OneSoft Solutions Inc. – FYE Dec 31/23

Tuesday, April 2, 2024 09:00 AM MT / 11:00 AM ET

Event Participants

Dwayna Kushniruk, Paul Johnston, Brandon Taylor, Sean Peasgood

Slide 1 – display before meeting starts

Slide 2 – display when Operator starts speaking

Operator

Operator

Good morning … and thank you for joining us for OneSoft Solutions Financial Conference Call to discuss its financial results for the fiscal year ended December 31, 2023.

On the call today, we have OneSoft's CEO, Dwayne Kushniruk (**Cush-neh-ruck**); CFO, Paul Johnston; and President and COO, Brandon Taylor. The call is being recorded.

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Before management discusses the results, I'd like to remind everyone that certain statements in this call may be forward-looking in nature. These include statements involving known and unknown risks, uncertainties and other factors that could cause actual results to differ materially from those expressed or implied in our forward-looking statements.

For caveats about forward-looking statements and risk factors, please see OneSoft's MD&A for the year ended December 31, 2023, which can be accessed on the company's profile at SEDAR+ and on the company's website. I will now pass the call over to OneSoft's CEO, Dwayne Kushniruk (**Cush-neh-ruck**).

Dwayne Kushniruk

Good morning, and welcome to everyone on the call. I have a few remarks before Paul Johnston reviews financial information … followed by Brandon Taylor, who will discuss operational highlights during Fiscal 2023 … We'll wrap up the call by addressing investor questions.

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This is our third financial results conference call and we are assuming that most attendees of today's meeting are familiar with our Company.

However, for those who want more detail regarding our history and progress to date, please view our Q2 2023 conference call, the link for which is accessible on the www.onesoft.ca website. Click on the "Investor" heading, then "AGM & Financial Info", then Q2 Earnings Call … as shown on this slide.

I want to start by summarizing OneSoft's technology, solutions and position in the current market place.

- OneSoft develops and markets SaaS solutions that ingest, align and analyze big data … using ML, data science and cloud computing … to increase operational efficiencies and reduce oil and gas pipeline failures – through better data management.

    o We have now compiled what we believe may be the largest data lake of pipeline operational and integrity management data that includes data collected by pipeline operators over the past few decades.

    o Our data lake contains detail information associated with ~150,000 miles of pipelines, operated by 15 of our major customers who mange 20 pipeline operations.

- Our solution has been strongly validated by many of the most progressive North American and global pipeline companies, including 2 of the industry's 5 super majors.

    o Our customers have typically undergone extensive, 1 to 3 year validation projects before committing to multi-year subscriptions to use our CIM data platform and their experience has helped us to gain traction to become the next generation defacto standard cloud solution for O&G pipeline operations.

    o We have customers in the US, Canada and Australia, and are pursuing sales opportunities in several regions globally, including South America, EMEA and Asia.

- Our solutions assist O&G pipeline operators to optimize integrity management of their pipeline assets, and to automate many of the functions that they must carry out

    o to manage and maintain regulatory compliance in operating their businesses and assets;

    o to increase operating efficiencies and safety; and,

    o to reduce operating costs and incidents of pipeline failures

- OneSoft has first mover advantage and a significant competitive moat regarding our technology and solutions, in that we are the first company world-wide to have developed and commercialized a born-in-the-cloud solution that uses ML and data science to analyse big data, which assists O&G pipeline operators to achieve their objective of zero pipeline failures.

- Regarding competition for our solutions today – this is mostly legacy systems and processes that essentially depend on Excel spreadsheets to retain and analyze data.

- Our biggest sales challenge today is the reluctance for "change management", which is typically disruptive as legacy integrity and data management systems and processes that have been used for decades are replaced with modern ML and data science applications.

From Management's perspective, Fiscal 2023 progressed very nicely, in accordance with our objectives and expectations.

- We met the guidance we published in January of 2023

    - Revenue exceeded $10 mm, representing 50% YOY revenue growth for the second consecutive year.

