



Management's **Discussion and Analysis**

For the Three and Six Months Ended
September 30, 2023 and 2022



Management's Discussion and Analysis of Financial Condition and Results of Operations

As used in this management's discussion and analysis of financial condition and results of operations ("MD&A"), unless the context indicates or requires otherwise, all references to the "Company", "Coveo", "we", "us", or "our" refer to Coveo Solutions Inc. and its subsidiaries as constituted on September 30, 2023.

This MD&A dated November 6, 2023, for the three and six months ended September 30, 2023 and September 30, 2022, should be read in conjunction with the Company's unaudited condensed interim consolidated financial statements along with the related notes thereto for the three and six months ended September 30, 2023, as well as with the audited annual consolidated financial statements along with the related notes thereto for the year ended March 31, 2023 and the related management's discussion and analysis of financial condition and results of operations. The financial information for the three and six months ended September 30, 2023 and September 30, 2022 presented in this MD&A is derived from the Company's unaudited condensed interim consolidated financial statements for the three and six months ended September 30, 2023, which have been prepared in accordance with the International Financial Reporting Standards ("IFRS") applicable to the preparation of interim financial statements, including International Accounting Standard ("IAS") 34, Interim Financial Reporting, as issued by the International Accounting Standards Board ("IASB"). All amounts are in U.S. dollars unless otherwise indicated.

Forward-Looking Information

This MD&A contains "forward-looking information" and "forward-looking statements" (collectively, "forward-looking information") within the meaning of applicable securities laws. Such forward-looking information includes, but is not limited to, information with respect to our objectives and the strategies to achieve these objectives, as well as information with respect to our beliefs, plans, expectations, anticipations, estimates, and intentions.

This forward-looking information is identified by the use of terms and phrases such as "may", "would", "should", "could", "might", "will", "achieve", "occur", "expect", "intend", "estimate", "anticipate", "plan", "foresee", "believe", "continue", "target", "opportunity", "strategy", "scheduled", "outlook", "forecast", "projection", or "prospect", the negative of these terms and similar terminology, including references to assumptions, although not all forward-looking information contains these terms and phrases. In addition, any statements that refer to expectations, intentions, projections, or other characterizations of future events or circumstances contain forward-looking information. Statements containing forward-looking information are not historical facts but instead represent management's expectations, estimates, and projections regarding future events or circumstances.

This forward-looking information includes, among other things, statements relating to: the expected availability of Coveo Relevance Generative Answering™ during the third quarter of our fiscal year 2024; our business plans and strategies (including growth strategies); expectations regarding Coveo's revenue and revenue mix, expenses, investments, and operating results; expectations regarding our ability to successfully retain and expand relationships with existing customers; expectations regarding growth opportunities and our ability to capture an increasing share of addressable markets, including for commerce and service solutions, and strengthen our competitive position; our environmental, social and governance objectives, vision and strategic goals; goodwill impairments; and expectations regarding our ability to increase our penetration of international markets and selectively pursue and successfully integrate acquisitions, including in respect of identified cross-selling opportunities.

Forward-looking information is necessarily based on a number of opinions, estimates, and assumptions that we considered appropriate and reasonable as of the date such statements are made. Although the forward-looking information contained herein is based upon what we believe are reasonable assumptions, actual results may vary from the forward-looking information contained herein. Certain assumptions made in preparing the forward-looking information contained in herein include, without limitation: our ability to capitalize on growth opportunities and implement our growth strategy; our ability to attract new customers, both domestically and internationally, expand our relationships with existing customers and retain

existing customers; the success of our efforts to expand our product portfolio and market reach; our ability to maintain successful strategic relationships with partners and other third parties; market awareness and acceptance of enterprise artificial intelligence (“AI”) solutions in general and our products in particular; the market penetration of our new generative AI solutions, both with new and existing customers, and our ability to capture the generative AI opportunity; assumptions regarding our future capital requirements; assumptions regarding available liquidity under our revolving credit facility; the accuracy of our estimates of market opportunity, growth forecasts, and expectations around achieving positive operating cash flows and the timing thereof; our success in identifying and evaluating, as well as financing and integrating, any acquisitions, partnerships, or joint ventures; our ability to execute on our expansion plans; the significant influence of our principal shareholders; and the future impact of any worsening of the COVID-19 pandemic. Moreover, forward-looking information is subject to known and unknown risks, uncertainties, and other factors, many of which are beyond our control, that may cause the actual results, level of activity, performance, or achievements to be materially different from those expressed or implied by such forward-looking information, including but not limited to macro-economic uncertainties and the risk factors described under “Risk Factors” in the Company’s most recently filed Annual Information Form (“AIF”) available under our profile on SEDAR+ at www.sedarplus.ca. There can be no assurance that such forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such information. Accordingly, prospective investors should not place undue reliance on forward-looking information, which speaks only as of the date made.

Moreover, we operate in a very competitive and rapidly changing environment. Although we have attempted to identify important risk factors that could cause actual results to differ materially from those contained in forward-looking information, there may be other risk factors not presently known to us or that we presently believe are not material that could also cause actual results or future events to differ materially from those expressed in such forward-looking information.

You should not rely on this forward-looking information, as actual outcomes and results may differ materially from those contemplated by this forward-looking information as a result of such risks and uncertainties. Additional information will also be set forth in other public filings that we make available under our profile on SEDAR+ at www.sedarplus.ca from time to time. The forward-looking information provided in this MD&A relate only to events or information as of the date on which the statements are made in this MD&A and are expressly qualified in their entirety by this cautionary statement. Except as required by law, we do not assume any obligation to update or revise any forward-looking information, whether as a result of new information, future events, or otherwise, after the date on which the statements are made or to reflect the occurrence of unanticipated events.

Business Overview

The business of Coveo

Coveo has over a decade of experience in helping global enterprises leverage the benefits of artificial intelligence (“AI”) to improve business outcomes. Our market-leading AI platform powers search, recommendations, and generative answering in digital experiences across commerce, service, website, and workplace applications. Our platform is cloud-native SaaS, multi-tenant, API-first, and headless. Our solutions are designed to provide tangible financial value to our customers by helping to drive improvements in conversion rates, revenue, and margins, reduce the cost to serve, increase customer satisfaction and engagement, and improve employee proficiency and satisfaction. Our AI platform powers the digital experiences for many of the world’s most innovative brands, serving millions of people and billions of interactions, and is supported by a large network of global systems integrators and implementation partners.

Coveo’s AI platform securely connects to internal sources of content along with a variety of external sources to retrieve and index structured and/or unstructured content, and combines this content with click-stream events and behavior patterns. Using our AI, machine learning, natural language processing, deep learning, and large language models (“LLMs”), the platform helps to determine what users are looking for in real-time, and learns which content delivers optimal outcomes based on a deep understanding of what worked best for others. As more data accumulates, the platform learns to better predict each user’s needs, and then automatically recommends personalized content.

Coveo has been a pioneer in the application of AI within the enterprise. Our Relevance Generative Answering™ capability integrates LLM technology with Coveo's platform to feed generative AI with a common, secure unified index and real-time

content, helping to drive relevance at scale and consistent factuality with secure sources of truth across all channels. This helps to solve some of the key challenges of utilizing generative AI for enterprise use cases.

We primarily generate revenue from the recurring sale of SaaS subscriptions. Our contracts generally have multi-year terms and are subject to renewal at the end of the subscription term. We sell and distribute our solutions almost exclusively through our direct sales force supported by a large network of global systems integrators and implementation partners. We have also established strategic relationships with leading global technology platforms, including with Salesforce as a Salesforce Summit ISVforce Partner, SAP as an SAP® Endorsed App, and Adobe as an Adobe Gold Partner. We have collaborated with these partners, as well as others, to integrate our solutions within their platforms, enabling users to unify content from multiple sources as well as deploy our usage analytics and machine learning models natively within these applications.

During the first quarter of fiscal year 2024, Coveo unveiled Coveo Relevance Generative Answering™, a natural extension of our industry-leading AI platform. Since the launch, the Company worked with dozens of design partners and members of its advisory group. This innovation integrates LLM technology with the secure indexing and relevance capabilities of the Coveo Platform™. Coveo Relevance Generative Answering™ is a solution addressing important challenges in leveraging LLMs for enterprise use cases at scale, including security, accuracy, user experience quality, and cost efficiency.

Key Performance Indicators

We monitor the following key performance indicators to help us evaluate our business, measure our performance, identify trends, formulate business plans, and make strategic decisions. These financial measures do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similar measures presented by other issuers and cannot be reconciled to a directly comparable IFRS measure. Our key performance indicators may be calculated in a manner different than similar key performance indicators used by other companies.

