue by an additional \$500,000 per year, and is a clear demonstration of the benefits that our low-code digital ledger platform provides to our clients. This client is now using our platform with several thousand of their global tax clients, which in our opinion is quite the endorsement of our software solution.

We expect to continue to announce more wins with respect to our land and expand strategy, as we are currently working on multiple initiatives with existing clients and will announce these deals when they're finalized.

We also expanded our scope of services with HCL Technologies, a multibillion-dollar New York Stock Exchange-listed information technology company with global operations. HCL is not only a client, but an important channel partner of ours in the banking and financial sector.

Finally, we announced a new relationship with SiTime, also known as S-I-Time, a fabulous semiconductor company that has licensed our digital ledger platform to streamline its demand planning across its organization to better manage the information across its supply chain down to the unit level. The result will be a much more efficient way to manage inventories and to serve their clients.

Given the supply chain challenges and problems faced by the global market, SiTime is just one more example of new Boardwalk customers that recognize the need for our time-based digital ledger platform as they struggle with managing structured and unstructured data in their supply chain for compliance, for tracking, for security, and in real-time accurate decision-making, while still maintaining data quality and provenance.

With that, let me now make a few comments about our pipeline of new business.

We acknowledge that concerns of an economic slowdown create perceived headwinds. However, it's management's belief that these are some of the reasons why we are seeing an actual increase in our business development pipeline, since Boardwalk is providing a solution that improves productivity and can even offer a distinct competitive advantage.

For example, a semiconductor customer improved its results—or its response time to RFP, RFQ inbound requests by two to three days, which resulted in a 15 percent to 20 percent higher conversion rate, meaning more deal wins and higher ROI and revenue for that customer.

To quote one of our other customers, a senior director at a top five US bank, “What used to take me two days, now takes me 15 minutes with the Boardwalk Digital Ledger.” This customer testimony is

representative of why our pipeline continues to replenish and grow while our business growth remains resilient in the face of uncertain economic times.

The reason for this ongoing growth is that our time-based digital ledger platform not only enables better collaboration, but addresses and resolves the critical supply chain problems evident in the industry today.

What excites us even more is that the pace of growth in new business can be attributable to several factors.

First and foremost, our software solutions provide productivity and material return on investment in the first year of implementation. As we have discussed in the past and in our investor materials, unstructured data within an organization accounts for more than 80 percent of its overall data volume. And this unstructured data is doubling every two years, an astounding number.

This level of unprecedented data growth and complexity is very difficult for large enterprises to manage. The management of unstructured data is exactly the type of problem we are solving with our low-code digital ledger platform.

There is not a product in the market that can do what we do today, and the market is really starting to recognize Boardwalk as being a leader in this space.

Looking forward, we are excited about the Company and where it's headed. We are on track to hit profitability next year without the requirement for outside capital.

What also excites us is the future growth potential presented by two separate \$100 million revenue market opportunities now being addressed by Boardwalktech. That would be our enterprise market and the financial services market.

The first is our continued focus on unstructured enterprise data management solutions specifically for the CPG, supply chain, and manufacturing markets that continues to grow through the expansion of existing relationships and through the acquisition of new clients that will be announced as we convert new business from our growing pipeline.

The second and this new financial services channel or banking channel that we're working on, we're starting to see some terrific momentum. This is not a market that we chased, but was brought to us by an existing customer and partner.

Earlier this year, we announced our first client in the financial services channel, a top five global bank, who is beginning to ramp up the Boardwalk digital ledger Velocity product across its entire organization to address end-user computing compliance, a risk issue from legacy Excel spreadsheets.

This deal has drawn the attention of other large IT services companies that seek to engage us as a channel partner and enter into a teaming agreement, which will continue to build out an ecosystem for Boardwalk in the financial services space.

These partners are very motivated to leverage our digital ledger into their large banking clients, whereby Boardwalk gets the direct licence revenue and our partner gets the revenue from deployment of the professional services and consulting work without Boardwalk having to hire teams of employees. This means that we can scale and can be highly profitable in doing so.

I will now pass this over to Charlie Glavin, who will walk through the numbers with you and the detailed environment.

Charlie, over to you.

Charlie Glavin — Chief Financial Officer, Boardwalktech Software Corp.

Thanks, Andy. Before I begin, I would like to take a moment to remind our listeners that all figures on today's call are in US dollars, and that our fiscal year ends March 31 with reported figures based on IFRS standards, unless otherwise specified.

Additional details can be found in our filed financial statements and MD&A as filed on SEDAR.

As Andy mentioned, total revenue for the first quarter of fiscal 2023 was \$1.5 million. This was a 34 percent increase from last year's revenue of \$1.1 million, but a slight 2 percent sequential decline from the \$1.1 million we reported—from the \$1.5 million we reported in the prior quarter.