    - Adjusted EBITDA, a non-GAAP measure … which we define as earnings before interest, tax, stock based compensation, depreciation and amortization … improved by $1.9 million year over year … from a loss of $2.0 million in Fiscal 2022 to a "near-breakeven" loss of $111 thousand in Fiscal 2023.

    - We also saw a significant … $1.7 million … swing in cash and cash equivalents YOY … wherein cash increased by $0.5 mm in Fiscal 2023, compared to the decrease of $1.2 mm in 2022.

- From a corporate perspective we

    - Took steps to implement succession plans for the BOD as we disclosed last year, by adding a new independent Director;

    - We continued to present at various on-line and in-person shareholder events to promote our Company and progress; and

    - Explored alternatives to progress value creation for shareholders, including potential scenarios to accelerate business development and revenue growth through organic and M&A strategies.

    o We are pleased that OneSoft was recognized by the TSX-Venture Exchange as one of the top 10 performers driving growth across the technology sector. OSS share price increased by about 72% from December 2022 to December 2023.

Slide 7 Data Miles

This chart shows the evolution of data miles being ingested into the Company's CIM platform, which is key to understanding the Company's revenue growth under its SaaS recurring revenue business model.

- The first line in the table shows the aggregate miles of pipeline operated by our customers who have entered into SaaS agreements.

- The second line in the table … and top blue line in the graph … shows the piggable miles, for which customers will ingest data into CIM.

- The third line in the table … and bottom green line in the graph … shows the piggable miles for which data has been ingested into CIM and generated revenues.

- The fourth line in the table shows the %age of data miles for which any revenue was generated … and also provides a glimpse into revenue that is expected in future periods.

- The fifth line in the table shows the estimated CIM SaaS revenue based on a per data-mile subscription basis … these figures exclude services and other revenue.

  - We anticipate that our annualized data mile revenue … which started at ~$100 per data mile in 2017 … will continue to increase as we add more SaaS modules that our customers require to optimize their operations.

- The difference between the blue and green lines represents the future revenue opportunity from current SaaS contracts, that is expected to occur as more data is loaded into CIM by customers.

- To put OneSoft's market share and opportunities into perspective, 260,000 miles operated by our customers represent about 9% of the total O&G pipelines in the U.S.A. today, and 135,000 SaaS subscription miles represent about 21% of the piggable miles in the U.S.A. today.

- I also want to note that the U.S. O&G pipeline infrastructure represents approximately 60% of these assets that exist globally, and it is our belief that CIM has global opportunity.

I will now like pass the call to Paul Johnston, OneSoft's CFO, to review the company's Q4 and Fiscal 2023 financial information. Paul …

Slide 8 CFO Financial Report

Paul Johnston

Paul Johnston

Thank you, Dwayne. I am Paul Johnston, and I'm OneSoft's CFO. I will present the financial results for Q4 and the fiscal year ended December 31 2023

- All figures reported today are in Canadian dollars.

- I wish to highlight the progress OneSoft has made in growing revenues over the past 7.5 years.

- This chart illustrates revenues increasing sequentially quarter over quarter. We're extremely proud that our CIM solution and IM Operations have produced a compound annual growth rate of 43.5% over the last 30 quarters and by 51% in fiscal '23 over fiscal '22.

- The majority of our revenue is "Annual Recurring Revenue" or "ARR". In the last two years, ARR has been 79% and 83% of total revenue. This is due to our customers signing multi-year contracts with us which generally have 3 year or longer terms and due to near zero churn in our customer base.

In Q4 2023, revenue was $2.9 million and it increased by $732,000 or 33.4% over Q4 2022. The addition of new CIM customers and by existing customers expanding their use of CIM drove $670,000 of the increase. IM Operations revenue also grew, increasing by $54,000.

Gross profit increased by $694,000 or 44%. The increase was due to the higher sales volume which generated $523,000 of additional gross profit. A moderation in direct costs provided a further $171,000 of gross profit and allowed the gross margin to increase to 77% from 71%.

Operating expenses, net of cost capitalized increased by $140,000. The company has increased the number of staff since September 2022, and wage increases have been selectively granted. Marketing expenses increased $70,000 quarter over quarter. General and administrative costs unchanged from Q4 last year.