- **SaaS Subscription Revenue:** Our main focus is on growing our SaaS Subscription Revenue. We believe that our ability to increase our SaaS Subscription Revenue, as presented in our financial statements in accordance with IFRS, is an indicator of the success of our growth strategy. The recurring nature and predictability of our SaaS Subscription Revenue provides visibility into future performance, and the upfront annual payments we typically receive on these contracts results in cash flows generation in advance of revenue recognition. Our SaaS Subscription Revenue was \$29.4 million for the three months ended September 30, 2023, an increase of \$3.9 million or 15% compared to the three months ended September 30, 2022. For the six months ended September 30, 2023, SaaS Subscription Revenue was \$57.9 million, an increase of \$8.5 million or 17% compared to the six months ended September 30, 2022.
- **Net Expansion Rate:** We believe that Net Expansion Rate is a useful indicator of our ability to maintain and expand our relationships with our customers over time and a key indicator of the long-term value that we provide to them. This indicator compares our SaaS Annualized Contract Value¹ (“SaaS ACV”) from the same set of customers across comparable periods. We calculate this rate by considering a cohort of customers at the end of the period 12 months prior to the end of the period selected and dividing the SaaS ACV attributable to that cohort at the end of the current period selected, by the SaaS ACV attributable to that cohort at the beginning of the period 12 months prior to the end of the period selected.

Expressed as a percentage, the ratio:

- i. Excludes any SaaS ACV from new customers added during the 12 months preceding the end of the period selected;
- ii. Includes incremental SaaS ACV sold to the cohort over the 12 months preceding the end of the period selected; and

¹ “SaaS Annualized Contract Value” means the SaaS annualized contract value of a customer’s commitments calculated based on the terms of that customer’s subscriptions, and represents the committed annualized subscription amount as of the measurement date.

- iii. Is net of the SaaS ACV from any customers whose subscriptions terminated or decreased over the 12 months preceding the end of the period selected.

Our Net Expansion Rate was 106% as of September 30, 2023. Net Expansion Rate as of September 30, 2023 was negatively impacted by customer attrition experienced during the period, and primarily in the second quarter of fiscal year 2024, as a result of the Company's decision to decrease investment in certain product capabilities that were acquired in October 2021 through the acquisition of Qubit Digital Ltd ("Qubit"). Excluding the customer attrition resulting from this decision², our Net Expansion Rate was 111% as of September 30, 2023. We expect further customer attrition related to Qubit in the coming quarters, which will continue to negatively impact our Net Expansion Rate for those periods.

- **Current SaaS Subscription Remaining Performance Obligations ("SaaS cRPO"):** We believe that SaaS cRPO, as presented in our financial statements in accordance with IFRS, provides visibility into our future performance. This amount represents a forward-looking indicator of anticipated future revenue under contract that has not yet been recognized as revenue but that is expected to be recognized over the next 12 months. As of September 30, 2023, SaaS cRPO was \$93.8 million, an increase of \$5.1 million or 6% compared to September 30, 2022.

Factors that may cause our SaaS cRPO to vary from period to period include the following:

- Timing of contract renewals. Customers typically enter into multi-year contracts and renew their contracts at the end of the contract term. The timing of those renewals over the course of the year can cause variability in our SaaS cRPO.
- Contract duration. While we typically enter into multi-year subscription contracts, the duration of our contracts may vary. We sometimes enter into contracts with shorter durations and, for expansion transactions, we often enable the contracts to co-terminate with the existing contract. These changes in contract duration can cause variability in our SaaS cRPO.
- Foreign currency exchange rates. While a majority of our contracts are in U.S. Dollars, we also have a portion of our contracts in other currencies, including the British pound sterling, Euro, and Canadian dollar. Fluctuations in foreign currency exchange rates as of the quarter end date can cause variability in our SaaS cRPO.

Non-IFRS Financial Measures and Ratios and Reconciliation of Non-IFRS Financial Measures and Ratios

Non-IFRS financial measures and ratios are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. These measures and ratios are unlikely to be comparable to similar measures and ratios presented by other companies. Rather, non-IFRS financial measures and ratios are provided as additional information to complement financial statements by providing further understanding of our results of operations from management's perspective. Accordingly, these measures and ratios should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS.

We believe that non-IFRS financial measures and ratios are useful in providing supplemental information regarding our performance by excluding certain items that may not be indicative of our business, operating results, or future outlook. Management uses non-IFRS financial measures and ratios to make performance comparisons from period to period, to prepare annual operating budgets and forecasts, and to determine components of management compensation.

² This customer attrition represents subscriptions of certain legacy Qubit customers using Qubit's product capabilities for non-core use cases that ultimately decided to not renew their subscriptions.

Adjusted Operating Loss

Adjusted Operating Loss is defined as operating loss excluding share-based payments and related expenses, amortization and impairment of acquired intangible assets, acquisition-related compensation, transaction-related expenses, and other one-time or non-cash items. Effective April 1, 2023, the company's Adjusted Operating Loss no longer includes an adjustment related to charitable donations, and prior periods have been recast to reflect the change.

We believe Adjusted Operating Loss provides our management and investors consistency and comparability with our past financial performance and facilitates period-to-period comparisons of operations, as these metrics generally eliminate the effects of certain variables from period to period for reasons unrelated to overall operating performance. We believe similar measures are used widely among others in our industry as a means of evaluating a company's underlying operating performance.

The following table reconciles Adjusted Operating Loss to operating loss for the periods indicated:

| <i>In thousands of U.S. dollars</i> | Three months ended September 30, | | Six months ended September 30, | |
|--|----------------------------------|-----------------|--------------------------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | | | \$ | \$ |
| Operating loss | (10,198) | (11,644) | (17,767) | (24,953) |
| Share-based payments and related expenses ⁽¹⁾ | 5,016 | 5,660 | 8,763 | 10,135 |
| Amortization and impairment of acquired intangible assets ⁽²⁾ | 4,198 | 1,103 | 5,203 | 2,263 |
| Acquisition-related compensation ⁽³⁾ | - | 175 | - | 386 |
| Adjusted Operating Loss | (984) | (4,706) | (3,801) | (12,169) |

(1) These expenses relate to issued stock options and share-based awards under our share-based plans to our employees and directors as well as related payroll taxes that are directly attributable to the share-based payments. These costs are included in product and professional services cost of revenue, sales and marketing, research and product development, and general and administrative expenses.

(2) These expenses represent the amortization and impairment of intangible assets acquired through the acquisition of Qubit. These costs are included in amortization and impairment of intangible assets. It includes an impairment of customer relationships acquired through the business combination with Qubit as described in note 5 of the condensed interim consolidated financial statements for the three and six months ended September 30, 2023.

(3) These expenses relate to non-recurring acquisition-related compensation in connection with acquisitions. These costs are included in product and professional services cost of revenue, and sales and marketing, research and product development, and general and administrative expenses.

Adjusted Gross Profit Measures and Adjusted Gross Margin Measures

Adjusted Gross Profit, Adjusted Product Gross Profit, and Adjusted Professional Services Gross Profit are respectively defined as gross profit, product gross profit, and professional services gross profit excluding share-based payments and related expenses, acquisition-related compensation, transaction-related expenses, and other one-time or non-cash items. We refer to these measures collectively as our "Adjusted Gross Profit Measures". Adjusted Gross Margin is defined as Adjusted Gross Profit as a percentage of total revenue. Adjusted Product Gross Margin is defined as Adjusted Product Gross Profit as a percentage of product revenue. Adjusted Professional Services Gross Margin is defined as Adjusted Professional Services Gross Profit as a percentage of professional services revenue. We refer to these measures collectively as our "Adjusted Gross Margin Measures".

We believe that Adjusted Gross Profit Measures and Adjusted Gross Margin Measures provide our management and investors with consistency and comparability with our past financial performance and facilitate period-to-period comparisons of our direct costs and gross profit by excluding the effects of certain variables for reasons unrelated to overall operating performance. We believe they are important supplemental financial measures of our performance, primarily because they and similar measures are used widely among others in our industry as a means of evaluating a company's underlying operating performance.

