



# Management's **Discussion and Analysis**

For the Three and Nine Months Ended  
December 31, 2021 and 2020

# 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 December 31, 2021.*

*This MD&A dated February 7, 2022, for the three and nine months ended December 31, 2021 and December 31, 2020, 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 nine months ended December 31, 2021, as well as with the audited annual consolidated financial statements along with the related notes thereto for the year ended March 31, 2021. The financial information for the three and nine months ended December 31, 2021 and December 31, 2020 presented in this MD&A is derived from the Company's unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2021, 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: our ability to capitalize on growth opportunities and implement our growth strategy; our ability to attract new customers, both domestically and internationally; 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; assumptions regarding our future capital requirements; assumptions regarding available liquidity under our revolving credit facility; the accuracy of our estimates of market opportunity and growth forecasts; our success in identifying and evaluating, as well as financing and integrating, any acquisitions, partnerships, or joint ventures, and our ability to execute on our expansion plans.*

*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, and is subject to known and unknown risks, uncertainties, assumptions, and other factors 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 the*

risk factors described under “Risk Factors” in the Company’s supplemented long form prep prospectus dated November 17, 2021 (the “Prospectus”) and available under our profile on SEDAR at [www.sedar.com](http://www.sedar.com). 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.

The forward-looking statements made 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 statements, 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 is a market-leading AI-powered relevance platform. Our cloud-native, multi-tenant SaaS platform injects search, recommendations, and personalization solutions into digital experiences. Our platform enables businesses to effortlessly deliver the relevant cross-channel experiences that we believe people now expect in the new digital experience economy. Our technology indexes massive amounts of data and content from a variety of siloed and disparate sources. Using behavioral analytics, machine learning, and deep learning, we leverage this data to: (i) understand context and deliver unified search, ranking, and navigation; (ii) anticipate likely outcomes and formulate recommendations to tailor every individual digital experience; and (iii) create personalized and unified content, culminating in 360 degrees of relevance.

Our solutions are designed to provide tangible value to our customers by helping drive revenue growth, reduce customer support costs, increase customer satisfaction and website engagement, and improve employee proficiency and satisfaction. We believe our platform is differentiated by its sophisticated applied AI, which is designed to deliver highly relevant, bespoke digital experiences. In addition to our AI capabilities, we believe that our platform’s scalability, rapid time to value, enterprise-grade security, and native integrations with other third-party technology applications set it apart from competing technologies.

### *The trends driving our business*

People’s expectations of digital experiences have changed. Whereas in the past, product-centric, channel-specific, and persona-driven experiences might have been sufficient to satisfy expectations, this approach is no longer enough. Today, experience often prevails over the product. This new experience economy is driving an exponentially increasing need for content relevance as users demand more from websites, digital experiences, and applications. Relevance is about offering the right product, the right information, the right answers, and the right experience to the right person at the right time, and, whenever possible, anticipating individual needs. However, most companies do not have the resources or capabilities to build the technology required to deliver this relevance to their customers, partners, or employees, and thus find themselves at a significant disadvantage. We aim to democratize this technology and make relevance within reach for all businesses.

The COVID-19 pandemic has and continues to shape our business, operations, and the markets and communities in which we, our partners, and customers operate. Please refer to “Impacts of COVID-19” for additional details.

## *The Coveo Relevance Cloud™*

Our single, integrated SaaS platform, the Coveo Relevance Cloud™, is the intelligence behind the relevant experiences people expect. It uses our proprietary and industry-leading applied AI models to enable our customers to deliver relevance across all digital experiences and engage customers, partners, and employees in the way that each individual expects.

To deliver relevant experiences, our platform:

- Retrieves and indexes content from a plethora of internal and external siloed and disparate sources of data.
- Combines this data with click-stream events and behavior patterns.
- Uses our AI and machine learning models to find context in this data and understand what users are looking for, and learns which content delivers optimal outcomes based on a deep understanding of what has worked best for others.
- Learns to better predict each user’s needs, and then automatically offers recommendations and personalized content to each user.
- Continuously collects signals and learns from every interaction, which heightens relevance from each interaction to the next and creates a high velocity network effect of continuously improving relevance.

Our platform was built to serve the needs of enterprises of all sizes. Our solutions can address a precise and singular use case for a specific team within an organization and can expand to enterprise-wide solutions to deliver relevant experiences across multiple teams, use cases, channels, and regions

We have historically focused predominantly on serving North American customers and believe that growth in international markets represents a significant opportunity for us to diversify our revenue base and drive revenue growth and adoption of our solutions. Following the expansion of our cloud infrastructure availability into Europe Middle-East Africa (“EMEA”) and Asia Pacific (“APAC”) in the fiscal year ended March 31, 2021, we believe we are well-positioned to further increase our penetration of international markets. The acquisition of Qubit Digital Ltd (“Qubit”), completed in October 2021, also contributed to our expansion in Europe with additional customer base and by increasing our go-to-market presence.

## *Differentiated go-to-market model*

We sell and distribute our solutions almost exclusively through our direct sales force. Our sales team is organized by solution and industry vertical and is split between large enterprise and commercial markets to provide customers with tailored services designed to address their specific needs.

We have designed our go-to-market strategy to cover the full spectrum of the buyer journey of an enterprise, with specific strategies covering developers to chief experience officers. We engage directly with developers through education and training initiatives, community portals, and making our platform easy to try and access through free trials to drive awareness and adoption of our platform. We also employ higher touch sales initiatives targeted at more senior employees of enterprises that are further along in their journey towards relevance and may require the most sophisticated platform features we offer, sometimes for multiple use cases. This model provides us with meaningful opportunities to expand our relationships with our customers over time, including by upselling additional users and/or queries per month for existing use cases, cross-selling additional use cases, upselling more advanced product features, and ultimately growing customers to enterprise-wide subscriptions.

## *Large ecosystem of strategic and integrated partners*

Our distribution strategy is supported by a large and growing global ecosystem of more than 150 partners that support the adoption and implementation of our platform. We have established strategic relationships with leading global technology platforms, including Adobe, SAP, Salesforce, ServiceNow, Zendesk and Sitecore with which we have collaborated to natively integrate our solutions into their platforms. These strategic partnerships are mutually beneficial for our partners and us. By integrating our solutions into their platforms, our partners' platforms are augmented with our technology, which we believe allows them to better serve their customers. For us, these integrations facilitate adoption of our platform by enabling customers to deploy and use our solutions easily, efficiently, and securely. They also improve user experience by allowing the use of our platform natively within these third-party applications, enabling users to unify content from these systems and other sources as well as deploy our usage analytics and machine learning models directly from within these applications. We have also developed a large network of global system integrators and implementation partners. These partners generate leads for our sales force, deliver strategic consulting around our platform, and support the deployment of our solutions.

## *SaaS recurring revenue model*

We generate revenue primarily from the sale of SaaS subscriptions. We were one of the first companies in the industry to develop a platform with a cloud-native, multi-tenant architecture and have made significant investments to continue to expand and improve this platform since its launch in 2013. Our SaaS subscriptions are available under different pricing plans that offer increasing levels of features and product sophistication with appropriate cost increases. Our contracts (together with related expand transactions) generally have terms of three or more years and are typically subject to renewal at the end of the subscription term. Based on our past experience, a significant majority of customers renew their contracts upon expiry. This is evidenced by our Net Expansion Rate (as defined below) of 112% as of December 31, 2021. In addition, our subscription contracts generally do not provide for a right to terminate the subscription for convenience (other than in accordance with applicable laws), and provide for committed revenue based on the number of users and/or queries per month. As such, our SaaS Subscription Revenue is highly predictable and largely recurring in nature. For the three and nine months ended December 31, 2021, SaaS Subscription Revenue represented 91% and 90% of our total revenue, respectively.