As Andy mentioned earlier, the sequential decline was due to the temporary timing of certain professional services milestones, which we believe will have that temporary impact, as we expect both the current third quarter and fourth quarters to be as high, if not higher than the \$416,000 level we reported in the prior June quarter.

As I've mentioned in prior filings and conference calls, the Company expects the contribution from professional services will continue to grow in absolute dollars over time, but decrease as a percentage of total revenue, though levels are expected to fluctuate on a quarter-by-quarter basis, with the second quarter being one of those such quarters.

The total revenue growth we reported came both from the addition of new customers and the expansion of existing licences, as the portion of our revenue from new and recurring SaaS licences in the quarter grew to 81 percent of total revenue, up from 56 percent last year.

In absolute terms, this means that revenue from new and recurring SaaS licences grew over 95 percent year over year.

Since the Company implemented its SaaS business model in 2018, total revenue from new contracts signed since 2018 now comprises 84 percent of our total revenue in the current quarter

compared to 65 percent in the prior year, while total revenue from these customers has now grown at a 42 percent compounded annual growth rate since 2018.

The Company defines annualized recurring revenue, ARR, as a non-IFRS metric as the recurring revenue expected based on annual licence subscriptions and recurring services.

As a result of new licence closings, ARR as of September 30, 2022, came in at \$5.5 million, which is a 66 percent improvement from the \$3.3 million ARR level in September of 2021. We note that this ARR growth has increased each of the last four quarters and is expected to do so in the upcoming quarter too, as we are exiting the month of November with projected ARR already in excess of \$6 million level.

Gross margin for the second quarter of fiscal 2023 reached another historic high of 90.3 percent, which is a 4.3 percentage point year-over-year increase from the fiscal second quarter of 2022 level and a slight increase from the 90.2 percent level we reported last quarter. These gross margin improvements were due to both higher revenue levels, as well as a higher mix of licence revenue.

Even as the Company continues to make investments in its hosting sub-processor in upcoming quarters to support future growth, investors should continue to expect comparable margins to the 90 percent level we reported in recent quarters.

Net loss for the second quarter of fiscal 2023 was \$1.2 million, or a loss of \$0.03 per basic and diluted share, versus a loss of \$900,000 last quarter, as well as a loss of \$700,000 last year.

Non-IFRS net loss is defined in the adjusted EBITDA and non-IFRS financial measure section of our MD&A.

For the second quarter of fiscal 2023 it was \$695,000, or a loss \$0.02 per basic and diluted share, versus \$450,000 non-IFRS loss in the second quarter of fiscal 2022.

Adjusted EBITDA for the quarter was a loss of approximately \$680,000 versus a \$430,000 loss last year and \$260,000 loss in the June quarter.

Adjusted operating expenses did increase sequentially by \$400,000 this quarter, in line with what we projected and stated in our last two filings. This came from a combination of select hires in our US and India offices needed to support growth in upcoming projects, as well as salary increases to match wage inflation and stay competitive, plus the commencement of teaming fees and the amortization associated with those with our recent banking client deal. Again, refer to the MD&A for a more detailed description on these.

As a refresher, Boardwalk is using this new partner sales ecosystem to recruit new teaming partners, such as HCL, that can build and man solutions for their financial services clients by leveraging the Boardwalk Velocity product for financial services customers running on the Boardwalk digital ledger platform. This way, Boardwalk gets the full licence with each financial client, while deployment and financial services will be largely handled by that partner.

Thus, this enables us to close deals quicker, lower our cost of acquisition, and reduce Boardwalk's need to hire staff had it opted to go this route alone.

Our goal continues to be to achieve both profitability and accelerate growth, not as an either-or scenario.

The Company finished the second quarter fiscal 2023 with a solid balance sheet. The Company continues to have no debt. And for the first six months of the year, cash inflows from operations was a positive \$700,000, and the Company finished the quarter with \$1.4 million of cash.

This reported cash level did not include an additional \$350,000 of cash the Company received from the exercise of warrants subsequent to the closing of the September quarter. The Company does

have another batch of warrants set to expire in late January, which we do not expect to provide—which we do expect to provide some additional positive uptick and growth equity.

Those warrants include approximately 1 million warrants at an exercised price of C\$0.70 and 8.3 million at a \$0.90 exercise price.

Before closing my section, let me provide or reiterate a few comments about our outlook.

The Company continues to track at the upward end of its initial \$6.5 million to \$7 million guidance for the fiscal year, which would be a 60 percent year-over-year growth at the high end. Several key points to make about this guidance and any upside potential.

First, our pipeline did replenish and grow this quarter above \$7 million. Our pipeline is a bottoms-up projection for specific projects and customers over the next nine months, give or take, that are factored by progress to close.