The table below provides a reconciliation of Adjusted Gross Profit to gross profit, Adjusted Product Gross Profit to product gross profit, and Adjusted Professional Services Gross Profit to professional services gross profit:

| <i>In thousands of U.S. dollars</i> | Three months ended September 30, | | Six months ended September 30, | |
|--|----------------------------------|---------------|--------------------------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$ | \$ | \$ | \$ |
| Total revenue | 31,219 | 27,933 | 61,751 | 54,395 |
| Gross profit | 24,412 | 21,362 | 48,272 | 41,089 |
| <i>Gross margin</i> | 78% | 76% | 78% | 76% |
| Add: Share-based payments and related expenses | 380 | 375 | 779 | 701 |
| Add: Acquisition-related compensation | - | 85 | - | 166 |
| Adjusted Gross Profit | 24,792 | 21,822 | 49,051 | 41,956 |
| <i>Adjusted Gross Margin</i> | 79% | 78% | 79% | 77% |
| Product revenue | 29,406 | 25,759 | 57,941 | 50,086 |
| Product cost of revenue | 5,323 | 4,749 | 10,451 | 9,507 |
| Product gross profit | 24,083 | 21,010 | 47,490 | 40,579 |
| <i>Product gross margin</i> | 82% | 82% | 82% | 81% |
| Add: Share-based payments and related expenses | 230 | 210 | 466 | 392 |
| Add: Acquisition-related compensation | - | 70 | - | 130 |
| Adjusted Product Gross Profit | 24,313 | 21,290 | 47,956 | 41,101 |
| <i>Adjusted Product Gross Margin</i> | 83% | 83% | 83% | 82% |
| Professional services revenue | 1,813 | 2,174 | 3,810 | 4,309 |
| Professional services cost of revenue | 1,484 | 1,822 | 3,028 | 3,799 |
| Professional services gross profit | 329 | 352 | 782 | 510 |
| <i>Professional services gross margin</i> | 18% | 16% | 21% | 12% |
| Add: Share-based payments and related expenses | 150 | 165 | 313 | 309 |
| Add: Acquisition-related compensation | - | 15 | - | 36 |
| Adjusted Professional Services Gross Profit | 479 | 532 | 1,095 | 855 |
| <i>Adjusted Professional Services Gross Margin</i> | 26% | 24% | 29% | 20% |

Adjusted Operating Expense Measures and Adjusted Operating Expense (%) Measures

Adjusted Sales and Marketing Expenses, Adjusted Research and Product Development Expenses, and Adjusted General and Administrative Expenses are respectively defined as sales and marketing expenses, research and product development expenses, and general and administrative expenses excluding share-based payments and related expenses, acquisition-related compensation, transaction-related expenses, and other one-time or non-cash items.

We refer to these measures collectively as our "Adjusted Operating Expense Measures". Adjusted Sales and Marketing Expenses (%), Adjusted Research and Product Development Expenses (%), and Adjusted General and Administrative Expenses (%) are respectively defined as Adjusted Sales and Marketing Expenses, Adjusted Research and Product Development Expenses, and Adjusted General and Administrative Expenses as a percentage of total revenue. We refer to these measures collectively as our "Adjusted Operating Expense (%) Measures". Effective April 1, 2023, the Company's Adjusted Operating Expense Measures and Adjusted Operating Expense (%) Measures no longer include an adjustment related to charitable donations, and prior periods have been recast to reflect the change.

We believe that Adjusted Operating Expense Measures and Adjusted Operating Expense (%) Measures provide our management and investors with consistency and comparability with our past financial performance and facilitate period-to-period comparisons of our direct costs by excluding the effects of certain variables for reasons unrelated to overall operating performance. We believe they are important supplemental financial measures of our performance, primarily

because they and similar measures are used among others in our industry as a means of evaluating a company's underlying operating performance.

The table below provides a reconciliation of Adjusted Sales and Marketing Expenses to sales and marketing expenses, Adjusted Research and Product Development Expenses to research and product development expenses, and Adjusted General and Administrative Expense to general and administrative expenses:

| <i>In thousands of U.S. dollars</i> | Three months ended September 30, | | Six months ended September 30, | |
|---|----------------------------------|---------------|--------------------------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$ | \$ | \$ | \$ |
| Sales and marketing expenses | 13,898 | 14,161 | 27,358 | 28,722 |
| <i>Sales and marketing expenses (%)</i> | 45% | 51% | 44% | 53% |
| Less: Share-based payments and related expenses | 897 | 1,539 | 937 | 3,070 |
| Less: Acquisition-related compensation | - | 37 | - | 71 |
| Adjusted Sales and Marketing Expenses | 13,001 | 12,585 | 26,421 | 25,581 |
| <i>Adjusted Sales and Marketing Expenses (%)</i> | 42% | 45% | 43% | 47% |
| Research and product development expenses | 8,700 | 8,963 | 17,882 | 18,095 |
| <i>Research and product development expenses (%)</i> | 28% | 32% | 29% | 33% |
| Less: Share-based payments and related expenses | 1,675 | 1,688 | 3,231 | 3,121 |
| Less: Acquisition-related compensation | - | 47 | - | 135 |
| Adjusted Research and Product Development Expenses | 7,025 | 7,228 | 14,651 | 14,839 |
| <i>Adjusted Research and Product Development Expenses (%)</i> | 23% | 26% | 24% | 27% |
| General and administrative expenses | 6,814 | 7,722 | 13,623 | 14,815 |
| <i>General and administrative expenses (%)</i> | 22% | 28% | 22% | 27% |
| Less: Share-based payments and related expenses | 2,064 | 2,058 | 3,816 | 3,243 |
| Less: Acquisition-related compensation | - | 6 | - | 14 |
| Adjusted General and Administrative Expenses | 4,750 | 5,658 | 9,807 | 11,558 |
| <i>Adjusted General and Administrative Expenses (%)</i> | 15% | 20% | 16% | 21% |

Substantial Issuer Bid

On July 12, 2023, the Company announced that it had repurchased 3,706,194 subordinate voting shares (including 480,000 multiple voting shares on as-converted basis) at a price of C\$8.50 per subordinate voting share, for an aggregate purchase price of approximately \$23.8 million (C\$31.5 million), under its substantial issuer bid launched on May 30, 2023 (the "SIB"). The Company repurchased approximately 3.5% of the total number of its issued and outstanding shares (prior to purchases under the SIB) pursuant to the SIB. The payment and the settlement of the purchased shares was effected on July 13, 2023.

Normal Course Issuer Bid

On July 10, 2023, the board of directors of the Company approved a normal course issuer bid (the "NCIB") to purchase for cancellation a maximum of 2,559,247 subordinate voting shares of the Company (the "NCIB Annual Limit"), representing approximately 5% of the subordinate voting shares of the Company issued and outstanding as at July 10, 2023, taking into account the 3,706,194 subordinate voting shares bought back under the SIB that closed on July 12, 2023. The Company is authorized to make purchases under the NCIB during the period starting on July 17, 2023 and ending on July 16, 2024 in accordance with the requirements of the Toronto Stock Exchange (the "TSX") and applicable securities laws.

On August 8, 2023, the Company also announced that, in connection with the NCIB, it entered into an automatic securities purchase plan (the “ASPP”) with BMO Capital Markets, as designated broker responsible for the NCIB. The ASPP is intended to allow for the purchase of subordinate voting shares under the NCIB at times when Coveo would ordinarily not be permitted to purchase its securities due to regulatory restrictions and customary self-imposed blackout periods. Pursuant to the ASPP, purchases can be made by the designated broker based on pre-established purchasing parameters, without further instructions by Coveo, in compliance with the rules of the TSX, applicable securities laws, and the terms of the ASPP.

From the launch of the NCIB on July 17, 2023 to the end of the quarter on September 30, 2023, the Company repurchased for cancellation a total of 940,000 securities for total consideration of \$6.7 million. This was comprised of 240,000 subordinate voting shares (for a total consideration of \$2.1 million) and 700,000 stock options of the Company repurchased in reliance upon a separate statutory issuer bid exemption at a price representing a discount of 5% to the prevailing market price of the subordinate voting shares at the time of execution, less the exercise price of such options (for a total consideration of \$4.6 million). A copy of the Company’s Form 12 – *Notice of intention to make a normal course issuer bid* may be obtained without charge by security holders by contacting investors@coveo.com.

Key Factors Impacting Our Performance

We believe that our goal of driving long-term sustainable growth and stakeholder value depends on many factors, including those described below. While each of these factors presents significant opportunities for our business, they also pose important challenges, some of which are discussed below and in the “Risk Factors” section of the Company’s most recent AIF available under our profile on SEDAR+ at www.sedarplus.ca.

Attracting new customers, and having our existing customers renew their subscriptions and purchase additional subscriptions

Our future growth in revenue depends, in part, on our ability to attract new customers. Although the demand for search, recommendations, and generative answering solutions has grown in recent years, the market for these platforms and applications continues to evolve rapidly. While we believe the flexibility and the spectrum of our go-to-market strategy contributes substantially to our ability to attract new customers and drive expansion within our installed base, our success will depend to a substantial extent on the widespread adoption of our solutions.