## *Initial Public Offering ("IPO") and capital changes*

On November 24, 2021, the Company completed its IPO and issued 14,340,000 Subordinate Voting Shares for total gross consideration of \$169.2 million (C\$215.1 million), or \$154.6 million net of share issuance costs. Further to the IPO, the underwriters exercised their over-allotment option in full to purchase an additional 2,151,000 of Subordinate Voting Shares for gross proceeds of \$25.2 million (C\$32.3 million), or \$23.7 million net of share issuance costs.

Concurrently with the closing of the IPO, we also completed a private placement of 129,996 additional subordinate voting shares, for total gross consideration of \$1.5 million (C\$1.9 million).

On November 24, 2021, the Company also completed the Reorganization of its share capital, whereby all of the Company's issued and outstanding classes of redeemable preferred shares were converted into Multiple Voting Shares on a one-for-one basis, and the Company's articles were then amended to repeal and remove all existing preferred shares from the authorized share capital of the Company. The conversion of the outstanding redeemable preferred shares converted into Multiple Voting Shares on a one-for-one basis resulted in 63,356,738 Multiple Voting Shares.

## *Acquisition of Qubit*

On October 14, 2021, we completed the acquisition of Qubit, a London-based leader in AI-powered personalization solutions for merchandising teams. This acquisition expands our AI-powered commerce solution by adding deep online retail merchandising and personalization tools.

Qubit's technology generates individual models for each user, learning and actioning in real-time based on their activity data, in turn delivering contextual personalized experiences. As such, customers of Qubit benefit from scalable AI-powered personalization with product recommendations, badging, personalized content, and A/B testing as part of a user-informed, AI-driven merchandising strategy. Moreover, Qubit's solutions enable customers to leverage full-stack experimentation capabilities to deploy fully customized use cases to provide differentiated relevant experiences to users.

Through this transaction, we have added scale to our commerce solutions and increased our go-to-market presence in the United Kingdom (U.K.) and Europe. Moreover, we expect cross-selling opportunities in light of Qubit's complementary product capabilities and vertical expertise. The acquisition of Qubit expanded our customer base by over 50 customers across several complementary B2C verticals, including a number of leading brands in the luxury, fashion, beauty, DIY, travel, and hospitality sectors.

## *Pledge 1%*

Just as Coveo is committed to making a difference for our customers, we are also committed to making a difference in the world at large. Our environmental, social, and governance imperatives guide the way we operate both internally and in the community. We care deeply about being a good corporate citizen and in using our success to make the world better.

In furtherance of our values and this goal, we joined Pledge 1%, a global movement to inspire, educate, and empower all companies to leverage their assets for good. This pledge of 1% of our workforce's time, 1% of our profits, 1% of our products, and 1% of our equity, is the fuel that will make it possible for us to drive real, meaningful results. With our expertise, our time, and our resources, we can make a lasting impact. In conjunction with our partners, we believe this commitment will help to make relevance a force for good locally and globally.

## *In the community*

At Coveo, we believe that equal, free, open, and unconstrained access to knowledge and education is a key lever for human wellness, and can help to combat poverty and reduce inequalities. Democratizing knowledge and education is one of the most important steps towards a future where everyone has the same opportunities to fulfill their dreams. Coveo has put knowledge and education at the center of our initiatives in the community. Backed by our 1% pledge, we will contribute our time, products, expertise, and money to support organizations that improve access to knowledge and education.

Our initiatives will prioritize young people (pre-university, ages 12-18) in vulnerable social groups. With opportunities including knowledge-sharing and mentoring, technical access, and financial assistance, we'll make a difference to individuals who will continue to build a better future for themselves and others.

## *Internal operations*

**Environmental:** We will continually look to minimize the impact we have on our planet, in everything from energy consumption to waste.

**Social:** Our people are our greatest asset, and we will continue to support programs that ensure the wellbeing and growth of every Coveo employee. This specifically includes our commitment to diversity and inclusion, through which we are working to eliminate bias and improve equity in everything from hiring to growth opportunities.

Our social initiatives also include physical and mental health, access to training and career development opportunities, and building a supportive and exciting workplace environment.

**Governance:** We commit to adhering to the highest levels of corporate governance, and to doing what is right for all of our stakeholders, including our shareholders, our employees, and our customers.

## 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 key performance indicators provide investors with supplemental measures of our operating performance and thus highlight trends in our core business that may not otherwise be apparent when relying solely on IFRS measures. We also believe that securities analysts, investors, and other interested parties frequently use industry metrics in the evaluation of issuers. 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 high visibility into future performance, and the upfront annual payments we typically receive on these contracts results in cash flow generation in advance of revenue recognition. Our SaaS Subscription Revenue was \$21.2 million for the three months ended December 31, 2021, an increase of \$7.0 million or 50% compared to the three months ended December 31, 2020. For the nine months ended December 31, 2021, SaaS Subscription Revenue was \$54.8 million, an increase of \$14.7 million or 37% compared to the nine months ended December 31, 2020.
- **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. This indicator compares our SaaS Annualized Contract Value 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 Annualized Contract Value attributable to that cohort at the end of the current period selected, by the SaaS Annualized Contract Value 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 Annualized Contract Value from new customers added during the 12 months preceding the end of the period selected;
- ii. Includes incremental SaaS Annualized Contract Value sold to the cohort over the 12 months preceding the end of the period selected;
- iii. Is net of the SaaS Annualized Contract Value from any customers whose subscriptions terminated or decreased over the 12 months preceding the end of the period selected; and
- iv. Includes customers who converted from self-managed (on-premise) licenses and maintenance services to SaaS subscriptions during the 12 months preceding the end of the period selected.

We believe that measuring the ability to retain and expand revenue generated from our existing customer base is a key indicator of the long-term value that we provide to customers. As of December 31, 2021, our Net Expansion Rate was 112% (107% as of December 31, 2020).

- **Current SaaS Subscription Remaining Performance Obligations:** We believe that Current SaaS Subscription Remaining Performance Obligations, as presented in our financial statements, in accordance with IFRS, provides high 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 December 31, 2021, we had \$72.2 million of Current SaaS Subscription Remaining Performance Obligations, an increase of \$23.6 million or 49% compared to December 31, 2020.



## Non-IFRS Measures and Reconciliation of Non-IFRS Measures

Non-IFRS financial measures are not recognized measures under IFRS and do not have a standardized meaning prescribed by IFRS. These measures are unlikely to be comparable to similar measures presented by other companies. Rather, non-IFRS measures 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 should not be considered in isolation nor as a substitute for analysis of our financial information reported under IFRS.

We believe that non-IFRS measures 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 measures to make performance comparisons from period to period, to prepare annual operating budgets and forecasts, and to determine components of management compensation.

### Adjusted Operating Loss

Adjusted Operating Loss is defined as operating loss excluding share-based compensation and related expenses, amortization of acquired intangible assets, acquisition-related compensation, transaction-related expenses, charitable contributions, and other one-time or non-cash items.

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 Adjusted Operating Loss is an important supplemental measure of our performance, primarily because it and 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:

In thousands of U.S. dollars

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
<b>Operating loss</b>	<b>(23,437)</b>	<b>(4,483)</b>	<b>(37,898)</b>	<b>(9,401)</b>
Share-based compensation and related expenses (1)	2,853	503	4,327	1,228
Amortization of acquired intangible assets (2)	1,003	41	1,003	83
Acquisition-related compensation (3)	502	121	744	363
Transaction-related expenses (4)	509	-	1,839	-
Charitable contributions (5)	10,420	28	10,479	60
<b>Adjusted Operating Loss</b>	<b>(8,150)</b>	<b>(3,790)</b>	<b>(19,506)</b>	<b>(7,667)</b>

- (1) These expenses represent non-cash expenditures recognized in connection with issued stock options and other awards under share-based plans to our employees and directors as well as related payroll taxes given that they are directly attributable to share-based compensation.
- (2) This expense represents the amortization of intangible assets acquired through the Tooso, Inc. and Qubit acquisitions.
- (3) These expenses relate to non-recurring compensation that is associated with the ongoing employment obligations for certain employees in connection with the Tooso, Inc. and Qubit acquisitions.
- (4) These expenses represent expenses related to professional, legal, consulting, and accounting fees relating to the IPO and the acquisition of Qubit.
- (5) These expenses represent charitable contributions of the Company, including the one-time 1% pledge of our equity.