Second, while we have included—while we could have included all banking opportunities, the Company only included two near-term deals rather than all prospects to avoid inflating the pipeline and associated investor expectations.

Third, as Andy alluded to, the last time we faced economic headwinds was when the COVID shutdown first hit. However, during that time, our pipeline actually doubled, since prospective customers realized that their existing IT systems might be good, but they weren't good enough to handle supply chain, global collaboration, traceability, and other data management challenges. This prior pipeline increase is what has fuelled our current ARR growth.

And why? Because our digital ledger isn't just unique and great technology; it enhances productivity and ROI to our customers.

So in conclusion, given the Company's revenue growth and outlook, our goal continues to be both profitable and accelerated growth. And as we've mentioned before, our focus and goal is not just to hit our guidance, but to exceed it. And we look forward to providing you progress on that goal in the months and quarters ahead.

With that, let me turn it back over to Andy.

Andy Duncan

Thanks, Charlie. To say that the business is at a very exciting inflection point is an understatement.

Boardwalktech is starting to prove that our digital ledger platform and related products is a unique and important solution for both large enterprises and financial institutions to better manage and empower their unstructured data.

There is nothing on the market that can do what Boardwalktech does today, and our shareholders will soon be rewarded for their commitment and their trust. We look forward to announcing new developments in the upcoming months and reporting our results to our investors.

And with that, we'll move over to any questions that anyone may have.

Q&A

Operator

Thank you, sir. Ladies and gentlemen, if you would like to ask a question at this time, please slowly press *, followed by 1 on your touch-tone phone. You will then hear a three-tone prompt acknowledging your request.

And if you would like to withdraw from the question queue, please press *, followed by 2.

And if you're using a speakerphone, we ask that you please lift the handset first before pressing any keys.

Please go ahead and press *, 1 now if you do have any questions.

And your first question will be from Mike Stevens at Echelon Wealth Partners. Please go ahead.

Mike Stevens — Echelon Wealth Partners

Yeah. Hi. Good afternoon, guys, and congrats on your progress in the quarter.

Andy Duncan

Thanks, Mike.

Mike Stevens

Yeah. I just had a question. You touched on the macro environment and some of the countercyclical trends that you saw at the beginning of the pandemic and you're seeing them again now.

What about the sales cycles and with higher cost inflation, et cetera, is there much difference this time around? Or any colour with that?

Andy Duncan

Yeah. Mike, this is Andy. We're not really seeing a change in the sales cycle. The deal that we did that we mentioned during this call with a fabulous semiconductor company, that was about a three-month sales cycle. And while that was shorter than normal, I think that we're kind of in a mode of being anywhere between kind of a three and six months, depending upon the size of the deal.

I will say that from your question with regard to the economic component of this and the supply chain, the supply chain is a complete mess. And we continue to see companies struggling with regard to supply chain. And part of that problem is that the systems that they're using are antiquated and they're very difficult to change rapidly.

And this problem is certainly becoming more and more evident, and companies are looking for new ways to be able to solve the supply chain issues and problems from a technical standpoint. And we believe that we're positioned really well to be able to do that utilizing the Boardwalk Digital Ledger.

Mike Stevens

Okay. Great. And sticking with the macro theme, you touched on seeing some wage inflation in your business. Just wondering in terms of pricing power—I know it's still early stage in your trajectory—but is that something that you're able to pass through? Or is it more that land and expand is just kind of scaling the number of customers that you're—that's really the focus?

Andy Duncan

Yeah. So certainly—

Charlie Glavin

Yeah. In—

Andy Duncan

Yeah. Go ahead, Charlie.

Charlie Glavin

—Andy, so, sorry. Yeah. Mike, I would caution that we're not going out trying to fight on a price basis, but rather in terms of an ROI to the customers. In fact, it's somewhat funny. We had some pushback from customers who were wondering why we haven't charged more for some of our customers, given the amount of savings, higher productivity, profitability that we're giving to the customers.

But we are not going out and fighting on a price basis. So our reference more towards the inflation was more in terms of making sure that—we haven't had merit increases for several years because we've been very focused on trying to get to profitability. But we know we also have to stay competitive.

But we have had success in having select hires necessary to fuel the growth going forward. But when it comes to actual pricing, no. Our technology's so unique, at this point we don't have to go loud and fight on a price basis.

In fact, that's not the way that we position this, but rather on how do we resolve problems and save, quite frankly, time. That's why that quote that Andy mentioned—it used to take me 2 days, now it takes 15 minutes—that's the ROI that we're trying to and we try to target at least a minimum of 5x ROI in the first year for our customers.

Mike Stevens

Okay. Great. Appreciate it. And then just if I could ask about your teaming partners, just any updates with how you're—are you happy with the progress? And in terms of the number of resources that they're able to deploy, is that something that you have any control over? Or is that sort of contracted in? Or just any colour on that?