Additionally, our future success depends, in part, on our ability to upsell existing use cases, cross-sell new use cases, and ultimately convert existing customers to enterprise-wide subscriptions, as well as our customers renewing their subscriptions when their contract term expires. Our customers generally have no contractual obligation to renew, upgrade, or expand their subscriptions during or after the terms of their existing subscriptions expire. Our customers’ retention, renewal, and/or expansion commitments may decline or fluctuate as a result of a number of factors, including, but not limited to, increased competition in the AI space, extraneous factors such as allocation of capital in a challenging macroeconomic environment and, more generally, the effects of global economic conditions, and other factors such as their satisfaction with our solutions, use cases, functionalities, and our customer support or success services, the pricing of our subscriptions or competing solutions, changes in their budgets, and changes in our customers’ financial conditions. While we believe that the quality and differentiation of our products provides us with an advantage against our competitors, in order for us to maintain or improve our results of operations, it is important that our customers retain, renew, or expand their subscriptions with us.

Capture the generative AI opportunity

Generative AI stands as a pivotal opportunity and core focus for Coveo, and our results of operations may be affected by our ability to capture the opportunity in a timely and effective manner. While we believe that Coveo Relevance Generative Answering™ will be a market-leading generative AI solution for a number of use cases, there is no assurance that we will be able to market and sell such solutions effectively, and that our investments in such solutions will yield the desired benefits. Generative AI and LLMs remain nascent and emerging technologies, and as with any emerging technologies, existing and new competitors are entering the space at a rapid pace, which can increase market awareness but also can

sometimes attract unnecessary attention and/or negative or prejudicial press. Our success in capturing the generative AI opportunity will depend in part on our ability to differentiate our generative AI offering from that of existing and new competitors, including sometimes through unwanted “noise”, to adapt our go-to-market strategy when necessary, and to continue to effectively position Coveo as a leader in the space. See also *“We are incorporating generative artificial intelligence into some of our products. This technology is new and developing, may present both compliance risks and reputational risks, and may require strategic investments”* in the risk factors section of our AIF.” in the risk factors section of our AIF.

Growth of our commerce solutions

We have invested, and expect to continue to invest, to build a technology that delivers search, recommendations, and 1:1 personalization in digital commerce experiences, and that ultimately aims to drive revenue and profitability growth for our customers. Our intention to accelerate the adoption of commerce solutions as one of our core growth strategies exposes us to a number of risks related to the launch of new solutions, and as with our generative AI solutions, the marketability of our commerce solutions could be significantly affected by the perceived value associated with our commerce solutions and those of new or existing competing technologies. Additionally, the commerce market is intensely competitive and we often must prove that the benefits provided by our platform are substantially superior than those of our competitors. If our commerce solutions do not achieve widespread adoption or there is a reduction in demand for such solutions due to a lack of customer acceptance, technological challenges, competing products, privacy concerns, decreases in corporate spending, weakening economic conditions, or otherwise, it could result in decreased revenue growth rates or reduced customer retention rates. See also *“Our growth strategy involves building on the recent momentum of our commerce solutions”* in the risk factors section of our AIF.

Maintain and expand platform partnerships

We anticipate that our current operations and the growth of our business will continue to depend partly on third-party relationships, most importantly with our strategic partners with whom we maintain platform integrations. If any of our strategic partners temporarily or permanently cease operations, face financial distress or other business disruptions, if any of the agreements we have entered into with such strategic partners are terminated or not renewed without adequate transition arrangements, or if any of our strategic partners develop their own AI solutions to replace one or more of the solutions we offer through their platforms, our business, financial condition, and results of operations may be harmed. We recently expanded our partnership with SAP® Commerce Cloud as an SAP® Endorsed App. We expect this expanded partnership to be an important driver of our growth going forward, and that SaaS Subscription Revenue generated from fees paid to us by users of SAP® will become a larger portion of our total revenue in the future. Our agreements with such strategic partners are typically non-exclusive and do not typically prohibit them from working with our competitors or, as discussed above, from offering competing products. These partners may choose to terminate their relationship with us or, as discussed above, to make material changes to their businesses, products, or services, each of which could have an adverse effect on our business, financial condition, and results of operations. See also *“Our current operations and growth depend in part on the success of our strategic relationships with third parties, including strategic partners”* in the risk factors section of our AIF.

Macroeconomic environment

Our performance is subject to worldwide economic conditions and global events, including geopolitical, economic, social, and environmental risks that may impact our operations or our customers’ operations. Such conditions and events may adversely affect customer confidence, customer spending, including on IT projects, customer discretionary income, and/or changes in customer purchasing habits. The current deterioration in general economic conditions, including labor shortages and the rates of unemployment, increased inflation, prospects of a recession, and increased interest rates may adversely affect customer spending and customer debt levels, and as a result, adversely affect our financial performance. Economic downturns may adversely impact our customers who may decide not to renew their subscription to our services or potential customers who may decide not to subscribe to our services to conserve cash. Weakening economic conditions may also adversely affect third parties, including suppliers and partners, with whom we have entered into relationships and upon whom we depend in order to operate and grow our business. A severe or prolonged economic downturn, including a recession or depression, could impact our business, including our revenue and our ability to raise

additional capital when needed on favorable terms or at all. See also “*The impact of worldwide geopolitical, economic conditions such as inflation and changes in interest rates, including the resulting effect on the operations, our spending and on consumer spending, may adversely affect our business, operating results and financial condition*” in the risk factors section of our AIF.

Foreign exchange risk

Our financial results are reported in U.S. dollars and our functional currency is the Canadian dollar, with the exception of our subsidiaries in United States (U.S. dollar), United Kingdom (British pound sterling), and the Netherlands (Euro). We derive most of our revenue in U.S. dollars, while our headquarters and a significant portion of our employees are located in Canada. As such, an important portion of our operating expenses are transacted in Canadian dollars. Some portion of our sales and operating expenses are also in currencies other than the U.S. dollar, including primarily Euros and British pound sterling. Fluctuations in relative currency values against the U.S. dollar could thus have an impact on our results of operations.

Key Components of Results of Operations

Revenue

SaaS Subscription Revenue. SaaS Subscription Revenue is primarily comprised of fees for the provisioning of the Coveo platform and the related customer support and success plans. SaaS subscriptions are generally sold for a fixed fee and revenue is recognized rateably over the term of the contract as the Company satisfies the performance obligation.

Our contracts generally have multi-year terms, are subject to renewal at the end of the subscription term, and generally do not provide for a right to terminate the subscription for convenience, other than in accordance with applicable laws. As a result, a significant portion of the SaaS Subscription Revenue that we recognize in each period is attributable to subscriptions entered into during previous periods. The Company generally invoices annually in advance and receives payment from its customers on the invoice due date. To the extent we invoice our customers in advance of revenue recognition, we record deferred revenue.

Professional services. Professional services revenue is earned for the implementation and configuration of our platform in connection with SaaS subscriptions. These services are typically time-based arrangements, with revenue recognized as these services are performed. In certain circumstances, we enter into arrangements for professional services on a fixed price basis. In these cases, revenue is recognized by reference to the stage of completion of the contract.

Costs of revenue and operating expenses

Product cost of revenue. Product cost of revenue includes personnel and overhead costs, including share-based payments and related expenses, associated with our customer success, customer support, and data hosting teams, and the cost of data hosting services.

Professional services cost of revenue. Professional services cost of revenue consists of personnel, including share-based payments and related expenses, and other overhead costs related to implementation teams supporting initial deployments, training services, and subsequent stand-alone engagements for additional services.

Sales and marketing expenses. Sales and marketing expenses consist of personnel and related costs, including share-based payments and related expenses, for our sales and marketing teams and marketing and partner programs. This includes salaries and benefits, contract acquisition costs (including commissions earned by sales personnel and fees paid to our partners), support and training related to our partner programs, and marketing expenses focused on business development and sales.

Research and product development (“R&D”) expenses. R&D expenses consist primarily of personnel and related costs, including share-based payments and related expenses, for the teams responsible for the ongoing research, development, and product management of our solutions. These expenses are recorded net of applicable government assistance.

General and administrative expenses. General and administrative expenses consist of employee expenses, including share-based payments and related expenses, associated with administrative functions of the business, including finance, accounting, legal, administrative, human resources, procurement, information systems, and information technology, as well as professional fees and other corporate expenses.