## 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 Prospectus and available under our profile on SEDAR at [www.sedar.com](http://www.sedar.com).

### *Continuously driving innovation*

Our technology-first culture has allowed us to build a market-leading AI-powered relevance platform designed to deliver relevant digital experiences. Our focus on developing technologies that are directly linked to our customers’ success and that seek to provide strong return on investment has been key to our success to date. We intend to continue to improve and enhance our solutions, develop new features and functionalities, and expand our solution offering to increase our market share and strengthen our competitive position.

### *Growing our SaaS customer base*

A portion of our future revenue growth is reliant upon the effectiveness of our sales and marketing efforts to secure new customers. In order to maximize our ability to secure new customers, our go-to-market strategy is designed to cover the full spectrum of the buyer journey of an enterprise, from developers to chief experience officers. We recently launched initiatives to engage directly with developers through education and training initiatives, community portals, and by making our platform easy to try and access through free trials, which we aim to ultimately convert into paying subscriptions. We also employ higher touch sales initiatives targeted at more senior employees for enterprises that are further along in their journey toward relevance and may require the most sophisticated platform features we offer, sometimes for multiple use cases. We believe the flexibility of our go-to-market strategy contributes to our ability to attract new customers and generate revenue growth.

### *Driving expansion from our existing SaaS customer base*

Our future growth will also depend on our ability to expand our existing customer relationships. Our solutions are designed to drive significant return on investment for our customers, and as a result, we typically develop long-term relationships with our customers. We believe that the long-term nature of our loyal customer relationships presents us with meaningful opportunities to expand these relationships over time. We employ a “land-and-expand” strategy with the goal of driving customers to expand their usage of our platform. Once we land customers, we aim to bring them further along their journey towards relevance by upselling additional users and/or queries per month for existing use cases, cross-selling new use cases, upselling more advanced product capabilities, and ultimately growing customers to enterprise-wide subscriptions. A key benefit of our solutions is that subsequent use cases are not added as isolated products that require integration, but rather are implemented as a natural extension of the customer’s existing use of our platform. This makes it easier to cross-sell new use cases. We also intend to build on our leading innovative and product development capabilities to continue to add new use cases and functionalities to enhance the capabilities of our platform, which will create additional opportunities for us to deepen our relationships with our customers.

### *Growth of our commerce solution*

We have made significant investments to build what we believe to be a market-leading commerce technology that delivers relevance in digital experiences. Launched in the fiscal year ended March 31, 2019, our commerce solutions aim to help drive revenue growth for both online business-to-business and business-to-consumer entities by improving Purchase Conversion Rates, increasing cart sizes with upsells, and driving higher customer loyalty, which translates into increased repeat purchases. The adoption of our commerce solution has experienced strong recent momentum. Given its relatively recent launch, compelling value proposition, and estimated \$20 billion addressable market, we believe it will

continue to grow and expect it to become an increasingly important part of our business. During the quarter, we increased our capabilities and expertise in this offering through the acquisition of Qubit as described previously.

## *Maintain and expand existing platform integrations, and develop new ones*

We have demonstrated the ability to efficiently develop integrations between our platform and leading global technology vendors. Strategic platform integrations are additive to the value proposition of our solutions, promote adoption of our platform, and have played a key role in our success to date. We intend to focus on maintaining and expanding our existing strategic platform integration relationships while also developing new ones. As we continue to develop more integrations, our platform will collect more signals, which will contribute to increasing the network effect of our platform and our ability to secure new customers.

## *Geographical expansion*

While we have historically focused predominantly on the North American market, we intend to expand and deepen our footprint in international geographies where we have an emerging presence today. For the three and nine months ended December 31, 2021, only 16% and 12% of our revenue, respectively, was generated outside of North America. As such, we believe a sizeable opportunity exists for us to expand and deepen our international presence, particularly in the EMEA and APAC regions. We have invested and intend to continue to invest in our cloud infrastructure and our sales and distribution capabilities in international geographies to fuel revenue growth.

## Key Components of Results of Operations

### *Revenue*

**SaaS Subscription Revenue.** SaaS Subscription Revenue is primarily comprised of fees for the provisioning of the Coveo Relevance Cloud™ platform and the related customer support and success plans. SaaS subscriptions are 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 (together with related expand transactions) generally have terms of three or more years, are typically 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, the significant majority of our SaaS Subscription Revenue is generated from subscriptions entered into during previous periods, which results in a significant portion of the SaaS Subscription Revenue that we recognize in each period being 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.

**Self-managed licenses and maintenance.** Self-managed licenses and maintenance revenue includes revenue from on-premise term licenses, perpetual licenses, and the related maintenance and support fees. Revenue from term and perpetual licenses is recognized at the point in time when the software is made available to the customer. Maintenance revenue primarily consists of fees for maintenance services, including support, upgrades, and enhancements, and is recognized rateably over the contract term. Over time, self-managed licenses and maintenance revenue is expected to decline as more customers convert to SaaS subscriptions and as customers let their maintenance contracts lapse, as we are in the process of stopping the support of our on-premise product offerings. Over the next fiscal year, we anticipate only a minor revenue contribution from this source.

**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. We expect a

decline in future professional services revenue as a percentage of total revenue, largely due to increased collaboration with independent implementation partners and system integrators that offer implementation services for our products.

## *Cost of revenue*

**Product cost of revenue.** Product cost of revenue includes personnel and overhead costs associated with our customer support, customer success, and data hosting teams, and the cost of data hosting services.

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

We intend to continue to invest additional resources in data hosting, customer success, customer support, and professional services as we grow our business to ensure that our customers are realizing the full benefits of our platform. The level and timing of investment in these areas could affect our cost of revenue in the future.

## *Gross profit*

Gross profit represents the difference between revenue and cost of revenue. We use gross profit as a percentage of total revenue as a measure of performance and of our ability to support our operating expenses.

## *Sales and marketing expenses*

Sales and marketing expenses consist primarily of personnel and related costs for our sales and marketing teams, including 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.

We plan to increase our investment in sales and marketing by expanding our domestic and international headcount, building brand awareness via marketing programs and outbound lead generation, and developing relationships with new implementation partners.

## *Research and product development (“R&D”) expenses*

R&D expenses consist primarily of personnel and related costs for the teams responsible for the ongoing research, development, and product management of our solutions. These expenses are recorded net of any applicable scientific research and experimental development tax credits earned for expenses incurred in Canada against eligible projects and tax credits for the development of e-business in Québec (“tax credits”), as well as a contribution from the Industrial Research Assistance Program (“IRAP”) of the National Research Council of Canada (“government assistance”).

We expect that our spending on R&D will increase as we expand our R&D and product management teams to continue to add new features and capabilities to our platform. Due to the completion of our IPO on November 24, 2021, we lost admissibility to some of our reimbursable tax credits. We also did not receive additional contributions from IRAP since we completed the project in July 2021. Both decreases in tax credits caused our R&D expenses to increase for the three months ended December 31, 2021, and we expect them to continue to have an impact in future quarters.

