

Boardwalktech Software Corp.

Third Quarter Fiscal 2024 Earnings Conference Call

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CONFERENCE CALL PARTICIPANTS

Mike Stevens

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen, and welcome to the third quarter fiscal 2024 earnings conference call. At this time, all lines are in listen-only mode. Following the presentation, we will conduct a question-and-answer session. If at any time during this call you require immediate assistance, please press star zero for the operator. This call is being recorded on Wednesday, February 28, 2024.

I would now like to turn the conference over to Graham Farrell. Please go ahead.

Graham Farrell — Investor Relations, Boardwalktech Software Corp.

Thank you, operator. Good afternoon and welcome, everyone, to Boardwalktech's quarterly conference call. This call will cover Boardwalktech's financial and operating results for the third quarter fiscal 2024 period ended December 31, 2023. Our call today will be led by Boardwalktech's President and Chief Executive Officer, Andy Duncan, along with the Company's Chief Financial Officer, Charlie Glavin.

Before we begin with our formal remarks, I would like to remind everyone that some of the statements on this conference call may be forward-looking statements. Forward-looking statements may include, but are not necessarily limited to, financial projections or other statements of the Company's plans, objectives, expectations, or intentions. These matters involve certain risks and uncertainties. The Company's actual results may differ significantly from those projected or suggested in any forward-looking statement due to a variety of factors, which are discussed in detail in our regulatory filings.

Today we issued our third quarter fiscal 2024 financial results, a copy of which is available in the investor relations section on our website, www.boardwalktech.com, and posted on SEDAR.

I would like to remind everyone that today's call is being recorded on Wednesday, February 28, 2024.

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

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

Thank you, Graham. I would like to welcome everyone to Boardwalktech's quarterly earnings call to discuss the Company's financial results for the third quarter of fiscal 2024.

The December quarter turned out to be a double-edged quarter for Boardwalktech. As I speak with you today, Boardwalktech is in a better position than it has been in three years to four years. That isn't just our opinion, but feedback from new and existing customers. Very briefly, let me discuss some of the business highlights with you.

First, on our Digital Ledger product, land and expand continues to add revenue as we have new expansion opportunities that will be realized and announced between now and the spring at several of our major clients. You'll note some of the progress in our press release from last month.

Second, the Unity Central solution for supply chain visibility and perfect order management is no longer a future development but is happening now. In the December quarter, we finally executed our first

long-term license with Meta, which continues to expand within Meta, and this is based upon delivered ROI. The enthusiasm we have around this product is high because this is not a one-off development. Unity Central is being very well received by new companies. We have several late-stage proposals out that are demonstrating a very strong ROI that we believe will get done in the next month or so, which will continue the momentum we are seeing for the Unity Central product.

To be clear, Unity Central is not a new siloed offering. We now have a more holistic platform solution based on the same core technology. So if a customer's bottlenecks are spreadsheet based, we have the Boardwalk Digital Ledger to help them with that. If the bottleneck is more document-centric, Unity Central can address it. But the reality is, for most companies, they struggle with both unstructured data in spreadsheets and documents and we can now offer a more complete solution covering all of this data. Sekisui Specialty Chemicals is a perfect example of a Boardwalk Digital Ledger customer that has now added Unity Central to their portfolio. We are now starting to see very nice reception from existing customers that we are now introducing Unity Central to.

The Velocity product for financial services sector, again built on our same core platform, continues to roll out at Citi with several new additional business units engaging to expand. Granted, the rollout within the banks have been slower than originally expected, but this was really out of Boardwalk's hands. We also were in final stages of contract negotiations with two additional teaming partners, one which is engaged with a new business unit at Citi for a proposed large deployment of the Velocity solution. Both of these new teaming partners are huge and quite well known and having them under contract will be an extremely positive thing for us, not only for continued expansion at Citi but also to cross-pollinate into other banks and financial institutions they are engaged with. We have added additional new banking

opportunities to the pipeline and we think it's interesting to note that the U.S. Treasury's Office of the Comptroller of the Currency, the OCC, just two weeks ago issued a \$65 million penalty on City National Bank, who is owned by RBC by the way, for several issues around lack of control and compliance. These are the exact areas that Velocity helps banks to address.