We intend to incur additional costs of revenue in data hosting, customer success, customer support, and professional services as we expand our customer base. The level and timing of these additional expenses could affect our cost of revenue in the future. We are committed to sustained investment in sales and marketing initiatives aimed at enhancing brand awareness within our target audience and cultivating a robust sales pipeline. We expect that our spending on R&D will increase in absolute dollars as we expand our R&D and product management teams to continue to add new features and capabilities to our platform, including related to Coveo Relevance Generative Answering™. We expect that general and administrative expenses will increase in absolute dollars in the future as we invest in our infrastructure and incur additional employee-related costs and consulting fees related to the growth of our business. Over time, we expect sales and marketing expenses, research and development expenses, and general and administrative expenses to decline as a percentage of total revenue as we achieve additional economies of scale as our revenue grows.

Results of Operations

The following table sets forth our results of operations:

| <i>In thousands of U.S. dollars, except per share data</i> | Three months ended September 30, | | Six months ended September 30, | |
|--|----------------------------------|-----------------|--------------------------------|-----------------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$ | \$ | \$ | \$ |
| Revenue | | | | |
| SaaS subscription | 29,406 | 25,469 | 57,941 | 49,472 |
| Self-managed licenses and maintenance | - | 290 | - | 614 |
| Product revenue | 29,406 | 25,759 | 57,941 | 50,086 |
| Professional services | 1,813 | 2,174 | 3,810 | 4,309 |
| Total revenue | 31,219 | 27,933 | 61,751 | 54,395 |
| Cost of revenue | | | | |
| Product | 5,323 | 4,749 | 10,451 | 9,507 |
| Professional services | 1,484 | 1,822 | 3,028 | 3,799 |
| Total cost of revenue | 6,807 | 6,571 | 13,479 | 13,306 |
| Gross profit | 24,412 | 21,362 | 48,272 | 41,089 |
| Operating expenses | | | | |
| Sales and marketing | 13,898 | 14,161 | 27,358 | 28,722 |
| Research and product development | 8,700 | 8,963 | 17,882 | 18,095 |
| General and administrative | 6,814 | 7,722 | 13,623 | 14,815 |
| Depreciation of property and equipment | 595 | 660 | 1,172 | 1,352 |
| Amortization and impairment of intangible assets | 4,199 | 1,104 | 5,205 | 2,265 |
| Depreciation of right-of-use assets | 404 | 396 | 799 | 793 |
| Total operating expenses | 34,610 | 33,006 | 66,039 | 66,042 |
| Operating loss | (10,198) | (11,644) | (17,767) | (24,953) |
| Net financial revenue | (1,630) | (1,020) | (3,307) | (1,419) |
| Foreign exchange gain | (1,260) | (816) | (256) | (1,316) |
| Loss before income tax expense | (7,308) | (9,808) | (14,204) | (22,218) |
| Income tax expense (recovery) | (855) | 125 | (796) | 234 |
| Net loss | (6,453) | (9,933) | (13,408) | (22,452) |
| Net loss per share – Basic and diluted | (0.06) | (0.10) | (0.13) | (0.22) |

The following table presents share-based payments and related expenses amounts recognized by the Company:

| <i>In thousands of U.S. dollars</i> | Three months ended September 30, | | Six months ended September 30, | |
|--|----------------------------------|--------------|--------------------------------|---------------|
| | 2023 | 2022 | 2023 | 2022 |
| | \$ | \$ | \$ | \$ |
| Share-based payments and related expenses | | | | |
| Product cost of revenue | 230 | 210 | 466 | 392 |
| Professional services cost of revenue | 150 | 165 | 313 | 309 |
| Sales and marketing | 897 | 1,539 | 937 | 3,070 |
| Research and product development | 1,675 | 1,688 | 3,231 | 3,121 |
| General and administrative | 2,064 | 2,058 | 3,816 | 3,243 |
| Share-based payments and related expenses | 5,016 | 5,660 | 8,763 | 10,135 |

Results of Operations for the Three and Six Months Ended September 30, 2023 and September 30, 2022

Revenue

| <i>In thousands of U.S. dollars</i> | Three months ended September 30, | | | | Six months ended September 30, | | | |
|---------------------------------------|----------------------------------|---------------|--------------|------------|--------------------------------|---------------|--------------|------------|
| | 2023 | 2022 | Change | | 2023 | 2022 | Change | |
| | \$ | \$ | \$ | % | \$ | \$ | \$ | % |
| Revenue | | | | | | | | |
| SaaS subscription | 29,406 | 25,469 | 3,937 | 15% | 57,941 | 49,472 | 8,469 | 17% |
| Self-managed licenses and maintenance | - | 290 | (290) | (100%) | - | 614 | (614) | (100%) |
| Product revenue | 29,406 | 25,759 | 3,647 | 14% | 57,941 | 50,086 | 7,855 | 16% |
| Professional services | 1,813 | 2,174 | (361) | (17%) | 3,810 | 4,309 | (499) | (12%) |
| Total revenue | 31,219 | 27,933 | 3,286 | 12% | 61,751 | 54,395 | 7,356 | 14% |
| Percentage of total revenue: | | | | | | | | |
| SaaS subscription | 94% | 91% | | | 94% | 91% | | |
| Self-managed licenses and maintenance | - | 1% | | | - | 1% | | |
| Product revenue | 94% | 92% | | | 94% | 92% | | |
| Professional services | 6% | 8% | | | 6% | 8% | | |
| Total revenue | 100% | 100% | | | 100% | 100% | | |

Product revenue

SaaS Subscription Revenue increased for the three and six months ended September 30, 2023 due to the continued adoption of our solutions that led to incremental revenue from new customers, as well as expansion transactions that increased our revenue with our existing base of customers. This growth was partially offset by customer attrition related to the Company's decision to decrease investment in certain acquired Qubit product capabilities.

Professional services revenue

Professional services revenue decreased for the three and six months ended September 30, 2023 as compared to the three and six months ended September 30, 2022. Over the past few quarters, a greater proportion of our incremental

revenue came from expand transactions with our existing base of customers, which typically results in lower professional services revenue as compared to incremental revenue from new customers. Moreover, more implementations have been led by partners and customers themselves, also reducing professional services revenue.

Cost of revenue

| <i>In thousands of U.S. dollars</i> | Three months ended September 30, | | | | Six months ended September 30, | | | |
|-------------------------------------|----------------------------------|--------------|------------|-----------|--------------------------------|---------------|------------|-----------|
| | 2023 | 2022 | Change | | 2023 | 2022 | Change | |
| | \$ | \$ | \$ | % | \$ | \$ | \$ | % |
| Cost of revenue | | | | | | | | |
| Product | 5,323 | 4,749 | 574 | 12% | 10,451 | 9,507 | 944 | 10% |
| Professional services | 1,484 | 1,822 | (338) | (19%) | 3,028 | 3,799 | (771) | (20%) |
| Total cost of revenue | 6,807 | 6,571 | 236 | 4% | 13,479 | 13,306 | 173 | 1% |
| Gross margin | | | | | | | | |
| Product | 82% | 82% | | | 82% | 81% | | |
| Professional services | 18% | 16% | | | 21% | 12% | | |
| Gross margin | 78% | 76% | | | 78% | 76% | | |

Product

Product cost of revenue for the three and six months ended September 30, 2023 mainly increased due to additional hosting expenses of \$0.7 million and \$1.0 million, respectively, related to the growth of our customer base. For the three and six months ended September 30, 2023, product gross margin was in line or slightly better than the prior period. Our continuous efforts to optimize our hosting expenses and other product costs were offset by incremental costs incurred on certain new products and features.

Professional services

For the three months ended September 30, 2023, professional services cost of revenue decreased, primarily driven by a decrease in consulting fees of \$0.3 million. Professional services cost of revenue decreased for the six months ended September 30, 2023, primarily driven by a decrease in consulting fees of \$0.4 million and a reduction in labor costs of \$0.2 million as compared to the six months ended September 30, 2022.

The increase in professional services gross margin was mainly driven by a higher utilization rate of our professional services team. Product and professional services cost of revenue were also favorably impacted by the strengthening of the U.S. dollar compared to the Canadian dollar.

Operating expenses

Sales and marketing expenses

| <i>In thousands of U.S. dollars</i> | Three months ended September 30, | | | | Six months ended September 30, | | | |
|-------------------------------------|----------------------------------|--------|--------|------|--------------------------------|--------|---------|------|
| | 2023 | 2022 | Change | | 2022 | Change | 2023 | |
| | \$ | \$ | \$ | % | \$ | \$ | \$ | % |
| Sales and marketing | 13,898 | 14,161 | (263) | (2%) | 27,358 | 28,722 | (1,364) | (5%) |
| Percentage of total revenue | 45% | 51% | | | 44% | 53% | | |

The decrease in sales and marketing expenses for the three months ended September 30, 2023 was attributable to a decrease in share-based payments and related expenses of \$0.6 million. This decrease was partially offset by an increase in consulting fees of \$0.4 million.