## General and administrative expenses

General and administrative expenses consist of employee 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. As a result of operating as a public company, we have incurred and will incur additional expenses, including increased expenses for insurance, professional services, investor relations, and other compliance costs applicable to companies listed on a securities exchange. We also 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 professional fees related to the growth of our business, including our international expansion.

## Impact of COVID-19

There continues to be uncertainty regarding the duration and magnitude of the COVID-19 pandemic and the ability to control resurgences worldwide, making it difficult to assess the future impact on our customer base, the end markets we serve, and the resulting effect on our business and operations, both in the short term and in the long term.

Despite the challenges encountered during the pandemic, we achieved a Net Expansion Rate of 110% as of March 31, 2021, which we grew to 112% as of December 31, 2021. We continued to expand our relationships with our existing customers and attract new customers, which contributed to our 26% growth in SaaS Subscription Revenue for the fiscal year ended March 31, 2021 compared to the fiscal year ended March 31, 2020, and our 37% growth in SaaS Subscription Revenue for the nine months ended December 31, 2021 compared to the nine months ended December 31, 2020. We believe this growth in SaaS Subscription Revenue, along with the inherent stability of our customer base, is a testament to the strong relationships we build, as well as the essential role our technology plays in the way our customers operate their businesses. While we estimate that our SaaS Subscription Revenue growth rate was impacted by the pandemic, we continued to make investments in R&D, sales and marketing, and our infrastructure, with a longer-term view to driving sustainable stakeholder value.

In addition, although consumer eCommerce spending has increased strongly over the past two decades, it is apparent that the pandemic has created an inflection point for this market. As the digital commerce share of the global commerce market continues to grow and the consumer experience becomes increasingly important, we believe it is crucial for businesses to be able to leverage data and AI in order to meet consumer expectations. Similarly, the new reality of working remotely may accelerate the digital transformation of the workplace and increase the expectation of a connected work environment where each interaction is relevant and information easily accessible.

From the very beginning, we have put the safety of our people at the center of our response to COVID-19. Our agile structure and business continuity plan enabled us to complete a full relocation to remote operations with virtually no disruption to our customers within just a few days. This ensured we could continue to provide them with the consistent high level of service and fast response times that they have come to expect. In addition, we pivoted all of our in-person marketing initiatives into digital formats, enabling us to continue driving sales through creative virtual experiences.

Any future impact on the Company's operational and financial performance will depend on certain developments, including, but not limited to, the duration, spread, and evolution of the virus including variants, duration of local, state, and federal public health orders; impact on our customers, sales cycles, employees, partners, and regional and worldwide economies; and financial markets in general, all of which are uncertain and cannot be predicted. Please refer to the section "Risk Factors" of our Prospectus, available under our profile on SEDAR at [www.sedar.com](http://www.sedar.com), for additional detail on how the ongoing pandemic may impact our future results.

## Results of Operations

The following table sets forth our results of operations:

In thousands of U.S. dollars, except per share data

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
<b>Revenue</b>				
SaaS subscription	21,153	14,120	54,782	40,057
Self-managed licenses and maintenance	487	1,405	2,042	4,002
<b>Product revenue</b>	<b>21,640</b>	<b>15,525</b>	<b>56,824</b>	<b>44,059</b>
Professional services	1,603	1,237	4,155	3,364
<b>Total revenue</b>	<b>23,243</b>	<b>16,762</b>	<b>60,979</b>	<b>47,423</b>
<b>Cost of revenue</b>				
Product	4,476	3,585	11,215	9,555
Professional services	1,566	865	3,406	2,615
<b>Total cost of revenue</b>	<b>6,042</b>	<b>4,450</b>	<b>14,621</b>	<b>12,170</b>
<b>Gross profit</b>	<b>17,201</b>	<b>12,312</b>	<b>46,358</b>	<b>35,253</b>
<b>Operating expenses</b>				
Sales and marketing	12,182	8,514	33,650	22,375
Research and product development	9,076	3,766	19,446	10,454
General and administrative	17,277	3,560	26,939	9,079
Depreciation of premises and equipment	684	491	1,985	1,403
Amortization of intangible assets	1,042	62	1,098	182
Depreciation of right-of-use assets	377	402	1,138	1,161
<b>Total operating expenses</b>	<b>40,638</b>	<b>16,795</b>	<b>84,256</b>	<b>44,654</b>
<b>Operating loss</b>	<b>(23,437)</b>	<b>(4,483)</b>	<b>(36,898)</b>	<b>(9,401)</b>
Change in redeemable preferred shares conversion rights component fair value	(269,200)	72,749	(299,428)	151,557
Net financial expenses	2,930	4,262	12,560	11,888
Foreign exchange loss	628	997	281	1,532
<b>Income (loss) before income taxes</b>	<b>242,205</b>	<b>(82,491)</b>	<b>248,689</b>	<b>(174,378)</b>
<b>Income tax expense (recovery)</b>	<b>(184,108)</b>	<b>19,163</b>	<b>(188,972)</b>	<b>40,716</b>
<b>Net income (loss)</b>	<b>426,313</b>	<b>(101,654)</b>	<b>437,661</b>	<b>(215,094)</b>
<b>Net income (loss) per share</b>				
Basic	7.65	(5.55)	13.05	(11.74)
Diluted	(0.24)	(5.55)	(0.41)	(11.74)

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

In thousands of U.S. dollars

	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
<b>Share-based compensation and related expenses</b>				
Cost of revenue – Product	140	24	230	51
Cost of revenue – Professional services	132	16	206	33
Sales and marketing	695	131	1,153	312
Research and product development	1,100	130	1,537	287
General and administrative	786	202	1,201	545
<b>Total share-based compensation and related expenses</b>	<b>2,853</b>	<b>503</b>	<b>4,327</b>	<b>1,228</b>

## Results of Operations for the Three and Nine Months Ended December 31, 2021 and December 31, 2020

### Total revenue

In thousands of U.S. dollars

	Three months ended December 31,				Nine months ended December 31,			
	2021	2020	Change		2021	2020	Change	
	\$	\$	\$	%	\$	\$	\$	%
<b>Revenue</b>								
SaaS subscription	21,153	14,120	7,033	50%	54,782	40,057	14,725	37%
Self-managed licenses and maintenance	487	1,405	(918)	(65%)	2,042	4,002	(1,960)	(49%)
<b>Product revenue</b>	<b>21,640</b>	<b>15,525</b>	<b>6,115</b>	<b>39%</b>	<b>56,824</b>	<b>44,059</b>	<b>12,765</b>	<b>29%</b>
Professional services	1,603	1,237	366	30%	4,155	3,364	791	24%
<b>Total revenue</b>	<b>23,243</b>	<b>16,762</b>	<b>6,481</b>	<b>39%</b>	<b>60,979</b>	<b>47,423</b>	<b>13,556</b>	<b>29%</b>

### Percentage of total revenue:

SaaS subscription	91%	84%	90%	84%
Self-managed licenses and maintenance	2%	8%	3%	8%
<b>Product revenue</b>	<b>93%</b>	<b>93%</b>	<b>93%</b>	<b>93%</b>
Professional services	7%	7%	7%	7%
<b>Total revenue</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### Product revenue

SaaS Subscription Revenue for the three months ended December 31, 2021 increased by \$7.0 million or 50% compared to the three months ended December 31, 2020, and by \$14.7 million or 37% for the nine months ended

December 31, 2021 compared to the nine months ended December 31, 2020. We believe that an increased demand for relevance-based solutions, continued adoption of our commerce solutions, and strong sales and marketing execution led to increases in the revenue contribution from new customers and expansion transactions with our existing base of customers. Moreover, additional revenue was recognized following the acquisition of Qubit for the period from October 14, 2021 to December 31, 2021.