Andy Duncan

Yeah. So as you know, Mike, the way in which we've set up these teaming agreements is that the IT services company will partner with Boardwalk. Boardwalk will have the direct licence agreement for the technology with the bank. And the bank will contract directly with the IT services company to do all of the administrative and rollout work and any other professional services work that is contemplated with that.

It's a win-win because that's exactly what these IT services companies want is bodies against a project or projects. And of course, we're much more interested in keeping our margins high and that direct licence revenue.

And to further answer your question, we continue to go through training with a lot of these IT services companies who are now starting to build personnel in and around this. And we're pretty enthusiastic about the response that we're getting, including some that are calling us directly to say, I'd really like to be trained on the Boardwalk Velocity solution. And so we definitely are seeing movement there.

Would I love to be talking about that we've got 20 banks in the pipeline? Yeah. But we don't. And we're continuing to educate and partner with the IT services companies as these banks are going to continue to look for solutions to be able to solve this problem, especially as the OCC continues to focus in on more compliance issues in and around these issues with end-user computing environments and spreadsheets.

Mike Stevens

Okay. Thanks. And last one, if I could. Just a broad question, maybe longer term. Is there any areas of the market that you're particularly excited about that maybe people don't associate Boardwalk with at the moment, whether it's a new vertical or an area of investment?

Andy Duncan

Well, certainly—

Charlie Glavin

Yes. Can I answer—Andy, can I answer that one because—sorry. And I don't want you to—Mike, there are several other market areas that we could be even deeper in that we'd remind investors on as well. Track and trace being the food and pharma area is another very logical and tangential area that we could get into. We've already proven some of that. We did a pilot project with the Defense Logistics Agency, for example.

But one of the reasons why I wanted to take this answer is when I first was approached by Andy—and for those who don't know, I would have killed for this digital ledger were I still at Intel or still at Credit Suisse heading up Global Semis. But I asked Andy almost the same question you did, Mike. And Andy said, we could go into these other areas, but we want to keep our focus with limited resources to excel in these couple, rather than spread ourselves too thin and be mediocre.

So my point being is, yes, there are a lot of other markets that we could excel and add incremental growth to. But we also have to be judicious with the limited amount of resources and growth equity that we have at hand. So there is a lot more upside even to what Andy has said.

And I think it's reflective of Andy's leadership that we don't go chasing every single one. Again, the banking market was one we did not chase, but rather had an existing partner who came to us after Andy had given a talk in London who said, we know a bank that could use you and made the introduction.

Mike Stevens

Good one.

Andy Duncan

Thanks, Mike.

Charlie Glavin

Thanks.

Andy Duncan

Thanks for your great questions.

Operator

Next question will be from Craig Johnson (phon), investor. Please go ahead, Craig.

Craig Johnson — Investor

Hello. I'm just trying to get some more colour on these arrangements for teaming. That is, you're picking up the subscription revenue and the consultants get the professional services, et cetera. But I see that you have in your expenses \$204,000 for payments to teaming partners, I'm assuming.

Can you explain if they're picking up the revenue for some things why are you paying them?

Charlie Glavin

So that's an excellent question, Craig. And the lion's share of the professional services revenue is being picked up by the IT services, so it is a win-win, plus they can front the personnel.

There was, in particular for these first couple of deals, essentially the equivalent of I don't want to call it a resell or a commission, but for the introduction to come in. To be very blunt, we would not have gotten into this first bank had it not been for this partner.

And I don't want to go into the details of it, but we are amortizing it because this is not a one-off. But rather, we were duplicating this and the teaming fee is something that you probably have seen within government or defence contracts and view this partner as being essentially the prime. And then you allocate the fees at the beginning, partly because the lead partner who brought us in, provided us the access, and helped win us that licence is somebody we couldn't have done it on our own and certainly not in the time fashion that we did.

But we also—and this being ourselves and the teaming partner—ultimately we are at the behest of that bank, who then can reallocate it. So view some of those fees as a backwash in terms of protection for that partner to make sure that they don't get written out of a deal by the banking partner.

Craig Johnson

Okay. So is this likely to grow over time?

Charlie Glavin

No.

Craig Johnson

And if so—okay. So it's just—is it going to stay at that level kind of for a while? Is that because this is kind of an incentive payment to the one or two groups?

Charlie Glavin

Yeah. That would be the way to look at it and think of it as more front-end weighted, Craig.

Craig Johnson

Okay. So it's going to—I'm just trying to think in terms of beyond, it's going to stay around \$200,000 for a while?

Charlie Glavin

And then trail off.

Craig Johnson

I see. Okay.

Charlie Glavin

Yes.