Sales and marketing expenses decreased for the six months ended September 30, 2023, primarily due to a decrease in share-based payments and related expenses of \$2.2 million. This decrease was partially offset by an increase in consulting fees of \$0.5M and an increase in fees paid to our partners of \$0.5 million. The decrease in share-based payments and related expenses was mainly driven by an expense reversal following the departure of a member of our senior management team.

Moreover, for both periods, the increase in consulting fees was largely attributable to a brand repositioning exercise.

For the three and six months ended September 30, 2023, excluding the effect of the reduction in share-based payments and related expenses, sales and marketing expenses as a percentage of total revenue would have decreased by 3% and 4%, respectively, as a result of initiatives related to improving our operational efficiency and the strengthening of the U.S. dollar compared to other functional currencies.

Research and product development expenses

| <i>In thousands of U.S. dollars</i> | Three months ended September 30, | | | | Six months ended September 30, | | | |
|-------------------------------------|----------------------------------|-------|--------|------|--------------------------------|--------|-------|------|
| | 2023 | 2022 | Change | | 2022 | Change | 2023 | |
| | \$ | \$ | \$ | % | \$ | \$ | \$ | % |
| Research and product development | 8,700 | 8,963 | (263) | (3%) | 17,882 | 18,095 | (213) | (1%) |
| Percentage of total revenue | 28% | 32% | | | 29% | 33% | | |

For the three months ended September 30, 2023, R&D expenses decreased due to a net increase in government assistance of \$0.7 million, which includes our participation in the SCALE AI – Canadian Artificial Intelligence Supercluster program (“SCALE AI”). This decrease was partially offset by an increase in labor costs of \$0.4 million.

R&D expenses decreased for the six months ended September 30, 2023 as compared to the six months ended September 2022, driven by a net increase in government assistance of \$1.2 million related to our participation in the SCALE AI project, partially offset by an increase in labor costs of \$0.9 million.

The Company has also implemented efficiency initiatives to enable our R&D functions to scale effectively and benefited from the strengthening of the U.S. dollar compared to the Canadian dollar, both of which helped to drive lower R&D expenses as a percentage of total revenue.

General and administrative expenses

| <i>In thousands of U.S. dollars</i> | Three months ended September 30, | | | | Six months ended September 30, | | | |
|-------------------------------------|----------------------------------|-------|--------|-------|--------------------------------|--------|---------|------|
| | 2023 | 2022 | Change | | 2023 | 2022 | Change | |
| | \$ | \$ | \$ | % | \$ | \$ | \$ | % |
| General and administrative | 6,814 | 7,722 | (908) | (12%) | 13,623 | 14,815 | (1,192) | (8%) |
| Percentage of total revenue | 22% | 28% | | | 22% | 27% | | |

General and administrative expenses decreased for the three months ended September 30, 2023 mainly due to a decrease in labor costs of \$0.3 million, a decrease in consulting fees of \$0.2 million, and a decrease in other costs of \$0.3 million.

For the six months ended September 30, 2023, general and administrative expenses decreased, mainly driven by a reduction in consulting fees of \$0.7 million, a decrease in labor costs of \$0.6 million, and a reduction in other costs of \$0.3 million, partially offset by an increase in share-based payments and related expenses of \$0.6 million.

The Company has also implemented efficiency initiatives to enable our administrative functions to scale effectively and benefited from the strengthening of the U.S. dollar compared to the Canadian dollar, both of which helped to drive lower general and administrative expenses as a percentage of total revenue.

Other operating expenses

| <i>In thousands of U.S. dollars</i> | Three months ended September 30, | | | | Six months ended September 30, | | | |
|--|----------------------------------|--------------|--------------|-------------|--------------------------------|--------------|--------------|------------|
| | 2023 | 2022 | Change | | 2023 | 2022 | Change | |
| | \$ | \$ | \$ | % | \$ | \$ | \$ | % |
| Depreciation of property and equipment | 595 | 660 | (65) | (10%) | 1,172 | 1,352 | (180) | (13%) |
| Amortization and impairment of intangible assets | 4,199 | 1,104 | 3,095 | 280% | 5,205 | 2,265 | 2,940 | 130% |
| Depreciation of right-of-use assets | 404 | 396 | 8 | 2% | 799 | 793 | 6 | 1% |
| | 5,198 | 2,160 | 3,038 | 141% | 7,176 | 4,410 | 2,766 | 63% |

For the three and six months ended September 30, 2023, depreciation of property and equipment decreased as compared to the three and six months ended September 30, 2022, due to a slight decrease in property and equipment investments.

For the three and six months ended September 30, 2023, amortization and impairment of intangible assets increased as compared to the three and six months ended September 30, 2022. As of September 30, 2023, following customer attrition experienced as a result of the Company's decision to decrease investment in certain acquired Qubit product capabilities, the Company reassessed the value of its customer relationships acquired through the business combination with Qubit. Such reassessment resulted in an impairment loss of \$3.2 million.

Depreciation of right-of-use assets for the three and six months ended September 30, 2023 was in-line with the three and six months ended September 30, 2022.

Other expenses

| <i>In thousands of U.S. dollars</i> | Three months ended September 30, | | | | Six months ended September 30, | | | |
|-------------------------------------|----------------------------------|---------|--------|--------|--------------------------------|---------|---------|--------|
| | 2023 | 2022 | Change | | 2023 | 2022 | Change | |
| | \$ | \$ | \$ | % | \$ | \$ | \$ | % |
| Net financial revenue | (1,630) | (1,020) | (610) | 60% | (3,307) | (1,419) | (1,888) | 133% |
| Foreign exchange gain | (1,260) | (816) | (444) | 54% | (256) | (1,316) | 1,060 | (81%) |
| Income tax expense (recovery) | (855) | 125 | (980) | (784%) | (796) | 234 | (1,030) | (440%) |

The increase in net financial revenue was driven by an increase in interest income as a result of an increase in interest rates compared to the relevant comparative period.

Foreign exchange gain results from transactions denominated in currencies other than the functional currencies and translated into the relevant functional currency. The foreign exchange gain for the three and six months ended September 30, 2023 and September 30, 2022 were mainly driven by the operations denominated in U.S. dollars of Coveo Solutions Inc., which uses the Canadian dollar as its functional currency.

The income tax recovery for the three and six months ended September 30, 2023 was mainly driven by the partial reversal of a deferred tax liability and the increase of a deferred tax asset following the impairment of intangible assets.

Key Balance Sheet Information

| <i>In thousands of U.S. dollars</i> | As of September 30, | As of March 31, | | |
|-------------------------------------|---------------------|-----------------|----------|-------|
| | 2023 | 2023 | Change | |
| | \$ | \$ | \$ | % |
| Cash and cash equivalents | 167,814 | 198,452 | (30,638) | (15%) |
| Current assets | 208,076 | 238,534 | (30,458) | (13%) |
| Total assets | 270,699 | 308,818 | (38,119) | (12%) |
| Deferred revenue | 55,067 | 55,260 | (193) | - |
| Total liabilities | 89,085 | 90,285 | (1,200) | (1%) |
| Total shareholders' equity | 181,614 | 218,533 | (36,919) | (17%) |

See "Liquidity and Capital Resources" in this MD&A for a more detailed discussion of the changes in cash and cash equivalents.

Total assets

The decrease in total assets as of September 30, 2023 as compared to March 31, 2023 was mainly driven by the decrease in cash and cash equivalents of \$30.6 million as described below, by a reduction in prepaid expenses of \$2.0 million following the consumption of prepaid services, as well as a decrease in non-current assets of \$4.8 million driven by the impairment of intangible assets and depreciation and amortization. These decreases were partially offset by an increase in government assistance receivable of \$1.7 million.

Deferred revenue

Deferred revenue decreased by \$0.2 million from March 31, 2023 to September 30, 2023. This slight decrease was mainly driven by seasonality of invoicing timing partially offset by the growth of our SaaS Subscription Revenue.

Total liabilities

The decrease in total liabilities was mainly driven by a decrease in lease obligations of \$1.1 million and a decrease in deferred tax liabilities of \$0.9 million. The decrease was partially offset by an increase in trade payable and accrued liabilities of \$0.8 million.