We also converted some customers from self-managed licenses and maintenance to SaaS subscriptions. As a result, self-managed licenses and maintenance revenue decreased. Additionally, as we announced the decision to no longer support our on-premise product offerings, some customers did not renew their self-managed licenses and maintenance as they chose not to migrate to our cloud solutions.

### Professional services

Professional services revenue for the three months ended December 31, 2021 was \$1.6 million, an increase of \$0.4 million or 30% compared to the three months ended December 31, 2020. Professional services revenue for the nine months ended December 31, 2021 was \$4.2 million, an increase of \$0.8 million or 24% compared to the nine months ended December 31, 2020. Professional services revenue was 7% of total revenue for the three and nine months ended December 31, 2021 and December 31, 2020. These increases in professional services revenue were driven by increases in billable hours and hourly rates by our professional services organization, as well as the acquisition of Qubit in October 2021.

### Cost of revenue

In thousands of U.S. dollars

	Three months ended December 31,				Nine months ended December 31,			
	2021	2020	Change		2021	2020	Change	
	\$	\$	\$	%	\$	\$	\$	%
<b>Cost of revenue</b>								
Product	4,476	3,585	891	25%	11,215	9,555	1,660	17%
Professional services	1,566	865	701	81%	3,406	2,615	791	30%
<b>Total cost of revenue</b>	6,042	4,450	1,592	36%	14,621	12,170	2,451	20%
<b>Gross profit (%)</b>								
Product	79%	77%			80%	78%		
Professional services	2%	30%			18%	22%		
<b>Gross profit</b>	74%	73%			76%	74%		

### Product

Product cost of revenue for the three and nine months ended December 31, 2021 increased by \$0.9 million or 25% and by \$1.7 million or 17% respectively compared to the three and nine months ended December 31, 2020. Our product cost of revenue increased due to additional costs associated with our product revenue growth, including labor costs as well as hosting services, offset by the impact of our efforts to reduce our hosting services costs. We also incurred additional costs as a result of the Qubit acquisition in October 2021. Our cloud operations team devoted significant efforts to gaining efficiencies and optimizing our hosting footprint, which resulted in our revenue increasing faster than our product cost of revenue. Our product gross profit percentage for the three months ended December 31, 2021 was 79%, an increase of 2% compared to the three months ended December 31, 2020. For the nine months ended December 31, 2021, our product gross profit percentage was 80%, an increase of 2% compared to the nine months ended December 31, 2020.



## Professional services

For the three months ended December 31, 2021, professional services cost of revenue, which is mainly comprised of labor costs, increased by \$0.7 million or 81% compared to the three months ended December 31, 2020. This was primarily driven by the impact of the business combination with Qubit and additional share-based compensation costs. In addition, our professional services gross profit percentage for the three months ended December 31, 2021 was 2%, a decrease of 28% compared to the three months ended December 31, 2020. For the nine months ended December 31, 2021, professional services cost of revenue increased by \$0.8 million or 30% compared to the nine months ended December 31, 2020. In addition, our professional services gross profit percentage for the nine months ended December 31, 2021 was 18%, a decrease of 4% compared to the nine months ended December 31, 2020. The decrease in gross profit percentage was mainly driven by the lower professional services gross profit percentages of Qubit and higher share-based compensation costs. We expect to improve our professional services gross profit percentage as we further complete the integration of Qubit.

## Operating expenses

### Sales and marketing expenses

In thousands of U.S. dollars

	Three months ended December 31,				Nine months ended December 31,			
	2021	2020	Change		2021	2020	Change	
	\$	\$	\$	%	\$	\$	\$	%
Sales and marketing	12,182	8,514	3,668	43%	33,650	22,375	11,275	50%
Percentage of total revenue	52%	51%			55%	47%		

For the three months ended December 31, 2021, sales and marketing expenses increased by \$3.7 million or 43% compared to the three months ended December 31, 2020, while as a percentage of total revenue, sales and marketing expenses increased by 1% over the same period. For the nine months ended December 31, 2021, sales and marketing expenses increased by \$11.3 million or 50% compared to the nine months ended December 31, 2020, while as a percentage of total revenue, sales and marketing expenses increased by 8% over the same period.

Following the beginning of the pandemic, we accelerated the transformation of our go-to-market approach by shifting away from in-person events and making investments in digital marketing programs, topgrading our marketing organization by adding new leaders, and hiring additional employees in both sales and marketing to support our growth plan, including from the acquisition of Qubit. We also continued initiatives to engage directly with developers and improve our community portals. All of these investments, including the acquisition of Qubit, combined with the lower temporary marketing spend resulting from COVID-19 for the three and nine months ended December 31, 2020, contributed to the period-over-period increases. Moreover, additional share-based compensation costs were incurred for the three and nine months ended December 31, 2021 compared to the same periods ended December 31, 2020.

### Research and product development expenses

In thousands of U.S. dollars

	Three months ended December 31,				Nine months ended December 31,			
	2021	2020	Change		2021	2020	Change	
	\$	\$	\$	%	\$	\$	\$	%
Research and product development	9,076	3,766	5,310	141%	19,446	10,454	8,992	86%
Percentage of total revenue	39%	22%			32%	22%		

R&D expenses increased by \$5.3 million or 141% and by \$9.0 million or 86% for the three and nine months ended December 31, 2021 respectively as compared to the three and nine months ended December 31, 2020. As part of our capital allocation strategy, investment in R&D is essential to drive continuous innovation in our platform's features and capabilities, including for our commerce solutions. The increases were a result of increasing headcount, including from the acquisition of Qubit, as well as an increase in share-based compensation. For the three months ended December 31, 2021, we also did not receive additional contributions from IRAP since we completed the project in July 2021, and we were not eligible to receive certain reimbursable tax credits due to our becoming a publicly-listed company. Tax credit and government assistance decreased by \$1.1 million and \$0.6 million for the three and nine months ended December 31, 2021, respectively.

### General and administrative expenses

In thousands of U.S. dollars

	Three months ended December 31,				Nine months ended December 31,			
	2021	2020	Change		2021	2020	Change	
	\$	\$	\$	%	\$	\$	\$	%
General and administrative	17,277	3,560	13,717	385%	26,939	9,079	17,860	197%
Percentage of total revenue	74%	21%			44%	19%		

For the three and nine months ended December 31, 2021, general and administrative expenses were \$17.3 million and \$26.9 million respectively, an increase of \$13.7 million or 385% compared to the three months ended December 31, 2020 and \$17.9 million or 197% compared to the nine months ended December 31, 2020. The increase was largely driven by our 1% equity pledge representing a one-time expense of \$10.4 million. Additionally, we incurred transaction related expenses from the Qubit acquisition and our IPO for an amount totalling \$0.5 million and 1.8\$ million for the three and nine months ended December 31, 2021, respectively. We also incurred fees given that we now operate as a public company, hired additional headcount to support the growth of the business and invested in our internal IT systems. As a percentage of total revenue, excluding our 1% equity pledge donation, general and administrative expenses would have been 31% and 28% for the three and nine months ended December 31, 2021 respectively.

### Other operating expenses

In thousands of U.S. dollars

	Three months ended December 31,				Nine months ended December 31,			
	2021	2020	Change		2021	2020	Change	
	\$	\$	\$	%	\$	\$	\$	%
Depreciation of premises and equipment	684	491	193	39%	1,985	1,403	582	41%
Amortization of intangible assets	1,042	62	980	1,581%	1,098	182	916	503%
Depreciation of right-of-use assets	377	402	(25)	(6%)	1,138	1,161	(23)	(2%)
	2,103	955	1,148	120%	4,221	2,746	1,475	54%

Depreciation of property and equipment for the three and nine months ended December 31, 2021 increased by \$0.2 million or 39% and by \$0.6 million or 41% respectively as compared to the three and nine months ended December 31, 2020 as a result of investments in leasehold improvements and equipment.

