



**Quorum Information Technologies, Inc.**

**Q3 2022 Results Conference Call**

**November 24, 2022**

## C O R P O R A T E P A R T I C I P A N T S

**Maury Marks**, *President and Chief Executive Officer*

**Marilyn Bown**, *Chief Financial Officer*

## C O N F E R E N C E C A L L P A R T I C I P A N T S

**Gavin Fairweather**, *Cormark Securities, Inc.*

**Gabriel Leung**, *Beacon Securities Limited*

## P R E S E N T A T I O N

### **Operator**

Hello. My name is Chris and I'll be your conference operator today. At this time I'd like to welcome everyone to the Quorum Information Technologies Q3 2022 Results Conference Call.

Maury Marks, President and Chief Executive Officer, you may begin.

### **Maury Marks**

Thank you, Chris.

Good morning, everybody. Thank you for attending Quorum Information Technologies' Q3 2022 Quarterly Results conference call and concurrent webcast. Joining me on the call today is our Chief Financial Officer, Marilyn Bown.

Quorum is a North American SaaS software and services company that offers innovative and robust technology solutions and services to traditional and electric vehicle dealerships and original equipment manufacturers, or OEMs, across North America. Through a combination of purposeful product investment and four strategic acquisitions in the last five years, Quorum has uniquely integrated—who has a uniquely integrated product suite of 12 essential software solutions that are used in whole or in part by 1,464 dealerships across North America. Quorum's product suite currently covers 12 of the 25 most common categories of software that dealerships utilize and Quorum has the opportunity to develop, partner or acquire products for the remaining categories.

Dealerships typically start with a single product from Quorum's product suite and experience synergy and value as added Quorum solutions are deployed to their dealerships. Currently, at least one of Quorum's software solutions is installed in 42% of the franchised automotive dealerships in Canada compared to 13% five years ago. Quorum's software solutions are installed in less than 1% of the franchise

dealerships in the U.S. Quorum has added 1,043 of the 1,464 unique rooftops we have to date in the last five years, primarily through acquisition combined with some organic growth.

Many of Quorum's customers only leverage one solution of the 12 available Quorum solutions. The result is that Quorum has a \$55 million annual SaaS revenue cross-selling opportunity across the existing customer base. That growth opportunity is two times our Q3 2022 \$28 million annual SaaS revenue run rate, and that just within our current customer base.

The last two years have been spent integrating the staff from our four acquisitions into a One Quorum Team and integrating our 12 key products, eight of which are from acquired companies. As part of this work, we had to integrate the people from all four strategic acquisitions into a single Quorum team, and going forward we should be able to leverage the power and focus of our One Quorum Team to accelerate our strategic plan.

The other result is that there is now full integration, not only amongst the products themselves, but an integrated go-to-market approach whereby the sales and marketing and account management teams are harmonized and fully incentivized to drive cross sales.

Marilyn will now review our financial results in more detail, and I will follow with some additional comments on our results. After our prepared remarks, we will open the floor to your questions. Marilyn, please go ahead.

### **Marilyn Bown**

Thank you, Maury, and hello, everyone. Thank you for being here with us today.

I would like to remind everyone that certain statements in this presentation and on our call are forward-looking in nature. These include statements involving known and unknown risks, such as the continued supply chain risks related to COVID-19, uncertainties and other factors outside of Management's control that could cause actual results to differ materially from those expressed in the forward-looking statements. Quorum does not assume any responsibility for the accuracy and completeness of the forward-looking statements and does not undertake any obligation to publicly revise these forward-looking statements to reflect subsequent events or circumstances. For additional information on possible risks, please refer to our Annual MD&A dated December 31, 2021, on the SEDAR website.

Total revenues again hit another high mark for Quorum in Q3 2022, coming in at \$9.9 million, which is a 7% increase over \$9.2 million in Q3 2021.

Q3 2022 was again the highest SaaS revenue quarter in the Corporation's history with an increase from Q3 2021 of \$0.5 million or 7%, up from \$6.6 million to \$7 million. The year-over-year increase is due to a combination of inorganic and organic growth. \$0.3 million or 4% of the \$0.5 million increase is attributable to inorganic growth, with the remaining \$0.2 million or 3% being attributable to organic growth.

Our SaaS annual run rate based on Q3 2022 is \$28.1 million, an increase over the Q3 2021 SaaS annual run rate of \$26.2 million.