I did want to address questions regarding recent actions the Company has taken, as we realized that some of the operational moves we've made might have surprised investors. While the timing of these moves might not have been optimal, they were not just needed but have made the Company and its prospects better and stronger. Beginning last fall, we conducted an internal review to examine how we could improve our execution. We were as frustrated as investors about our lack of sales progress despite great opportunities. In light of the market headwinds and slower than expected execution, we came to the conclusion that we needed to take action in two areas. First, in order to close more deals in our pipeline and shorten the sales cycle, Boardwalktech needed to reallocate more resources towards sales and marketing and we also needed, second, to improve our balance sheet optics. Let me elaborate.

First, we needed to shake up our sales and marketing efforts. While we have made good progress, such as a 48% CAGR in our license revenue over the last three years, we are still underperforming to our potential. The status quo was not good enough. In an effort to inject new blood, the Company let go a number of underperforming employees, allowing for us to refocus and shift resources to sales and marketing. While the total annualized cash savings is projected to exceed \$1 million, the reality is that the net savings realized to our P&L will be about US\$500,000 this fiscal year as we selectively hire more effective heads in sales and marketing over the next few quarters. It's important to note that just last

week we hired back an experienced sales executive who was our top performer in 2020 and 2021 who left us in 2021 [inaudible] outlook, decided to come back and is now in full-on sales mode.

Second, while we tried to avoid it, it became apparent that we needed growth equity to both improve our working capital and our optics. Slower than expected closing and feedback from customers indicated that our balance sheet had given customers pause. So while we did not lose any deals explicitly, it was making an impact with regard to timing. To not take action in this area would have jeopardized new deals, jeopardized long-term growth, and potentially financial results. For investors who wish to see more details about our use of funds from this financing, we encourage you to examine the life offering document that we have on file.

Despite tough market conditions and less than ideal timing, Boardwalktech was able to not just close, but upsize the deal, including a second tranche requested for those investors unable to execute in the first tranche, which closed December 28th of 2023. The financing included two well known, Toronto-based institutional investors and I should note that officers and directors, including myself, also participated in the recent financing because of our belief in the future of Boardwalktech. While both the operational changes and the financing were tough, Boardwalktech is better for it. We look forward to upcoming announcements that support these actions and our complete conviction.

All in all, it's an extremely busy time for Boardwalktech. It's a good busy, with lots of activity on land and expand, activity on Unity Central opportunities, a lot of work with Citibank, and new teaming partners and new opportunities for the Velocity product in financial services.

I will now pass the call over to our CFO, Charlie Glavin, who will provide more details on this, and then we look forward to taking your questions after our prepared remarks. Charlie, please go ahead.

Charlie Glavin — Chief Financial Officer, Boardwalktech Software Corp.

Thanks, Andy.

Before I begin, I'd like to take a moment to remind our listeners that all figures reported on today's call are in U.S. dollars and that our fiscal year ends March 31 with reported figures based on IFRS standards unless otherwise specified. Additional details can be found in our financial statements and MD&A filed on SEDAR.

Total revenue for the third quarter of fiscal 2024 was \$1.48 million, which is a 4% decrease from the \$1.53 million of revenue we reported in the second quarter and a 20% decrease from the \$1.8 million of revenue in the third quarter of last year; however, these declines are all attributed to shifts in professional services revenue, which declined 42% sequentially and 76% year over year, respectively. More importantly, the revenue from new and recurring SaaS licenses grew 6% both sequentially and year over year.