Amortization of intangible assets for the three and nine months ended December 31, 2021 was \$1.0 million and \$1.1 million respectively compared to \$0.1 million and \$0.2 million for the three and nine months ended December 31, 2020. The increase in amortization was the result of the amortization of intangible assets acquired through the acquisition of Qubit.

Depreciation of right-of-use assets for the three months ended December 31, 2021 was in line with the three months ended December 31, 2020 at \$0.4 million. For the nine months ended December 31, 2021 and 2020, depreciation of right-of-use assets was \$1.1 million and \$1.2 million, respectively.

## Other expenses

In thousands of U.S. dollars

	Three months ended December 31,				Nine months ended December 31,			
	2021	2020	Change		2021	2020	Change	
	\$	\$	\$	%	\$	\$	\$	%
Change in redeemable preferred shares conversion rights component fair value	(269,200)	72,749	(341,949)	(470%)	(299,428)	151,557	(450,985)	(298%)
Net financial expenses	2,930	4,262	(1,332)	(31%)	12,560	11,888	672	6%
Foreign exchange loss	628	997	(369)	(37%)	281	1,532	(1,251)	(82%)
Income tax expense (recovery)	(184,108)	19,163	(203,271)	(1,061%)	(188,972)	40,716	(229,688)	(564%)

Change in redeemable preferred shares conversion rights component fair value resulted in a gain of \$269.2 million for the three months ended December 31, 2021 (loss of \$72.7 million for the three months ended December 31, 2020) and in a gain of \$299.4 million for the nine months ended December 31, 2021 (loss of \$151.6 million for the nine months ended December 31, 2020). These variations were driven by changes in the conversion rights component fair value of our Series B, C, D, E, and F redeemable preferred shares. As the redeemable preferred shares were converted into Multiple Voting Shares in connection with a reorganization completed immediately prior to the closing of the IPO, we do not expect any future impact from this item.

For the three months ended December 31, 2021, net financial expenses decreased by \$1.3 million or 31% compared to the three months ended December 31, 2020, mainly due to the decrease in interest accretion as preferred shares were converted to Multiple Voting Shares just before the IPO.

For the nine months ended December 31, 2021, net financial expenses increased by \$0.7 million or 6% compared to the nine months ended December 31, 2020 mainly due to an increase in interest accretion following the increase of the preferred shares debt component over time, before conversion into Multiple Voting Shares and to a decrease in fair value of short-term investments.

Foreign exchange gain or loss results from transactions denominated in currencies other than the functional currencies and translated into the relevant functional currency. The loss in foreign exchange of \$0.6 million for the three months ended December 31, 2021 and \$1.0 million for the three months ended December 31, 2020, as well as the loss in foreign exchange of \$0.3 million for the nine months ended December 31, 2021 and \$1.5 million for the nine months ended December 31, 2020 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 \$184.1 million income tax recovery for the three months ended December 31, 2021 (\$19.2 million income tax expense for the three months ended December 31, 2020) and the \$189.0 million income tax recovery for the nine months ended December 31, 2021 (\$40.7 million income tax expense for the nine months ended December 31, 2020) were mainly driven by the deferred taxes related to the redeemable preferred shares conversion rights and debt components that were reversed following the conversion of the preferred shares. As the redeemable preferred shares were converted into Multiple Voting Shares in connection with a reorganization completed immediately prior to the closing of the IPO, we do not expect any future impact from this item.

## Key Balance Sheet Information

In thousands of U.S. dollars

	As of December 31,	As of March 31,
	2021	2021
	\$	\$
Cash and short-term investments	233,683	131,871
Total current assets	267,138	158,069
Total assets	346,243	194,041
Deferred revenue (current & non-current)	45,811	37,824
Redeemable preferred shares (debt and conversion rights components)	-	938,354
Total liabilities	79,863	1,193,120
Total shareholders' equity (deficiency)	266,380	(999,079)

### *Cash and short-term investments*

As of December 31, 2021, cash and short-term investments increased by \$101.8 million or 77% from March 31, 2021. This increase was primarily driven by the IPO, including the exercise of the over-allotment option and the completion of a private placement. The increase was partially offset by cash flow used for the acquisition of Qubit and cash flows used in operating activities.

### *Total assets*

As of December 31, 2021, total assets were \$346.2 million, an increase of \$152.2 million or 78%, mainly driven by an increase in cash and short-term investments of \$101.8 million, intangible assets and goodwill added through the acquisition of Qubit, and by an increase in government assistance and refundable tax credits receivable.

### *Deferred revenue (current and non-current)*

Deferred revenue increased by \$8.0 million from March 31, 2021 to December 31, 2021 driven by the growth of our SaaS Subscription Revenue as we focused on sales of SaaS subscriptions to both new and existing customers.

### *Redeemable preferred shares*

Redeemable preferred shares liability was reduced to \$Nil following completion of a reorganization of the share capital whereby all of the Company's issued and outstanding classes of redeemable preferred shares were converted into Multiple Voting Shares on a one-for-one basis, and the Company's articles were then amended to repeal and remove all existing preferred shares from the authorized share capital of the Company.

### *Total liabilities*

Total liabilities decreased by \$1,113.3 million during the nine months ended December 31, 2021. This decrease was mainly driven by the redeemable preferred shares and related deferred tax liabilities, which were reduced to \$Nil upon conversion of the redeemable preferred shares into Multiple Voting Shares.

## 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 December 31, 2021. 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.

In thousands of U.S. dollars,  
except per share data

	Dec 31, 2021	Sep 30, 2021	Jun 30, 2021	Mar 31, 2021	Dec 31, 2020	Sep 30, 2020	Jun 30, 2020	Mar 31, 2020
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Revenue</b>								
SaaS subscription	21,153	17,313	16,316	15,217	14,120	13,234	12,703	12,304
Self-managed licenses and maintenance	487	841	714	1,012	1,405	1,303	1,294	1,497
<b>Product revenue</b>	<b>21,640</b>	<b>18,154</b>	<b>17,030</b>	<b>16,229</b>	<b>15,525</b>	<b>14,537</b>	<b>13,997</b>	<b>13,801</b>
Professional services	1,603	1,358	1,194	1,205	1,237	1,087	1,040	1,054
<b>Total revenue</b>	<b>23,243</b>	<b>19,512</b>	<b>18,224</b>	<b>17,434</b>	<b>16,762</b>	<b>15,624</b>	<b>15,037</b>	<b>14,855</b>
<b>Cost of revenue</b>								
Product	4,476	3,341	3,398	3,236	3,585	3,093	2,877	2,620
Professional services	1,566	882	958	996	865	877	873	860
<b>Total cost of revenue</b>	<b>6,042</b>	<b>4,223</b>	<b>4,356</b>	<b>4,232</b>	<b>4,450</b>	<b>3,970</b>	<b>3,750</b>	<b>3,480</b>
<b>Gross profit</b>	<b>17,201</b>	<b>15,289</b>	<b>13,868</b>	<b>13,202</b>	<b>12,312</b>	<b>11,654</b>	<b>11,287</b>	<b>11,375</b>
<b>Operating expenses</b>								
Sales and marketing	12,182	10,595	10,873	11,231	8,514	6,984	6,877	7,601
Research and product development	9,076	5,528	4,842	5,624	3,766	3,485	3,203	2,809
General and administrative	17,277	5,516	4,146	4,290	3,560	2,799	2,720	3,420
Depreciation of premises and equipment	684	652	649	605	491	479	433	408
Amortization of intangible assets	1,042	30	26	21	62	61	59	143
Depreciation of right-of-use assets	377	378	383	416	402	388	371	382
<b>Total operating expenses</b>	<b>40,638</b>	<b>22,699</b>	<b>20,919</b>	<b>22,187</b>	<b>16,795</b>	<b>14,196</b>	<b>13,663</b>	<b>14,763</b>
<b>Operating loss</b>	<b>(23,437)</b>	<b>(7,410)</b>	<b>(7,051)</b>	<b>(8,985)</b>	<b>(4,483)</b>	<b>(2,542)</b>	<b>(2,376)</b>	<b>(3,388)</b>
Change in redeemable preferred shares conversion rights component fair value	(269,200)	39,248	(69,476)	300,357	72,749	53,359	25,449	(42,508)
Change in redeemable preferred shares debt component value	-	-	-	-	-	-	-	(3,969)
Net financial expenses	2,930	4,826	4,804	4,515	4,262	4,087	3,539	3,415
Foreign exchange loss (gain)	628	(780)	433	623	997	226	309	(734)
<b>Income (loss) before income taxes</b>	<b>242,205</b>	<b>(50,704)</b>	<b>57,188</b>	<b>(314,480)</b>	<b>(82,491)</b>	<b>(60,214)</b>	<b>(31,673)</b>	<b>40,408</b>
Income tax expense (recovery)	(184,108)	11,184	(16,048)	70,451	19,163	14,304	7,249	(9,679)
<b>Net income (loss)</b>	<b>426,313</b>	<b>(61,888)</b>	<b>73,236</b>	<b>(384,931)</b>	<b>(101,654)</b>	<b>(74,518)</b>	<b>(38,922)</b>	<b>50,087</b>
<b>Net income (loss) per share</b>								
Basic	7.65	(2.76)	3.27	(20.66)	(5.55)	(4.06)	(2.13)	2.53
Diluted	(0.24)	(2.76)	(0.08)	(20.66)	(5.55)	(4.06)	(2.13)	(0.03)