BDC revenue increased by \$0.2 million to \$2.6 million, up 7% compared to \$2.4 million in Q3 2021, and is attributable to the continued growth of the core BDC offering and the strategic partnership with AutoCanada. Our BDC annual run rate based on Q3 2022 is \$10.4 million compared to \$9.7 million based on Q3 2021.

Our recurring SaaS and BDC revenue equate to an annual run rate of \$38.4 million and represents 97% of Quorum's revenue.

Gross margin in Q3 2022 increased to \$4.9 million or 49% of revenue compared to \$4.3 million or 47% for Q3 2021. SaaS gross margin increased to 68% in Q3 2022 as compared to 65% in Q3 2021. BDC gross margin increased to 14% in Q3 2022 as compared to 13% in Q3 2021. The increase in gross margin in Q3 2022 is primarily due to an increase in SaaS revenue and BDC revenue without a corresponding increase in cost, as well as an increase in operational efficiencies for both SaaS and BDC cost structures as compared to Q3 2021.

Adjusted EBITDA and adjusted cash income increased by 17% and 56%, respectively, compared to Q3 2021. These year-over-year increases for both Adjusted EBITDA and adjusted cash income are due to an increase in gross margin, offset by an increase in research and development, sales and marketing and general and administrative expenses.

Including cash of \$4.9 million, total net working capital as of September 30, 2022, decreased to \$5.5 million from \$7.6 million as of December 31, 2021, a decrease of \$2.1 million. This decrease is primarily due to the \$1.1 million payment of accrued interest on our BDC Capital loan facility in February of 2022; the \$0.5 million of contingent consideration related to the acquisition of Accessible Accessories; and the \$0.2 million increase in accounts payable.

On February 8, 2022, Quorum restructured its credit facility with BDC Capital, Inc. The original loan was replaced with a mezzanine loan and a cash flow loan. The cash flow loan was finalized on October 12, 2022. Going forward, the mezzanine loan accounts for 36% of the loan, while the cash flow loan accounts for the remaining 64%. The new facilities reduced interest rates from a fixed rate of 11.7% to a variable rate, which is calculated as BDC Capital's floating rate which moved in conjunction with the Bank of Canada's overnight rate plus 3%, and it extends the maturity date from January 15, 2025, to March 15, 2027. The mezzanine facility has an additional 2.65% accrued interest. As at September 30, 2022, the interest rate on the mezzanine loan was 11.05%. The interest rate on the cash flow loan is currently 8.55%.

With that, I'd like to pass it back to Maury.

### **Maury Marks**

Thank you, Marilyn.

Quorum experienced continued positive revenue growth year-over-year of 7% in both of its recurring revenue streams. The products that remain in demand from Quorum's suite are service and parts products, versus vehicle sales products, as dealerships continued to struggle with vehicle inventory shortages.

With the risk of a recession ahead of us, we continue to monitor dealership sentiment to determine if they will reduce their technology spending. Two key things to keep in mind are: number one, 97% of Quorum's revenue are recurring revenues; and two, the high margin service and parts business of a dealership is resilient to recessions because vehicle owners continue to spend on their vehicle's maintenance and repairs.

As mentioned, we are now in a stronger position to more aggressively pursue our \$55 million high margin cross-selling opportunity. Currently, our focus is on cross-selling our service and parts related solutions, which include our DealerMine Service CRM, PowerLane, new Accessible Accessories product, and BDC services.

Regarding our dealership sales solutions, as supply chain issues are resolved and vehicle shortages are eliminated, there will be an inevitable switching point where dealerships will need to focus on finding new consumer sales leads. When that happens, our sales-related solutions, such as our Autovance suite of products, including our digital retailing tool, branded MyDeal, and our DealerMine Sales CRM product will be back in demand. We don't anticipate this turnaround until perhaps mid 2023, but, of course, that will depend on a variety of factors, including interest rate movements and economic conditions.

We are focused on three key areas, which provide the best path for Quorum for continued revenue growth and margin expansion. The areas are: number one, our \$55 million cross-selling opportunity. We are incorporating multiple tactics to more aggressively pursue our cross-selling opportunity, which include: a) harmonizing sales and account management teams which allows us to better leverage our account management team and their relationships with our customers to generate more leads for products; b) focusing more of our marketing efforts on cross-selling lead generation; c) utilizing our recent Salesforce deployment to enable sales and marketing teams to be metrics driven and deleveraging Quorum's solutions from our diverse product suite which are designed to provide customers with improved efficiency through integration at a lower cost than competing solutions that are typically part of the monthly dealership spend.