Craig Johnson

Okay. That's good. Now in terms—just one other question—in terms of your pipe, I see last year if I add together your ARR, plus your pipe, I get about \$12.3 million from last year same quarter. This year I get about \$12.5 million-ish. That's up a little bit, but it's not—so it means you're converting your pipe is what that means.

But I'm just wondering, you've said that you're being very conservative in terms of what's in the pipe. It's not obvious from those numbers that the pipe is really—that the total is growing. But you're

saying is that you're being very conservative in putting the numbers in there? I just want to make sure if I'm understanding this right.

Charlie Glavin

No. You've got that right, Craig. And one of the other things that we do is it's not absolute numbers. So one of the things is that, depending on the position of how close we are to we perceive to be closing, we will actually factor that as well; JB Kuppe, our Head of Sales, will factor that as well. Plus Andy and I will also look at discretion.

So as I mentioned, we could have added a couple of other banks into the pipeline from where we have discussions, but we just thought it more prudent to temper expectations at this point and let our numbers present it.

I would not use the pipeline as being the absolute. And we'll be very honest: There are customers who come on the pipeline and drop off and go back and forth. Oftentimes when a customer will look at our solution and they'll look at their internal IT and the internal IT will say, let us give it a shot; they try it, then they come back to us. And that happens on a frequent basis as well.

So you shouldn't view it as linear, but rather as dynamic overall.

But in terms of the conversions on that, the other thing that we're getting is a lot more referrals, so not just IT services, companies referring us in. But I would remark on three of our largest customers came from existing customers as well. And that trend we're actually seeing starting to pick up as well.

Craig Johnson

So if I could summarize, the business is growing really well, even though these particular numbers just don't reflect it.

Charlie Glavin

We're trying—I think the best way of looking at the pipeline is we're not going to close on all of the deals. That would be unrealistic. But it is showing that—and why we referenced even within COVID—is we had that drop down fairly low as people were uncertain about COVID.

And then a lot of customers, including a couple that are now amongst our top-five customers, looked at their existing IT. They had tried other solutions, both internal and external, and came back to us and we saw that pipeline double over the course of, Andy, what was it, about nine months that it went from the nadir to doubling? And that is, in turn, Craig, what has fuelled our existing growth.

So it is dynamic, but you should view it as the pipeline is an indication of future growth right now because people are either approaching us; we're getting referrals from other customers or IT services partners that are indicating that we have a lot of growth potential out there. And ultimately, what we're focusing on and especially Andy, is converting those deals into actual recurring revenue.

Craig Johnson

Okay. That's great. Thank you so much.

Operator

Thank you. As a reminder, ladies and gentlemen, if you would like to ask a question, please slowly press *, followed by 1 on your touch-tone phone.

And your next question will be from Ed Sollbach at Spartan. Please go ahead.

Ed Sollbach — Spartan

Good day. Congrats on another good quarter.

Andy Duncan

Thanks, Ed.

Ed Sollbach

Yeah. Just trying—like you kind of referenced the two big opportunities out there, Andy. And are those specific companies? Or are they kind of industries that you're targeting that maybe have that big size? Because those size are outside of your pipeline, right, and how do you get to those numbers?

Andy Duncan

Yeah. I mean, at the macro level and the way that we look at this is, again, there's two distinct opportunities: one in the financial services market.

When we look at the first deal that we closed that was a couple million growing to \$3.5 million on an annualized basis, as the contract matures we think that there's a very good possibility for us over the next 36, 48 months to land 50 additional banks paying us, call it, a minimum of \$2 million a year for the Boardwalk Velocity product.

And that's how we get to kind of \$100 million revenue in the financial services market. There's execution to be done and there's momentum that needs to continue to build in that market, but we think it's very reasonable to think that we can get there.

On the second side of the business, the other kind of \$100 million opportunity, is in our traditional enterprise business selling our digital ledger platform. And that is we're going to continue to focus on the early adopter markets that we've been focused on, which is in CPG, manufacturing, tax, with a real focus also on supply chain. And you're going to see us really talking a lot more about supply chain.

When you look at most of these large enterprises—and we're only focused on enterprises that are doing \$1 billion and above, so kind of mid-market up to all the way through the Fortune 1000—these companies routinely will have 100-plus of these mission-critical spreadsheet applications that are currently being run in a manual Excel mode that need to be transformed over onto the Boardwalk digital ledger platform.

If you say we're going to get 10 of those at \$100,000 a piece, which has been kind of our ASP on those deals, that gets us to \$1 million of recurring revenue per large enterprise; very sticky. And then you do that and you say over the next 36 to 48 months can you get 100 additional enterprises paying you \$1 million per year ARR, and we believe that that is very viable.