## *Revenue*

Our revenue has increased in each of the last eight quarters, primarily driven by the increase in our SaaS Subscription Revenue, partially offset by declines in our self-managed licenses and maintenance revenue. The increase in SaaS Subscription Revenue was driven by the addition of new customers, as well as increased usage of our platform by existing customers as a result of our continued efforts to cross-sell and upsell our solutions within our existing customer base, including from the acquisition of Qubit for the three months ended December 31, 2021. The decrease in self-managed licenses and maintenance revenue was caused 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 over time. We expect self-managed licenses and maintenance revenue to continue to decrease in the future as we continue to focus on the growth of our Coveo Relevance Cloud™ platform and related SaaS subscriptions.

Professional services revenue has generally grown in-line with SaaS Subscription Revenue and remained flat as a percentage of total revenue over the last eight quarters. This was primarily driven by growth in our business, which resulted in professional services work related to implementations of our platform and ongoing support of our customers. There was also a meaningful increase in professional services revenue in the three months ended December 31, 2021 resulting from the acquisition of Qubit. In addition, over time, we expect professional services revenue as a percentage of our total revenue to decrease as we continue to pursue the expansion of our partner ecosystem and leverage our partners for a significant portion of the implementations of our solutions.

## *Cost of revenue*

Total cost of revenue increased sequentially quarter-over-quarter other than for the quarters ended September 30, 2021 and March 31, 2021. For the quarter ended September 30, 2021, the slight decrease was due to accrued vacations taken during the summer period. The quarterly increases were mainly due to increased costs from supporting a greater number of customers and headcount additions to our customer success and customer support teams, including from the acquisition of Qubit for the quarter ended December 31, 2021. Additionally, we expanded our cloud infrastructure in EMEA and APAC during the fiscal year ended March 31, 2021, which resulted in increased data hosting costs.

During the quarter ended March 31, 2021, an internal reorganization led to a modest number of employees being reallocated to R&D, resulting in a slight decrease in product cost of revenue for the quarter.

## *Gross profit*

Our total quarterly gross profit increased sequentially for all periods presented aside from June 30, 2020, primarily due to increased SaaS Subscription Revenue from new and existing customers.

## *Operating expenses*

Total operating expenses generally increased sequentially for each period presented except for the quarters ended June 30, 2021 and June 30, 2020. The aggregate increase was mainly driven by additional headcount required to support our expanding base of customers and product innovation. The quarter ended December 31, 2021 also included the acquisition of Qubit and additional share-based compensation. In the quarter ended June 30, 2020, sales and marketing expenses decreased due to the cancelation of all in-person marketing events and travel restrictions resulting from the impact of COVID-19. To adapt to this unprecedented event, we adopted a fully digital marketing strategy and continued our investment over the subsequent quarters, with the highest level of spend in the fourth quarter of the fiscal year ended March 31, 2021. During this quarter, we also completed a rebranding of the Company and held various digital marketing events, including Relevance 360. Expenses related to this rebranding did not recur in the quarter ended June 30, 2021 and were the main driver of the decrease of sales and marketing expenses compared to the prior quarter.

In addition, the timing of the IRAP contribution has driven some quarterly fluctuations in our R&D expenses, including the increases in the quarters ended December 31, 2021 and March 31, 2021 compared to the previous quarters.

Contributions correlate to expenses permitted by the program, with annual maximum amounts of \$1.7 million for fiscal year ending March 31, 2022, \$3.0 million for fiscal year ended March 31, 2021, and \$1.4 million for the fiscal year ended March 31, 2020. In the fiscal year ended March 31, 2021, the annual maximum was reached in December 2020, and as a result no additional IRAP contribution was recorded in the quarter ended March 31, 2021. The contributions from IRAP restarted in the quarter ended June 30, 2021 and the project was completed in July 2021, with the contribution fully received during the quarter ended September 30, 2021.

General and administrative expense was significantly higher in the quarter ended December 31, 2021 due to the one-time 1% equity pledge donation of \$10.4 million and transaction expenses related to the IPO and the acquisition of Qubit.

Historically, we have experienced a reduction in operating expenses each year in our second quarter due to accrued vacations taken during the summer period, reducing our labor costs compared to other quarters. In the quarter ended September 30, 2021, this reduction was offset by transaction expenses related to the Qubit Acquisition.

## 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.

Effective November 24, 2021, the Company completed the closing of its IPO. Immediately prior to the completion of the Company's IPO, the Company completed the following transactions (the "Reorganization"):

- Amend and redesignate common shares as Multiple Voting Shares;
- Create a new class of an unlimited number of Subordinate Voting Shares;
- Create a new class of an unlimited number of preferred shares, issuable in series;
- All existing preferred shares were converted into Multiple Voting Shares on a one-for-one basis; and
- All existing preferred shares were repealed and deleted from the authorized share capital of the Company upon completion of the IPO.

In addition, effective November 24, 2021, immediately prior to the completion of the Company's IPO, the Company made a donation to charities by issuing 857,122 Multiple Voting Shares, at a value of CA\$15 per share.

On November 24, 2021, the Company completed its IPO and issued 14,340,000 Subordinating Voting Shares at CA\$15 per share, for total gross proceeds of \$169.2 million. Share issuance costs amounted to \$14.6 million, resulting in net cash proceeds of \$154.6 million.

Concurrently with the closing of the IPO, the Company also completed a private placement of 129,996 additional Subordinate Voting Shares at CA\$15 per share, for total gross proceeds of \$1.5 million.



Following the close of the IPO, on December 1, 2021, the over-allotment option granted to the underwriters to purchase up to an additional 2,151,000 subordinating voting shares at a price of CA\$15 per share was exercised in full, generating additional gross proceeds to the Company of \$25.2 million. Share issuance costs amounted to \$1.5 million, resulting in net cash proceeds of \$23.7 million.

## Cash flows

The following table presents cash, short-term investments, and cash flows from operating, investing, and financing activities.