Quarterly Results of Operations

The following table sets forth selected unaudited quarterly statements of operations data for each of the eight quarters immediately preceding and including the quarter ended September 30, 2023. The information for each of these quarters has been prepared on the same basis as the audited annual financial statements and the unaudited condensed interim financial statements. This data should be read in conjunction with our audited consolidated financial statements, and the unaudited condensed interim financial statements, and related notes. These quarterly operating results are not necessarily indicative of our operating results for a full-year or any future period.

| <i>In thousands of U.S. dollars, except per share data</i> | Sep 30, 2023 | Jun 30, 2023 | Mar 31, 2023 | Dec 31, 2022 | Sep 30, 2022 | Jun 30, 2022 | Mar 31, 2022 | Dec 31, 2021 |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Revenue | | | | | | | | |
| SaaS subscription | 29,406 | 28,535 | 27,099 | 26,389 | 25,469 | 24,003 | 23,071 | 21,153 |
| Self-managed licenses and maintenance | - | - | - | 298 | 290 | 324 | 333 | 487 |
| Product revenue | 29,406 | 28,535 | 27,099 | 26,687 | 25,759 | 24,327 | 23,404 | 21,640 |
| Professional services | 1,813 | 1,997 | 2,011 | 1,810 | 2,174 | 2,135 | 2,105 | 1,603 |
| Total revenue | 31,219 | 30,532 | 29,110 | 28,497 | 27,933 | 26,462 | 25,509 | 23,243 |
| Cost of revenue | | | | | | | | |
| Product | 5,323 | 5,128 | 5,118 | 4,948 | 4,749 | 4,758 | 4,878 | 4,476 |
| Professional services | 1,484 | 1,544 | 1,646 | 1,656 | 1,822 | 1,977 | 1,957 | 1,566 |
| Total cost of revenue | 6,807 | 6,672 | 6,764 | 6,604 | 6,571 | 6,735 | 6,835 | 6,042 |
| Gross profit | 24,412 | 23,860 | 22,346 | 21,893 | 21,362 | 19,727 | 18,674 | 17,201 |
| Operating expenses | | | | | | | | |
| Sales and marketing | 13,898 | 13,460 | 14,650 | 13,728 | 14,161 | 14,561 | 14,121 | 12,182 |
| Research and product development | 8,700 | 9,182 | 8,225 | 8,705 | 8,963 | 9,132 | 10,653 | 9,076 |
| General and administrative | 6,814 | 6,809 | 6,125 | 8,102 | 7,722 | 7,093 | 9,820 | 17,277 |
| Depreciation of property and equipment | 595 | 577 | 597 | 599 | 660 | 692 | 692 | 684 |
| Amortization and impairment of intangible assets | 4,199 | 1,006 | 1,117 | 1,072 | 1,104 | 1,161 | 2,369 | 1,042 |
| Depreciation of right-of-use assets | 404 | 395 | 397 | 388 | 396 | 397 | 379 | 377 |
| Total operating expenses | 34,610 | 31,429 | 31,111 | 32,594 | 33,006 | 33,036 | 38,034 | 40,638 |
| Operating loss | (10,198) | (7,569) | (8,765) | (10,701) | (11,644) | (13,309) | (19,360) | (23,437) |
| Change in redeemable preferred shares conversion rights component fair value | - | - | - | - | - | - | - | (269,200) |
| Net financial expenses (revenue) | (1,630) | (1,677) | (1,709) | (1,485) | (1,020) | (399) | (59) | 2,930 |
| Foreign exchange loss (gain) | (1,260) | 1,004 | 302 | 735 | (816) | (500) | 81 | 628 |
| Income (loss) before income tax expense (recovery) | (7,308) | (6,896) | (7,358) | (9,951) | (9,808) | (12,410) | (19,382) | 242,205 |
| Income tax expense (recovery) | (855) | 59 | (125) | 96 | 125 | 109 | 3 | (184,108) |
| Net income (loss) | (6,453) | (6,955) | (7,233) | (10,047) | (9,933) | (12,519) | (19,385) | 426,313 |
| Net income (loss) per share | | | | | | | | |
| Basic | (0.06) | (0.07) | (0.07) | (0.10) | (0.10) | (0.12) | (0.19) | 7.65 |
| Diluted | (0.06) | (0.07) | (0.07) | (0.10) | (0.10) | (0.12) | (0.19) | (0.24) |

Revenue

Our product revenue has increased in each of the last eight quarters, primarily driven by growth in our SaaS Subscription Revenue, partially offset by the depreciation of our self-managed licenses and maintenance revenue. The growth in SaaS Subscription Revenue was driven by the addition of new customers, increased usage of our platform by existing customers through our continued efforts to cross-sell and upsell our solutions. Our SaaS Subscription revenue is recognized over time on a daily basis. Therefore, our product revenue for the quarters ended March 31 is impacted by a lower number of days as compared to other quarters. The decrease in self-managed licenses and maintenance revenue was driven by our continued efforts to convert these customers to our cloud platform, as well as the deliberate decision to stop supporting our on-premise products as of December 31, 2022.

Professional services revenue has remained mainly in-line as a percentage of total revenue over the last eight quarters, with a slight decrease in the past two quarters. The overall increase experienced over the last eight quarters was primarily driven by the growth in our business, which resulted in professional services work related to implementations of our platform and ongoing support of our customers. However, this growth has recently been offset by a greater proportion of our incremental revenue coming from expand transactions with our existing customers, which typically results in lower professional services revenue as compared to revenue from new customers. Moreover, over time, more implementations have been led by partners and customers themselves, also reducing professional services revenue from these projects.

Cost of revenue

Total cost of revenue has generally increased over time mainly due to costs related to supporting a greater number of customers and headcount additions to our customer success and customer support teams. Historically, we have experienced a reduction in cost of revenue each year in the quarter ended September 30 due to accrued vacations taken during the summer period, which reduces our labor costs compared to other quarters. This decrease was offset by an increase in hosting costs for the quarter ended September 30, 2023. Moreover, beginning with the quarter ended June 30, 2022, cost of revenue was favorably impacted by the strengthening of the U.S. dollar compared to the Canadian dollar.

Gross profit

Our total quarterly gross profit increased sequentially for all periods presented, primarily due to increased SaaS Subscription Revenue and stable cost of revenue as a percentage of revenue.

Operating expenses

Historically, we have experienced a reduction in operating expenses each year in the quarter ended September 30 due to accrued vacations taken during the summer period, which reduces our labor costs compared to other quarters. This decrease was offset by an increase in share-based payments and related expenses for the quarter ended September 30, 2023. Moreover, the quarters ended March 31 include additional costs related to social benefits as compared to other quarters due to the reset, at the beginning of each calendar year, of the social benefits that are limited to an annual maximum contribution. The costs related to these additional social benefits therefore is greater when compared to the prior quarters ending December 31.

Total operating expenses have generally increased over time due to the hiring of additional headcount required to support our expanding base of customers and product innovation. However, following initiatives related to improving our operating efficiency, total operating expenses decreased in each quarter from the quarter ended June 30, 2022 until the quarter ended March 31, 2023, and then slightly increased in the quarter ended June 30, 2023, mainly driven by salary increases that occurred at the beginning of our fiscal year. For the quarter ended September 30, 2023, impairment of intangible assets of \$3.2 million drove an increase in operating expenses. Excluding this item, operating expenses would have been stable as compared to the quarter ended June 30, 2023.

During the quarter ended December 31, 2021, we recorded a one-time Pledge 1% equity donation of \$10.4 million and transaction-related expenses attributable to our Initial Public Offering (“IPO”) and the acquisition of Qubit. From quarter ended March 31, 2023, Coveo started to benefit from government assistance for its participation in SCALE AI. Finally, beginning in the quarter ended June 30, 2022, our operating results were favorably impacted by the strengthening of the U.S. dollar compared to the Canadian dollar.

See “Results of Operations” in this MD&A for a more detailed discussion of the year-over-year changes in revenue, cost of revenue, and operating expenses.

Liquidity and Capital Resources

Overview

The general objectives of our capital management strategy are to support our continued organic growth while preserving our capacity to continue our operations, to provide benefits to our stakeholders, and to provide an adequate return on investment to our shareholders through selling our services at prices commensurate with the level of operating risk assumed by us.

We define the Company’s objectives and determine the amount of capital required consistent with risk levels. This capital structure is continually adjusted depending on changes in the macroeconomic environment and risks of the underlying assets.

Cash flows

The following table presents cash and cash equivalents and cash flows from operating, investing, and financing activities:

| <i>In thousands of U.S. dollars</i> | Six months ended September 30, | | | |
|--|--------------------------------|-----------------|-----------------|------------|
| | 2023 | 2022 | Change | |
| | \$ | \$ | \$ | % |
| Cash and cash equivalents – end of period | 167,814 | 204,817 | (37,003) | (18%) |
| Net cash flows generated from (used in) | | | | |
| Operating activities | 1,835 | (915) | 2,750 | (301%) |
| Investing activities | (647) | (714) | 67 | (9%) |
| Financing activities | (32,135) | 262 | (32,397) | (12,365%) |
| Effect of foreign exchange rate changes on cash and cash equivalents | 309 | (16,888) | 17,197 | (102%) |
| Net increase (decrease) in cash and cash equivalents | (30,638) | (18,255) | (12,383) | 68% |

Operating activities

For the six months ended September 30, 2023, the increase in the cash flows generated from operating activities was driven by a decrease in our net loss adjusted for items not affecting cash of \$8.5 million as compared to the six months ended September 30, 2022. This positive variance on our cash flows generated from operating activities was partially offset by a decrease of \$5.8 million in changes in non-cash working capital items, which was mainly driven by variances in government assistance and deferred revenue partially offset by variances in prepaid expenses, contract acquisition costs, and trade payable and accrued liabilities.