Due to the slower closings of new deals that Andy alluded to, professional service levels continue to be lower than originally forecasted and are expected to continue to fluctuate on a quarter-by-quarter basis. Last quarter, professional services accounted for just 9% of total revenue, which is lower than our long-term target, so investors should expect a modest rebound in absolute dollars but, longer term, we still expect that to stay in the 10% to 20% range. Recurring revenue from SaaS licenses has grown 48% on

a CAGR basis over the last three years and, based on recent customer engagements that Andy alluded to, we believe that this is a growth rate that we can return to or exceed once our strategic actions take full effect.

The Company defines annualized recurring revenue, ARR, a non-IFRS metric, as the annual recurring revenue expected based on license subscriptions and recurring services recognized in the recent quarter, not on an MRR basis. ARR at the end of December was \$5.7 million, but this does not include either the full impact from our new Meta license revenue alluded to, nor the customer expansion announcement that we made last month.

Gross margin for the third quarter of fiscal 2024 was 89.1%, which is slightly lower than comparable periods due to the lower professional services revenue and slightly higher hosting expenses. We do expect gross margins to rebound and return to comparable 90% levels we have previously reported and guided to.

Net loss for the third quarter of fiscal 2024 was a loss of \$783,000 or a loss of \$0.02 per basic and diluted share versus a \$730,000 loss last quarter and a \$647,000 loss last year as the Company did do a catch up on non-cash based share compensation expenses in the third quarter; however, adjusted operating expenses, which factors that out, was down slightly from last quarter sequentially and was down \$225,000 over last year.

Non-IFRS loss as defined in our filed MDA in the third quarter totaled a loss of \$412,000 or \$0.01 per basic and diluted share versus a \$377,000 loss last quarter and \$252,000 last year. Meanwhile, our adjusted EBITDA this quarter was a loss of \$386,000 versus \$359,000 last quarter. Two things I'd like to

note. First, the impact to these results was due primarily to the lower professional services revenue, not our SaaS business license, which continues to grow. If you back out revenue from our Velocity bank channel along with Meta, our core Digital Ledger license revenue has grown 37% over the last two years. That said, it should be noted that the figures we reported in the third quarter today do not include any impact from the resource allocation actions that we announced last month, but those savings will begin to take effect in the current fourth quarter and continue over the next year.

As of December 31st, the Company finished the quarter with cash and share subscription receipts of \$1.3 million. Since we closed the first tranche of our financing on December 28th, there was approximately \$540,000 of share subscription receivables which were effectively electronic payments that were initiated as of the financing close date but as of the 31st of December had not actually reached and cleared our bank and settled into cash. However, all outstanding share subscription receivables did settle into cash in early 2024, in January, prior to the closing of the second tranche of our upsized private placement this month. Finally, given these, excuse me, these are some of the factors why the Company feels more confident that our breakeven goal has been pulled in since our last conference call.

And with that, let me turn it back over to Andy.

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

Thank you, Charlie.

We have told our investors that every day our team wakes up looking to increase our ARR by providing new and existing customers with a high-ROI solution to address their issues, especially in the

supply chain, the strategic steps we have recently taken to advance these efforts, and for those investors that have stayed loyal during these challenging times and those who have taken the opportunity to recently invest, we sincerely appreciate your support and are confident that you will be rewarded, not from our words but our actions. Boardwalktech is better for it and we look forward to upcoming announcements that support our conviction.

Operator, we are now ready to take questions.

Q & A

Operator

Thank you. Ladies and gentlemen, we will now conduct the question-and-answer session. If you have a question, please press star one on your phone's touchpad, and if you wish to cancel your request, please press star two. One moment please for your first question.

Your first question comes from Mike Stevens from Echelon Wealth Partners. Your line is now open.

Mike Stevens — Analyst, Echelon Wealth Partners

Hi. Good afternoon, guys. Just a quick one off the top for Charlie. I don't know if you're probably able to give this or provide this, but for the ARR, is there a more up to date sort of monthly figure after the recent announcements, ballpark, that you can provide?

Charlie Glavin — Chief Financial Officer, Boardwalktech Software Corp.