In thousands of U.S. dollars	Three months ended December 31,		Nine months ended December 31,	
	2021	2020	2021	2020
	\$	\$	\$	\$
Cash – end of period	233,683	45,536	233,683	45,536
Short term investments – end of period	-	76,472	-	76,472
Net cash generated from (used in)				
Operating activities	(7,923)	316	(23,568)	5,371
Investing activities	7,206	6,675	35,810	23,711
Financing activities	166,349	(103)	165,339	(314)
Effect of foreign exchange rate changes on cash	874	344	703	677
Net increase in cash	166,506	7,232	178,284	29,445

## Operating activities

For the three months ended December 31, 2021, cash used in operating activities was \$7.9 million compared to \$0.3 million generated for the three months ended December 31, 2020.

For the nine months ended December 31, 2021, cash used in operating activities was \$23.6 million compared to \$5.4 million generated for the nine months ended December 31, 2020.

The variation for the three and nine months ended December 31, 2021 are mainly due to an increase in net loss excluding the items not affecting cash and the change in non-cash working capital items.

## Investing activities

For the three months ended December 31, 2021, cash generated from investing activities was \$7.2 million compared to \$6.7 million for the three months ended December 31, 2020.

For the nine months ended December 31, 2021, cash generated in investing activities was \$35.8 million compared to \$23.7 million for the nine months ended December 31, 2020.

The increase for the three and nine months ended December 31, 2021 was mainly driven by an increase in proceeds from disposal of short-term investments partially offset by cash used for the acquisition of Qubit.

## *Financing activities*

Financing activities generated \$166.3 million during the three months ended December 31, 2021 and \$165.3 million during the nine months ended December 31, 2021 mainly driven by the completion of the IPO, including the exercise of the over-allotment option and the private placement completed concurrently.

## *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, as per the second amendment entered into on May 25, 2021, 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 flow and performing budget-to-actual analysis on a regular basis. In addition to cash and short-term investments, 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 selected acquisitions we may execute. Our working capital as of December 31, 2021 was \$199.0 million, which included cash of \$233.7 million. Given our existing cash and unused credit facilities, 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, general and administrative expenses to support our growth, including international expansion, and the ongoing impact of the COVID-19 pandemic. We may in the future enter into arrangements to acquire or invest in complementary businesses, services, and technologies. 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*

Our contractual obligations decreased from those disclosed in our audited annual consolidated financial statements for the year ended March 31, 2021 with the extinguishment of the redeemable preferred shares obligations through their conversion into Multiple Voting Shares.

## *Financial instruments*

Our financial assets include cash and trade and other receivables that are classified as financial assets at amortized cost, and short-term investments that are classified at fair value through profit and loss (“FVTPL”). Our financial liabilities, including trade payables, accrued liabilities, and redeemable preferred shares debt components of our Series A, B, C, D, E, and F redeemable preferred shares, are classified as financial liabilities at amortized cost. Our Series B, C, D, E, and F

redeemable preferred shares conversion rights components are classified as financial liabilities at FVTPL. See the notes to the financial statements for the liquidity risks associated with our financial instruments.

Prior to the completion of the IPO, all of our redeemable preferred shares were converted into Multiple Voting Shares and the liability was reduced to \$Nil with a corresponding increase in share capital. Deferred tax liabilities related to the redeemable preferred shares were also reduced to \$Nil. Going forward, there will be no further impact on our results of operations from the redeemable preferred shares and related deferred tax liabilities.

See note 17 to the unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2021 and note 26 to the audited annual consolidated financial statements for the fiscal year ended March 31, 2021.

## *Capital resources*

See note 25 to the audited annual consolidated financial statements for the year ended March 31, 2021 for the Company's minimum aggregate commitments. There were no significant changes from commitments set out in note 25 to the audited annual consolidated financial statements for the year ended March 31, 2021.

## 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

Other than the related party transactions noted in our audited consolidated financial statements for the fiscal year ended March 31, 2021, our board of directors (our "Board") took decisions intended to provide a meaningful incentive to our Chairman and Chief Executive Officer, and our Founder, President, and Chief Technology Officer, for their continued leadership of our Company.

They determined to provide 100% of their equity-based compensation for the forthcoming six years and granted them, through the omnibus incentive plan, a long-term, multi-year, performance-based stock options grant providing them with the opportunity to earn the ability to purchase up to 3.3 million Subordinate Voting Shares in total (the "Value Creation Award"). The Value Creation Award is comprised of five tranches which will only become earned, if at all, in the event that the price of our Subordinate Voting Shares exceeds certain stock price hurdles that are in excess of the IPO offering price (the "Offering Price") of CA\$15 at any time over the six-year term of the Value Creation Award. The exercise price of the options comprising the Value Creation Award is equal to the Offering Price of CA\$15. The fair value of the Value Creation Award was established using the Monte Carlo simulation pricing model and an expense of \$0.4 million was recorded for the three and nine months ended December 31, 2021.

On October 25, 2021, the Company entered into an agreement with a shareholder pursuant to which such shareholder has disposed of and assigned certain rights to the Company in consideration of a cash payment of \$14.8 million from the Company.

## Significant Accounting Judgments, Estimates, and Assumptions

See note 4 to the audited annual consolidated financial statements for the fiscal year ended March 31, 2021. In addition to the significant accounting judgments, estimates and assumptions included in note 4 to the audited annual consolidated financial statements for the fiscal year ended March 31, 2021, we used significant accounting judgment, estimates and assumptions in determining the fair value of identifiable intangible assets following a business combination. The Company uses valuation techniques to determine the fair value of identifiable intangible assets acquired in a business combination, which are generally based on a forecast of total expected future net discounted cash flows. These valuations are linked closely to the assumptions made by management regarding the future performance of the related assets and the discount rate applied as it would be assumed by a market participant

## Future Accounting Standard Changes

See note 3 to the unaudited condensed interim consolidated financial statements for the three and nine months ended December 31, 2021 and note 3 to the audited annual consolidated financial statements for the fiscal year ended March 31, 2021 for a summary of future accounting standard changes.

## Control and Procedures

As a result of the Company's IPO during the quarter, the Company is exempt from representations relating to the establishment and maintenance of disclosures controls and procedures (DC&P) and internal controls over financial reporting (ICFR), as defined in National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings (NI 52-109).

In particular, the certifying officers filing the certificates required under NI 52-109 are not making any representations relating to the establishment and maintenance of:

- i. controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings, or other reports filed or submitted under securities legislation is recorded, processed, summarized, and reported within the time periods specified in securities legislation; and
- ii. a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

In accordance with securities legislations, the Company will begin making the required representations in the fourth quarter of our fiscal year ending March 31, 2022.

## 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 43,959,959 Subordinate Voting Shares, 59,592,788 Multiple Voting Shares, and no preferred shares were issued and outstanding as of February 7, 2022.

As of February 7, 2022, there were 10,140,382 stock options outstanding under the Company's Amended and Restated 2009 Stock Option Plan (the "Legacy Plan"), as amended (of which 6,826,178 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 February 7, 2022, there were 4,200,000 options outstanding under the Company's Omnibus Incentive Plan (the "Omnibus Plan") (of which nil 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 February 7, 2022, there were 1,714,803 Restricted Share Units ("RSU") outstanding under the Company's Omnibus Plan (of which 333 were vested as of such date). Each such RSU, upon vesting, may be settled at the discretion of the board through the delivery of Subordinate Voting Shares issued from treasury or purchased on the open market or the payment of the cash equivalent.

As of February 7, 2022, there were 196,621 Deferred Share Units ("DSU") 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 through the delivery of Subordinate Voting Shares issued from treasury or purchased on the open market or the payment of the cash equivalent.

Further, our Board approved on January 31, 2022 certain grants to our management, employees and a consultant for an aggregate of 519,002 RSUs, 463,106 stock options and 5,000 DSUs. Such grants will become effective as of February 17, 2022.



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The Relevance Company