Software development costs declined in the quarter primarily due to staff being highly engaged with functionality requirements requested by existing customers and the implementation of CIM with a large new customer. Despite this, further progress was made on our Risk, Crack Management, Bending Strain and External Corrosion CIM modules

Other expenses increased $205,000. In September, the Company awarded 2,729,000 Restricted Share Units to selected staff to ensure staff retention and further link employee productivity and innovation shareholder value. This grant added $210,000 in additional stock based compensation cost and was the largest single driver causing Other Expenses to rise.

Due to the much higher sales revenue, the gross profit increase of $694,000 and more moderate increases in expenses and other expense, the Company reduced its quarterly loss by $349,000 from $624,000 in Q4 2022 to $275,000 in Q4 2023.

I now direct my remarks to the financial results for year ended December 31, 2023.

Revenue for the year increased by 51% or $3.5 million, from $6.9 million last year to $10.4 million this year. The addition of new customers and greater use of CIM by existing customers generated $2.4 million of the increase. Revenue from the IM operations increased by $785,000 as it was acquired on June 30, 2022 resulting in six months of revenue being included last year and 12 months of revenue this year. More favourable foreign exchange rates added another $320,000.

Gross profit increased by 60% to $7.8 million from $4.9 million this period last year, driven by the higher sales volume and proportionately reduced direct costs. The gross margin rose to 75% of sales from 71% last year.

Operating expenses increased by $954,000 or 13.5%. Salaries and employee benefits were higher due to an increase in staff complement, salary increases and higher accruals for year-end incentives. Marketing expenses increased due to more production trials and benefits analyses being conducted and higher sales travel expense promoting our products to potential customers. Higher accruals for professional fees for the annual audit and related issues caused G&A expense to rise.

Expenses capitalized as software development decreased by $168,000 in 2023, as staff were engaged developing software enhancements for our existing customers, implementing a large new customer and that two new products having completed their development in earlier periods.

Other expenses increased by $367,000 or 45%. The aforementioned grant of Restricted Share Units and other grants caused stock compensation to increase by $310,000. This was the largest contributor to expense increase in this group.

The net loss decreased by 54% to $1.4 million from $3 million last year. The higher sales revenue and gross profit were the primary factors causing the reduction in the net loss.

Slide 11

On this slide, we're showing our adjusted EBITDA which many people like to use as a proxy for a company's ability to generate cash. In Q4 2023, the company generated positive EBITDA of $162,706 as compared to negative EBITDA in the comparative period of $744,000. In Fiscal 2023, the company's negative EBITDA was $111,000, an improvement of $1,847,000 from the negative EBITDA in 2022 of $1,959,000. More on cash flow a little later in this presentation.

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Looking at our Statement of Financial Position, Cash was $462,000 higher this year-end than last year. Trade accounts receivable continue to be collected promptly. Prepaid expenses which are primarily for marketing programs in 2024.

The company's only debt was the acquisition price payable of $235,000 as at year-end. This be paid in two equal installments on June 2024 and June 2025. Working capital at year-end was $1,522,000 versus $1,429,000 million as at December 31, 2022. The Company believes its cash of $4.9 million and expected future cash receipts are sufficient to finance company operations, and there will be no need to incur additional financing unless a special situation, such as an acquisition or merger opportunity were to arise.

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This page is a summarization of the Company's cash flow in 2023 and 2022.

We first point out the large amount of non-cash expenses recorded in both year and you can read the composition of those values. On the next line, the Company generated from cash from its operating assets and liabilities. In 2023, it increased the cash it had invested in Accounts Receivable and Prepaid expenses and it also increased the balances of or borrowings from its Accounts Payable and Deferred Revenue. In 2023, these four times combined to generated cash of $514,000. Thew cash generated from Operating Activities is the sum of these items. In Fiscal 2023, cash from operating activities was positive $538,000, an improvement from Fiscal 2022 of $1.4 million.