Short answer is no. And one of the reasons why we also avoid the MRR is given that it's a little bit more volatile and more from a D2C. Given that we do annual licenses, non-refundable annual licenses, using a quarterly as the basis instead of the monthly we believe is a more indicative way of taking a look at the long-term growth and reflective of the contracts.

Mike Stevens — Analyst, Echelon Wealth Partners

Yeah, that's fair. And for the professional services, with the Meta contract and with some of the new expansions announced in January, is that something that we should see an uptick in Q4, in the next couple of quarters, or will that take some time?

Charlie Glavin — Chief Financial Officer, Boardwalktech Software Corp.

No, we do expect to see an uptick, Mike, and we don't want to get too specific on the deals overall. It also depends upon the particular customer. So in some cases professional services are rolled in within a general contract, other times, from proof-of-concept, it may be done at a reduced rate.

One of the reasons why we're trying not to give that specific guidance is we also don't want to give too much visibility into individual customer contracts. So if I start giving you sort of the MRR, you're a sharp guy, Mike, along with, I think, a lot of our investors, and you can start to pick off the exact pricing that we use with specific customers. So we're going to use a little bit of cover to not breach that sort of confidentiality.

Mike Stevens — Analyst, Echelon Wealth Partners

Okay. That's fair enough.

Charlie Glavin — Chief Financial Officer, Boardwalktech Software Corp.

In terms of professional services, let me just repeat what I said. The 9% is lower than what we expected and that was essentially, given the lack of newer contracts closed towards the end of the year, the headwinds that Andy alluded to. So you should see that increase, because where it is right now is lower than we expected. So we'd see a rebound. But don't expect it to kick back. The prior periods when our professional services were above, say, 25% to 30%? That was too high. We want to focus on getting as much of the revenue and connections with our customers done through the licenses. And what professional services is, for anybody who's new to the story, is not implementation. You don't get paid for rewriting software code or for prolonged implementations. Generally, from the time you sign a contract to when a customer goes live with their business or their clients is six weeks to eight weeks. But getting new customers on board and executing new contracts is critical to keeping that professional services pipeline flowing.

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

Hey, Mike. This is Andy. I'd like to make one comment with regard to the professional services. While the professional services were tied to, in our projections, tied to contracts that have pushed out, the net is that the goal ultimately is to have minimal professional services. And as the products continue to improve and mature and we make it easier for people to onboard or configure, the ultimate goal is to have a much smaller professional services environment than what we do today. So this isn't too surprising.

The second thing I'll remind everyone is that, on the Velocity product that we're now partnering with professional services firms to deliver into the financial institutions, that all of the professional services work or most of that will be done by them as opposed to us, which is what we want to continue to focus on, that high margin ARR and license revenue business.

Mike Stevens — Analyst, Echelon Wealth Partners

That's helpful. Turning to Unity Central, just looking for any insight as to what worked with Sekisui in that sales process on the back of your Meta announcement and maybe, with your other existing customers, any of the sticking points or pushback or how those processes are going as well. And then just lastly, you mentioned that you could potentially see some new logos in the near future for that product. Is that something that you can also, you're seeing demand for the Digital Ledger as well to kind of package with Unity Central or...?

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

So Mike, we're going back to all of our existing customers that are on the Digital Ledger and we're pitching to them the Unity Central. The Sekisui, which is a large Japanese chemical manufacturer worldwide, was pretty excited about Unity Central. And the interesting thing about this is that this is showing a very rapid ROI that we think can be, that that value can be realized by lots and lots of companies, especially when they're moving product around. And it certainly is, we've been digging in with companies and, you know, selling enterprise software these days now is very focused on ROI, and if you can't have a clear, demonstrable ROI, the deal is not going to get done. And this is really showing us a strong ROI, an improvement across multiple metrics in a company. It's also showing us how kind of messed up the overall

supply chain environment is today and how difficult it is to make improvements in the supply chain. And one of the core reasons for that is that much of the information that's flowing in the supply chain is still in an unstructured format and lots of it is in the format of documents and email messages and text messages. And these are the documents that are very valuable and the information in these documents will help a company understand what's happening, real time, on their supply chain and be able to react. And the Unity Central product helps a company understand and manage all of this unstructured data and documents, which then improves their performance on perfect order delivery and customer satisfaction, improving sales, improving margins. It's pretty substantial. So we're quite enthusiastic about this and we're getting a very nice reception from people that we're showing this to and we think it's got a lot of legs going forward.