And so that's how we kind of get to those two what I would say macro markets that we're going after, but with a very deep focus on the particular vertical industries that we're targeting. Like we're not going after pharma, we're not going after other areas, whereas Charlie mentioned we could, but we just don't have the resources or the manpower to be able to go and do that yet. And as we get opportunities in those areas and we think we can actually handle it, then we'll certainly expand into that. So that's an area of a lot of opportunity for us.

I'll also say that yesterday I gave a speech to 1,200 enterprises with regard to supply chain and the response after the speech was pretty strong. And after the presentation, people really are acknowledging that there's such a big problem in the supply chain. And we really believe that our solution is unique and different and that you're going to continue to see new wins that we're going to be focusing in on the supply chain.

Ed Sollbach

Okay. Well, thanks for that colour, Andy. I mean, I think—are you looking at the auto industry? I mean I can think of in the last couple years they've lost tens of billions in sales because they're missing a couple chips. Or Ford has lost—their sales were down 20 percent just this quarter just because they're missing badges, the Ford badge, for their cars. Right? Like is that one example of an industry that you're targeting?

Andy Duncan

It's definitely a great example of an industry that's got a lot of pain and has a lot of legacy software that is actually causing some of these issues.

Ed Sollbach

Right.

Andy Duncan

It's not an industry that we've focused on today and that's mainly because of a lack of resources to be able to go after it. Not saying that we wouldn't be a perfect fit; it's just that we just don't have the horsepower to go and focus on that industry.

I will say that—

Ed Sollbach

Is that an industry you could target with your partners that you pay—we were talking about the finder's fee that you were paying. Is that—

Charlie Glavin

Yeah. It's—

Andy Duncan

So it certainly is. Go ahead, Charlie.

Charlie Glavin

Yeah. So it's funny you should mention within the auto industry because the first one I would be thinking is semiconductor where we actually have had success. One of the problems you have within the auto industry is that's actually a long cycle. So you have to, at least within the suppliers, you actually have to qualify within the suppliers to the automakers. So—

Ed Sollbach

Right.

Charlie Glavin

—once you're in, you get a very long area. But—

Ed Sollbach

Yeah.

Charlie Glavin

—I can take it offline as far as that area.

Ed Sollbach

Right.

Charlie Glavin

But I can tell you that an area that we could and should be even deeper in is within the semiconductor industry as well and that, I do think, has a lot more upside, not just site time, but other customers of ours include Qualcomm, Broadcom, and onsemi, and those are areas where we have shown specific productivity gains.

And not just because it's part of my background, but that it's so right, Ed. We even had a customer who was a perpetual licence of ours back in 2014 that we migrated over to a recurring licence. And part of that was for being able for them to track chips within their end product as well.

So as Andy said and I did as well, there are some tangential markets that we really could get deeper in. But we don't want to chase those markets, but rather prove the technology. That's why having Andy go out, give an indication in speeches, along with just printing more announcements about new deal wins, that in turn gets us to have reverse inquiry.

And I will tell you, we've actually had some salespeople who have approached us to wanting to start to work with us, or they know of opportunities. And when you get that reverse inquiry when people look or hear a speech that Andy and I have given and said, can I get you in touch with somebody, that's where we know we're getting the traction and the growth.

But like Andy said, we don't have all the resources we wish to be able to chase all those market opportunities and rather excel in the ones that we are.

Ed Sollbach

Well, yeah. And a lot of times on the technology, it's a snowball where all of a sudden the orders come in and—

Charlie Glavin

Yeah. And I'll give you another—

Ed Sollbach

—and you sign them up with a lot less resources because they're already educated. Right? So that's—

Charlie Glavin

Right.

Ed Sollbach

—so, yeah.

Charlie Glavin

I'll give you another example, and this is one JB and I are also working on, is within the upstream areas within sort of the track and trace, but it's a supply chain issue overall, and that's working with guys within the RFID and AIM market overall. And the idea of this is not just at the point of sale, but further up

when you're getting into customs licence tax areas, which we've already proven on, is another area that we are working on.

But again, what we're finding is it probably will be growth that we're going to be working with other ecosystems, like the RFID ecosystem, to not just hit one problem, but rather the entire supply chain. So that would include the DHL Logistics and other parties out there of whom we do have a relationship through an existing partner.

So there are opportunities out there and it's just that we can't chase all of them at the same time. I'd love—

Ed Sollbach

No. For sure. You got to be good—yeah.

Charlie Glavin

—I love your thought process on that as well.

Ed Sollbach

Okay. Yeah. So just on the income statement, great top-line growth, but you're not getting the operating leverage because of the expense growth. Now I understand the professional fees—or no, sorry, the finder's fees, the \$204,000 the other gentleman was—

Charlie Glavin

Right.

Ed Sollbach

— referring to, that makes sense because the contract, I would imagine, might be there for many, many years. Right? Or possibly forever—

Charlie Glavin

Right.