Next we review Investing activities. In Fiscal 2023, investing activities consumed cash of $420,000 primarily consisting of $223,000 being invested into new software functionality and $188,000 in payments to reduce the debt owed on the acquisition of IM Operations.

In 2023, Financing activities generated $338,000. This was due to employees exercising stock options to acquire 711,000 shares of the Company.

In total the Company generated cash flow of $455,000 in Fiscal 2023. This was in sharp contrast to Fiscal 2022 when the Company consumed $1.2 million, an improvement in cash generation of $1.6 million.

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We now move to reviewing the guidance we provided for our Company in 2023. We presented guidance in January 2023 that revenue of $10.1 million would be realized in 2023. That value was exceeded in Fiscal 2023 in which $10,392,000 revenue was recorded.

The Guidance value for the Net Loss for 2023 was $1,297,000. The Company's Net Loss in 2023 was actually $1,367,000 which we would suggest is very close to the 2023 Guidance Value.

Lastly, the Guidance Value for Adjusted EBITDA was a loss of $28,000. The actual result was a loss of $111,000 which, while more than predicted, is a value we believe is reasonably close to the Guidance value. We also point out that cash at the end of 2023 was $4,854,000 which exceeded the 2023 Guidance value for cash of $4,040,000.

Looking ahead to 2014, Guidance is the recording of $15 million to $16 million in revenue, a net loss of $435,000 to $178,000 and Adjusted EBITDA of positive $1,650,000 to $1,900,000, We look forward to reporting on our progress on achieving those values in our first quarter reports for 2024 which will be released in May 2024.

Please refer to our Fiscal 2023 financial statements, management discussion and analysis and Annual Information Form published on SEDAR+ for more information.

This concludes my overview of the financial results. I will now turn the meeting over to Brandon Taylor, President and COO of OneSoft for operational remarks.

Brandon Taylor

Thanks, Paul, and welcome, everyone. I'd like to give everyone a general update on operations.

Fiscal 2023 was another good year for OneSoft and we feel the business is executing very well against our objectives.

Slide 15 – Pipeline miles

- As Dwayne discussed, one of the key metrics we consider to measure progress is the number of pipeline miles under subscription. As a reminder, the USA has about 2.7 million miles of O&G pipelines, of which about 642,000 are piggable – meaning they can accommodate inline inspection tools that collect large numbers of data points that provide clues to the integrity of the pipeline.

  - We now have around 135,000 miles – about 21% of the piggable miles in the USA – under multi-year subscription, wherein PIG data is ingested and managed by our

CIM platform. These piggable miles represent the foundational dataset for the initial functionality we built into CIM and which resulted in the addition of our first customers. We expected this number to be higher, but some of the deals we expected to close last year have been delayed.

- o In 2023, we added another reporting metric – that is, the number of pipeline miles operated by our customers, in aggregate.

    - This figure increased by about 95,000 miles during 2023, to 261,000 at year end. This increase came from the addition of a large customer and through acquisitions of other pipeline operators that our current customers made during 2023. Our customers are now onboarding these new miles into their version of CIM.

    - 261,000 miles represents about 9.7% of the estimated 2.7 million miles of all O&G pipelines in the USA.

    - Consideration of total, rather than just piggable miles is important because the new software modules we are in process of developing and commercializing – including Internal and External corrosion, Risk, Crack and Geohazard Strain – increases our TAM beyond just piggable miles to more segments of the 2.7 million miles of pipeline assets in the U.S.A., and more globally.

    - We also signed a multi-year agreement with a multinational pipeline and energy company with over 70K miles of liquid and gas pipelines situated throughout Canada and the U.S.A of which appropriately 25% is under SaaS subscription.

    - Our average annualized revenue generated per mile over the nine months was consistent at approximately C$136, up significantly from the $100/data mile we started with in 2017.

Slide 16 – Operational Update

I encourage everyone to review the Fiscal 2023 Operational Update section we published in the MD&A for more information and detail, but want to highlight a few of these points in this presentation.

- In October, the Company hosted its first annual user group event at the Microsoft Executive Center in Houston.