Number two, the second area that we are focused on is new customer growth. Our streamlined strategy for new customer growth is by landing and expanding at new dealerships with a focus on initially selling high demand vehicle service-related solutions. As a note, most of our products are DMS-agnostic, meaning we can land with a smaller product and then expand with the goal of moving that customer to our full DMS product.

The final area is improving gross and operating margins. Our strategy to utilize our large dealer base to cross-sell will allow us to grow more profitably than in the past when we spent more on new dealer acquisitions. Cross-selling requires less upfront marketing, more focused and efficient sales activity, and less expensive new implementations. Our focus on profitable growth and a company-wide effort to lower costs is a key cornerstone of our 2023 strategy.

As a result, we are delighted that we are able to achieve a record Adjusted EBITDA of \$1.7 million in Q3 2022, which equated to an Adjusted EBITDA margin of 17% for the quarter. Additionally, our adjusted cash income, or ACI, reached an all-time high of \$1.1 million in Q3 2022 or 11% of revenue.

As a leading automotive SaaS platform in Canada, Quorum's successful history of organic growth and accretive M&A has led to its position of having a substantial growth runway across North America. We continue to work hard to provide a product and services strategy that resonates with dealerships. I would especially like to acknowledge our employees and customers who are the driving force behind our continued growth and drive to innovate to ensure Quorum has a product suite prepared for the future of automotive.

Operator, I'd now like to open the conference to any questions from our audience.

**Operator**

Certainly. Our first question is from Gavin Fairweather with Cormark. Your line is open.

**Gavin Fairweather**

Hey Maury.

**Maury Marks**

Gavin, how are you?

**Gavin Fairweather**

I'm great, thanks. How are you?

**Maury Marks**

Doing okay. Fighting a cold, but doing okay.

**Gavin Fairweather**

Okay. I hope you're on the mend. Maybe just to start on the revised go-to-market model under the One Quorum banner. Curious if you have any kind of trends or KPIs in the pipeline and the sales motion that you could call out and maybe attribute to some of the changes that you made. How is the new team functioning under the new structure there?

**Maury Marks**

So talking about the new team across the organization.

**Gavin Fairweather**

Yes, that's right.

**Maury Marks**

Yes. I don't know that—I'd have to go pretty deep across the individual teams to give you metrics. It's sort of an interest—we've gone through a lot of change, not only bringing teams together but also putting new systems in place that are used commonly across all of those particular teams, and so I could go deep into different areas. So if we look at their support group. We measure our support group based on a number of different metrics - first call resolution, time to answer, resolution within 90 days, customer sat scores, so on and so forth.

So each group, what we're seeing across them—in fact, the support group, what we saw is an initial sort of drop in a lot of metrics but now we're seeing a great recovery in those particular metrics. But I'd have to sort of go group by group, Gavin, to tell you sort of how each and every one is doing because different groups have different metrics that we're focused on.

**Gavin Fairweather**

I see. Maybe just on the sales products. I mean I understand the inventory kind of challenges are creating some headwinds on sales there, but are you still finding that you're engaging with customers on these and putting leads into sales force? And maybe as the inventory environment improves over the course of the next year, like there might be a bit of pent-up demand, or is it kind of like the conversations are kind of a nonstarter right now?

**Maury Marks**

No, no, we definitely are still engaging with people, and especially tools like MyDeal, there's still a lot of interest around those and we're still of course adding features to those particular products to try and make them more compelling. And yes, we are tracking all of those potential leads and keeping track of them.

So, I feel like we're poised and ready for when dealerships want to have the conversations about buying those particular solutions. Yes, we're doing—I believe we're doing all of the right things to be able to ultimately capture the sales in the future.

**Gavin Fairweather**

Got it. And then I think maybe it was last year we were chatting a little bit about some of the new rooftops for XSellerator going straight onto Azure. Have you started to look at rolling that out more broadly across the base? I know you kind of (inaudible) a bit of a longer timeframe to get that done. Can you maybe just speak about the revenue lift and the margin lift as you start to move some of your existing rooftops?