Investing activities

Cash flows used in investing activities for the six months ended September 30, 2023 as compared to the six months ended September 30, 2022 was mainly stable and driven by investments in computer equipment.

Financing activities

The increase in cash flows used in financing activities for the six months ended September 30, 2023, as compared to the six months ended September 30, 2022, was mainly driven by shares repurchased and cancelled under the SIB and NCIB of \$30.9 million, including the repurchase of stock options under the NCIB for cancellation of \$4.6 million, and cash flows used for tax withholding for net share settlement of \$1.0 million.

Credit facility

We have a \$50.0 million revolving credit facility bearing interest at a variable rate of interest, per annum, announced by Comerica Bank from time to time as its “prime rate” either for advances denominated in Canadian dollars or in U.S. dollars, as applicable (provided that, for advances denominated in Canadian dollars, such “prime rate” shall in no event be less than one percent per annum). As of the date hereof, no amounts have been drawn under this credit facility.

Working capital

Our approach to managing liquidity is to ensure, to the extent possible, that we have sufficient liquidity to meet our liabilities as they become due. We do so by monitoring cash flows and performing budget-to-actual analysis on a regular basis. In addition to cash and cash equivalents, and as mentioned above, we have a \$50.0 million revolving credit facility available that can be drawn to meet ongoing working capital requirements. Our principal cash requirements are for investments in our customer acquisition costs, product and technology, working capital, and select acquisitions and other value-add transactions we may execute. Additionally, a portion of our excess cash has been allocated to the repurchase of shares under our SIB and NCIB. The company has the possibility to allocate additional liquidities to the repurchase of securities under our NCIB, as previously described. Given our cash and cash equivalents balance and unused credit facility, we believe we have sufficient liquidity to meet our current and short-term financial obligations. This assessment is a forward-looking statement and involves risks and uncertainties. Our future capital requirements will depend on many factors, including our revenue growth rate, new customer acquisition, expansion, and subscription renewal activity, timing of billing and collecting activities, the timing and extent of spending to support further sales and marketing and research and development efforts, including in respect of new generative AI solutions, general and administrative expenses to support our growth, including international expansion, the impact of any worsening of the COVID-19 pandemic, and the macroeconomic environment. See “Risk Factors” in our latest AIF available under our profile on SEDAR+ at www.sedarplus.ca. We may in the future enter into arrangements to acquire or invest in complementary businesses, services, and technologies, or enter into arrangements for other value-add transactions. We may be required to seek additional equity or debt financing to fund these activities. If we are unable to raise additional capital when desired, or on acceptable terms, our business, results of operations, and financial condition could be materially adversely affected. Please refer to a summary of our contractual obligations as documented further below in this MD&A.

Contractual Obligations and Financial Instruments

Contractual obligations

There were no significant changes to our contractual obligations disclosed in our audited annual consolidated financial statements for the year ended March 31, 2023.

Financial instruments

Our financial assets include cash and cash equivalents and trade and other receivables that are classified as financial assets at amortized cost. Our financial liabilities include trade payable and accrued liabilities. Refer to note 26 to the audited annual consolidated financial statements for the year ended March 31, 2023 for further details.

Capital resources

See note 25 to the audited annual consolidated financial statements for the year ended March 31, 2023 for the Company's minimum aggregate commitments. There were no significant changes in commitments set out in note 25 to the audited annual consolidated financial statements for the year ended March 31, 2023.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements. From time to time, we may be contingently liable with respect to litigation and claims that arise in the normal course of operations.

Transactions Between Related Parties

See note 24 to the audited annual consolidated financial statements for the year ended March 31, 2023 for the Company's related party transactions. There were no significant changes in transactions between related parties set out in note 24 to the audited annual consolidated financial statements for the year ended March 31, 2023.

Significant Accounting Judgments, Estimates, and Assumptions

See note 4 to the audited annual consolidated financial statements for the year ended March 31, 2023. There were no significant changes in significant accounting judgments, estimates, and assumptions set out in note 4 to the audited annual consolidated financial statements for the year ended March 31, 2023.

Future Accounting Standard Changes

See note 3 to the audited annual consolidated financial statements for the year ended March 31, 2023 for a summary of future accounting standard changes. There were no significant changes in future accounting standard changes set out in the audited annual consolidated financial statements for the year ended March 31, 2023.

Controls and Procedures

Disclosure controls and procedures

The Company's Chief Executive Officer ("CEO") and Chief Financial Officer ("CFO") are responsible for establishing and maintaining our disclosure controls and procedures. We maintain a set of disclosure controls and procedures designed to provide reasonable assurance that information required to be publicly disclosed is recorded, processed, summarized, and reported on a timely basis. Our CEO and CFO have evaluated the design of our disclosure controls and procedures at the end of the quarter and based on the evaluation have concluded that the disclosure controls and procedures are effectively designed.

Internal controls over financial reporting

Our internal controls over financial reporting (“ICFR”) are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS. Our management is responsible for establishing and maintaining adequate ICFR. Management, including our CEO and CFO, does not expect that our ICFR will prevent or detect all errors and all fraud or will be effective under all future conditions. A control system is subject to inherent limitations and even those systems determined to be effective can provide only reasonable, but not absolute, assurance that the control objectives will be met with respect to financial statement preparation and presentation.

National Instrument 52-109 – *Certification of Disclosure in Issuers’ Annual and Interim Filings* of the Canadian Securities Administrators requires our CEO and CFO to certify that they are responsible for establishing and maintaining ICFR and that those internal controls have been designed and are effective in providing reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with IFRS. Our CEO and CFO are also responsible for disclosing any changes to our internal controls during the most recent period that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

The CEO and the CFO have evaluated, or caused to be evaluated under their supervision, the design of our ICFR based on the Internal Control – Integrated Framework issued in 2013 by the Committee of Sponsoring Organizations of the Treadway Commission. As at September 30, 2023, the CEO and the CFO concluded that our ICFR is appropriately designed.

Outstanding Share Information

Coveo is a publicly traded company listed under the symbol “CVO” on the Toronto Stock Exchange. Our authorized share capital consists of (i) an unlimited number of subordinate voting shares, (ii) an unlimited number of multiple voting shares and (iii) an unlimited number of preferred shares, of which 51,616,268 subordinate voting shares, 50,860,395 multiple voting shares, and no preferred shares were issued and outstanding as of November 2, 2023.

As of November 2, 2023, there were 7,070,816 stock options outstanding under the Company’s Amended and Restated 2009 Stock Option Plan (the “Legacy Plan”), as amended (of which 6,602,041 were vested as of such date). Each such option under the Legacy Plan is or will become exercisable for one multiple voting share.

As of November 2, 2023, there were 4,700,611 options issued and outstanding under the Company’s Omnibus Incentive Plan (as amended from time to time, the “Omnibus Plan”) (of which 211,642 were vested as of such date). Each such option under the Omnibus Plan is or will become exercisable for one subordinate voting share.

As of November 2, 2023, there were 3,203,208 restricted share units (“RSUs”) and 168,120 performance share units (“PSUs”) issued and outstanding under the Company’s Omnibus Plan. Each such RSU and PSU, upon vesting, is settled at the discretion of the Board of Directors through the delivery of subordinate voting shares issued from treasury or purchased on the open market, the payment of the cash equivalent or a combination thereof. The number of PSUs that will actually vest varies from 0% to 150% of the target amount granted, based on the level of achievement of a pre-determined non-market performance measurement at the first anniversary of the grant date.

As of November 2, 2023, there were 468,031 deferred share units (“DSUs”) outstanding under the Company’s Omnibus Plan. Each such DSU will, upon the holder thereof ceasing to be a director, executive officer, employee, or consultant of the Company, in accordance with the Omnibus Plan, be settled at the discretion of the Board of Directors through the delivery of subordinate voting shares issued from treasury or purchased on the open market, the payment of the cash equivalent or a combination thereof.

Additional Information

Additional information relating to the Company, including the Company's AIF, is available under our profile on SEDAR+ at www.sedarplus.ca.