Ed Sollbach

—if you are on. Right? And the finder's fee goes away. But like when does it go away? Like how—you said you amortized it, but what's the amortization period for these finder's fees?

Charlie Glavin

So the amortization is over the life of the contract, given it's fees that we've negotiated beforehand. But obviously, we're not going to—we're trying not to disclose certain confidential information in regard to that.

But with each new partner we would probably have, not similar, but there would be some amortization associated with it, but not as a period expense. And the reason for that, Ed, is, again, if you take a look at where teaming agreements have been mostly used in, say, government and defence—

Ed Sollbach

Mm-hmm.

Charlie Glavin

—it's to your point. These are long-term deals, but the fees themselves associated with this teaming fee would be more front-end in, say, the first year—

Ed Sollbach

Okay.

Charlie Glavin

—or so of the deal. Then it becomes a symbiotic relationship where we've got the brains, they've got the brawn, let's go make lots of money.

Ed Sollbach

Right.

Charlie Glavin

That sort of idea. And with contracts that we're looking at trying to do four to eight years out there, and in some cases we've even negotiated the prices out to the first four years. And I don't want to get into those details, but what I can tell you is that they are progressive pricing.

More importantly to the investors, the contribution margin, so not the gross margin, but what's going down to the bottom line as cash with these new deals, we should be getting well in excess of 70 percent contribution margin. That's what we're focusing on because—

Ed Sollbach

Even with the teamings? Even with the teamings?

Charlie Glavin

Yes. Yes.

Ed Sollbach

Okay.

Charlie Glavin

Because we're not having to hire teams of people. Anybody who's experienced SAP, you do a shrink-wrap SAP and next thing you know you've got a team of 20 or 40 guys who are camped out—

Ed Sollbach

Right.

Charlie Glavin

—in the west wing of your offices three years afterwards because they're doing implementations. Why? Because they're still reliant on doing sequel queries for not only getting the data into the data lake, but extracting it as well, which is a highly inefficient and labour-intensive process.

That is the beauty of the Boardwalk Digital Ledger. One of our first major customers, from the time we signed the licence to the time they went live with their own clients, was six weeks. And it took me less than five guys during the implementation to get them up and running and to maintain it is only requiring two.

That's the operating leverage going forward.

Ed Sollbach

Right. Right. Okay. Well, certainly, they have the customer relationship and—but so would—

Charlie Glavin

Right. Exactly.

Ed Sollbach

—like if things were just—so would an example be that you have a multiyear contract and you pay a teaming fee for the first year and then after that if they want more they have to get new contracts? Is that kind of how it works? Or—

Charlie Glavin

Well, we would incentivize them for a renewal, depending on whether there's an upsell associated with it because—

Ed Sollbach

Okay. Or an upsell? Yeah.

Charlie Glavin

—we—right. Because we don't want to just have them come in and sit back and collect. That's why we call it a teaming agreement and not a fee-based—

Ed Sollbach

It's not a royalty fee. It's more of a—is it more of a finder fee? Or more of a royalty fee? I guess that's the thing.

Charlie Glavin

That's why the best way of describing it is a teaming fee. It's a partnership—

Ed Sollbach

Yeah. I don't—

Charlie Glavin

—in the ecosystem.

Ed Sollbach

Okay. I don't know the teaming term, but—

Charlie Glavin

Well, the teaming of being in like, again, within the government is they have the IT services—

Ed Sollbach

Like with the government? Okay.

Charlie Glavin

—they have the access.

Ed Sollbach

Right.

Charlie Glavin

They will collect the professional services off of that.

Ed Sollbach

Right.

Charlie Glavin

But as you said, Ed, we don't have those relationships or approved access into those banks and financial institutions. These companies do and so we get to go through the front door, not a side door.

Ed Sollbach

Right. Yeah.

Charlie Glavin

And we don't have to spend the time, so we've just accelerated our time to closing—

Ed Sollbach

Right.

Charlie Glavin

—we've lowered our cost of acquisition, and we don't have to hire as many people to implement and sustain those deals.

Ed Sollbach

And it's like a stamp of approval from this—

Charlie Glavin

Yeah. That's a good way of describing it as well.

Ed Sollbach

Yeah. Yeah. Okay. And so would it be correct to think of it as—the teaming fee as partly a finding fee and partly then support fee ongoing where they would kind of support the product into the future? Is that—

Charlie Glavin

I think that's a relatively accurate way of describing it, yes.

Ed Sollbach

Okay. Okay.

Charlie Glavin

And I should point out, those are on prearrangements as well—

Ed Sollbach

Right.

Charlie Glavin

—where there is, again, a long-term vision on this, not a short-term let's just close the deal.

Ed Sollbach

Right.