Charlie Glavin — Chief Financial Officer, Boardwalktech Software Corp.

Hey, Mike, if I can add a tidbit that I think you and the other investors will find interesting, I won't name the customer, but as we were engaged with this, one of these customers that are going forward, they've indicated that, on average, about 30% of their orders get tickets. And what a ticket means is anything that something is not going as perfectly as it should in terms of an optimal standard operating process. And what that can turn into is a ticket can turn into what's called an exception. And that can be you're at risk of being late on the delivery, you may have to expedite this or there's a chargeback. But the other thing just in terms of clearing that ticket, and this could be is it slightly late, do we have all the documents necessary? These are all the factors that must be included for an order execution, being on time, having the order, everything in the order being complete, and all the necessary documentation, not even including normal returns.

So if you can reduce the first ticket, that prevents the second ticket, which also prevents an exception that occurs, and this is where our Unity Central, by having the documents linked together and being able to track it, along with the predictive analytics, you can basically prevent problems or prevent a fire before it catches, while it's just smoldering is probably the most layman way I would describe it. That's the essence of Unity Central and we can show [inaudible], in actual numbers, tangible returns off of that. You reduce the number of tickets, you reduce number of exceptions. You also free up people who would have had to spend that much time having to resolve those tickets where they can go off and do value-add themselves. So this is kind of the beauty of it and, as we get more case studies to be able to show this from our customers, as we announce it, this becomes much more apparent. But to the people that Andy, Dharmesh, and the other members of the team are talking to, it's become readily apparent and that's the interest that we're getting from it.

Mike Stevens — Analyst, Echelon Wealth Partners

Okay. Great. Thank you. Just a last one to just better understand the realignment plans. When you speak about underperforming employees, so would you be, is this in the sales and marketing force or is that non-sales and marketing people that maybe were let go? And in terms of the hires for sales and marketing, like it sounds like you added one recently, a key hire. How should we look at sort of that balance of, you know, you're trying to save money and turn EBITDA positive in the upcoming quarters but you also want to spend to hire for the sales team? Like any insight on a cadence or anything throughout the year we should kind of expect?

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

Yeah, I would say, Mike, that we don't have any other actions that are planned. This was a clean the house, if you will, and realign the Company towards sales and marketing now that we have the Unity Central product out there and we're rolling very well with the Velocity product. The majority of the reductions came in sales and marketing, but there were people across the Company, both at our operation in the U.S. and our operation in India, that we terminated. And again, it was a good thing for the Company and it was needed. We need to shift our focus to more sales and marketing now as opposed to development and that's what we did.

With regard to going forward plans of spending, yes, we are going to continue to spend on sales and marketing and that's going to be our core area of focus. And we just simply need to get the ARR rolling and we need to execute better. And we need some, as I like to call it, meat-eating supply chain sales executives that not only come with a rolodex but also come with the understanding and knowledge on supply chain enterprise/supply chain sales that we think will be very beneficial for us going forward.

Mike Stevens — Analyst, Echelon Wealth Partners

Okay. No, that's great insight and helpful. Thanks, as always, and have a good one, guys.

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

Thank you, Mike. Operator, do we have any more questions?

Operator

There are no further questions at this time. Andy Duncan, please proceed with the closing remarks.

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

Great. Well, thank you, everyone. I would like to thank everyone for joining the Boardwalktech fiscal Q3 2024 conference call on February 28, 2024 and appreciate your continued support of the Company. Thank you.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you. You may now disconnect.