**Maury Marks**

Yes. So we are moving it slowly across the broader base. I think I commented on it originally. This was a long-term horizon that we were looking at for converting dealerships. And we still do offer an on-prem solution for dealerships that just really want to stick with that particular path due to whatever reasons, whether internet is not reliable in their area or whatever the case may be.

So, yes, we're still moving that particular solution forward and we're still sort of very closely monitoring scalability as we keep adding in dealerships to it, and especially adding more complex dealerships. We've had a couple of pauses along the path while we get more complex dealerships added into that environment and really understand some of their particular needs and make sure that we're accommodating those.

In terms of revenue lift, for us, what we're typically doing is there's an additional charge related to it, and so - I'm just trying to remember off the top of my head - we're probably, depending on the dealership, we're looking at a revenue lift that's somewhere in and around the 5% to 10% mark or so for that dealership's revenues, but because of how we've actually structured the pricing with Microsoft there's sort of a minimal cost lift to us, minus the cost of converting the dealership sort of across but the actual licensing cost isn't that much of an increase from Microsoft's perspective.

**Gavin Fairweather**

Okay. Yes, that revenue lift mostly will flow through the EBITDA. That's good to hear. Then maybe just lastly, saw the restructuring that was done in the quarter. So if I kind of exclude that, I think it was \$480,000 from your operating expenses that come to a run rate of around \$3.2 million in Q3, is that an appropriate run rate for going forward? Did you get the full impact of some of those synergies you did there on the full Q3? How would help us out on that front?

**Maury Marks**

Yes. No, I think your run rate is reasonably accurate, yes.

**Gavin Fairweather**

Okay. That's it for me. Thank you.

**Maury Marks**

You bet.

**Operator**

The next question is from Gabriel Leung with Beacon Securities. Your line is open.

**Gabriel Leung**

Hi there, and thanks for taking my questions. Maury, just had a question around the BDC revenue line, I guess the gross margin line. Just curious just to hear about what's going on there in terms of pipeline. I know the business there has been relatively flat for the last couple of quarters. Just from a revenue perspective anyways, I know one of the focuses has been to improve utilization. So, curious what you're seeing there on that front and what your dealership customers are saying. I would imagine even though they might not be buying (inaudible) tools. The BDC stuff is probably topical for your clients at this point.

**Maury Marks**

Yes. So definitely, an interest in the market for our BDC services. Just as a reminder, whenever we sell the BDC Services, we always sell our Service CRM solution at the same time. So there's always a SaaS lift as well. Our issue in Q3 around the drop in our BDC revenues was really a people issue. It's a situation where we need to keep staffed at certain levels so that we can meet all of the different commitments that we have out there from a revenue perspective. So we have so many contacts that we have to commit to for each dealership and when we have different commitment levels under our AutoCan and other dealers' contracts. So we struggled with just keeping enough people in our team, in our BDC team in the quarter. So we're taking some steps to solve that particular problem and we hope to have it solved. We won't have it completely solved for Q4 but we will have it solved going into 2023.

And then in terms of demand and I guess maybe more specifically backlog, we do have a backlog of customers on the BDC side, but once again, it's a people situation and so we just need to have enough people so that we can actually add the backlog sales into our BDC and into our revenue numbers.

**Gabriel Leung**

Got you. And as part of the solution there are just higher wages? And does that potentially inhibit you hitting your target of, I think of it was 20% gross margins in BDC?

**Maury Marks**

Yes, you're exactly correct. So, it's a fine line that we walk, right, in that we can probably help with retention of people, with increased wages and we will be doing a little bit of that. But then we also have different solutions available to us to fill seats in our BDC. Sometimes we go to agencies to help us fill seats. We, of course, do our own recruiting.

So, we're starting to do more proactive recruiting ourselves but we're also starting to look at solutions that are different than the agency model that we've worked with in the past, or complement the agency model that we've worked with in the past. We should be able to talk a bit more to this once we've got something deployed in Q4 because we are working on a solution to help us with more consistent staffing which will result in more consistent BDC revenue realization.

**Gabriel Leung**



Got you. That's super helpful. Thanks for the feedback and congrats on the progress.

**Maury Marks**

All right. Thanks, Gabe. Thanks for the question.

**Operator**

We have no further questions at this time. I'll turn it over to Maury Marks for any closing remarks.

**Maury Marks**

All right. Well thank you everybody for your continued support, and we appreciate your interest in Quorum and look forward to talking to you on future calls. Thanks so much.

**Operator**

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