Andy Duncan

Yeah. I'd also like to point out that as we continue to mature into this market and mature our relationships on these teaming agreements that we're going to get a little bit more exact and probably get to a little bit better terms, if you will—

Charlie Glavin

Yup.

Andy Duncan

—with regard to future deals as we move forward. So we want to leverage the channel, we want to let them sell while we sleep and reap the benefits from that, but we also want to make sure that we're economically doing this correctly.

And again, as this market and relationships mature, it'll continue to change, I think, in the favour of Boardwalk.

Ed Sollbach

Right. Well, I mean, it's all structuring. Right? So I mean a 15 percent fee for a commission is fine, but a 15 percent royalty in perpetuity seems high. Right? But anyways.

And then the other part of operating leverage is salaries, wages, and benefits on your side. That's also gone up about just in line with revenues over 30 percent. So is that—did you bring on a bunch of new people? Or are people just doing a lot better in—

Andy Duncan

Well, it was a combination of two things, Ed. No, we had not given a merit increase to our team, both in the—

Ed Sollbach

Yeah.

Andy Duncan

—in the US for a couple of years.

Ed Sollbach

Right.

Andy Duncan

And while they're compensated with both cash compensation and RSUs, it was time. And we wanted to stay ahead of the market because the market, at least when we made these merit increases, was pretty frothy and we didn't want to—

Ed Sollbach

Was hot. Yeah.

Andy Duncan

—lose any key people, so it was time.

Ed Sollbach

Yeah.

Andy Duncan

The second thing is, yes, we did hire some additional folks from an engineering standpoint to execute on a supply chain project that we were working on that is long term that we'll be able to talk about soon and also that we'll be able to leverage that technology that's been developed into many other customers. So this was a good, proper investment that will continue to support our growth.

Ed Sollbach

Okay. And so the salaries, is it kind of a catch-up and it won't be repeated? Is that the way to think of it?

Andy Duncan

Well, again—

Ed Sollbach

Especially given the layoffs in the Valley and stuff. Or—

Andy Duncan

Yeah. Again, we look at the Valley, but you also look at wage inflation in India at 30 percent.

Ed Sollbach

Right. Right.

Andy Duncan

Okay? So—

Ed Sollbach

Yeah.

Andy Duncan

—we had to be careful and do the right thing for our people to be able to get them on par with what the competition was and be able to retain them and keep—

Ed Sollbach

Some of that's out of India, too?

Andy Duncan

Yes. Yes. Some of that is out of India—

Ed Sollbach

Okay. Yeah.

Charlie Glavin

Yeah.

Andy Duncan

—as well.

Ed Sollbach

All right.

Charlie Glavin

Ed, I'd also point out that because of how we have to do our planning and projections, we can't afford to hire somebody after you close a deal, but in anticipation of it, depending on, again, the progress, say, within our pipeline—

Ed Sollbach

Right.

Charlie Glavin

—because we need people to come up and ramp, so there's a bit of a calculated risk. But again, I'd point out that, yeah, while there's been some notable layoffs, we have actually been hiring selectively and even had people who are coming to us seeking to join, particularly on the sales and marketing side.

So I'm not saying that we're bucking the entire industry trend, but we are trying to be judicious with this.

Andy and I and the team realize that getting to profitability is a line that we still are marching towards, but we have to balance that off to make sure that if we're closing another banking deal we're going to take the banking deal and the growth associated with it because it's a better long-term decision, as opposed to a short-term metric that we can check off. We got to take a look at this both tactically, as well as strategically.

Ed Sollbach

Right. No. I mean, I know—I've been following the Company for a few years, and I know that you managed expenses well when times were tougher, and so I can see the need for a catch-up. And I think you're right to put growth ahead of profitability, especially if you can get the strong growth you've been seeing.

But then, on the other hand, I think, if you have a lot of employee shareholders and so that if you keep managing expenses, then they're going to get—they're going to do much better on the shares than even through a salary increase. Right? So it's—

Andy Duncan

Yeah. Well—

Ed Sollbach

—you've got to walk that line. Right? So—

Andy Duncan

But it's a fine line, Ed, and just know two things. Charlie and I wake up every day thinking about how do we add ARR and the second thing is we wake up thinking we got to continue to stay very judicious and focused on getting to profitability, which will be mid next year.

Ed Sollbach

Well, fantastic. Okay. Well, thanks for all the colour, and congrats on a great quarter.

Charlie Glavin

Thank you.

Andy Duncan

Thanks, Ed.

Operator

Thank you. And at this time, gentlemen, we have no further questions. Please proceed with closing remarks.

Andy Duncan

Great. I'd like to thank everybody for attending our fiscal 2Q quarterly conference call and sincerely appreciate your interest and you being an investor in Boardwalktech.

So this ends the call. Thank you very much.

Operator

Thank you, sir. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending.

And at this time, we do ask that you please disconnect your lines.