    - o Based on customer feedback, Management believes that customers are highly referenceable and that peer-to-peer positive comments in the pipeline integrity community are highly supportive of OneSoft's reputation and business.

- o We believe there is a very good probability that our customer retention will continue to be near 100% unless a OneBridge customer is acquired by another pipeline operator who mandates adoption of its own integrity management processes. As of the date of this report, we know of no customer that intends to stop using our solutions.

- We are optimistic that new functionality modules that integrate with the CIM platform, including Internal Corrosion Management ("ICM"), External Corrosion Management ("ECM"), Crack Management ("CM"), Probabilistic Risk Management ("RM") and Geohazard Strain Management ("GS") will be embraced by current and future customers.

  - o Certain customers have already added ICM to their annual SaaS renewal purchase orders and others have engaged as private preview users of the modules still under development.

  - o Our optimism is bolstered by expressions of interest from customers and from the formalized steering committee initiated at the October 2023 user group event, comprised of senior industry personnel whose roles generally direct integrity management functions and control the associated budgets.

- We are pleased with the continued evolution of internal operational processes that occurred during Fiscal 2023, including those that optimize efficiencies pertaining to sales, marketing, client support, product development, financial and corporate initiatives.

  - o Sales, marketing and customer support materials and processes have been organized to document and share knowledge and improve operational and cost efficiencies. Our sales team has never been busier on new leads.

  - o New marketing software was implemented to capture data that assists our employees to better understand and serve our stakeholders, including metrics regarding website visitors, unique contacts, blog views, email outreach and gated downloads that track visitors who view white paper and informational videos posted on our website.

  - o The Company's sales, development and customer support teams were reorganized in Fiscal 2023 to support additional marketing and sales tactics in Fiscal 2024 using new and existing customer success plans and strategic prospect playbooks.

- The Company attended several key O&G industry tradeshow and exhibition events during Fiscal 2023, including

  - o the Pipeline Pigging and Integrity Management ("PPIM"),

  - o the American Gas Association ("AGA") conference and biannial exhibition

  - o the Pipeline Technology Conference in Berlin, Germany, and

  - o the annual Banff Pipeline Conference

- We participated in industry educational events wherein Company personnel presented white paper research learnings.

- Additionally, OneBridge hosted its first annual User Group Conference, in collaboration with the Microsoft team that focuses on O&G customers.

- OneBridge benefits from being a "managed partner" of Microsoft, which facilitates collaboration with its O&G sales team members to pursue joint sales opportunities of our CIM platform and Microsoft's Azure cloud platform.

- Use of the CIM platform by customers…and revenues … increased essentially in accordance with Management's expectations during Fiscal 2023

  - OneBridge onboarded five additional pipeline operators during Fiscal 2023, who became new CIM users due to direct sales efforts or after being acquired by existing CIM customers.

  - Some customers expanded their use of the CIM platform to include ICM and other new functionality modules, a trend we believe will generate additional revenue in future periods.

- At December year end the Company's development team consisted of 21 employees and a 7-person offshore team as at the end of Fiscal 2023.

  - This team released 6 major CIM platform updates during the year, evolved the ICM, ECM, CM, RM and GS functionality modules, evolved various data science and machine learning projects and assisted customer service and implementation teams to onboard new pipeline operators.

  - In 2023, this team also addressed 220 User Stories, 180 Bugs and 2,500 commitments for customers and upgraded the CIM platform to .NET 6 status.

- The Company's client services team addressed 17 projects during Fiscal 2023, primarily involving 6 clients and 5 core CIM platform implementations, collectively involving 15 divisional operators and more than 700 pipeline systems.

  - Projects included work associated with integrity management and compliance, geographic information system ("GIS") integrations, loading of more than 3,700 ILI assessments and 67 million anomalies into CIM, migrating data from legacy systems into CIM, integrating with various customer software applications and training.

  - One new customer presented an atypical challenge, requiring more than 18,000 pipeline data miles to be ingested into CIM, "going live" with the CIM platform within a 6-month period (which was essentially completed in early 2024), and customizing various integrations between CIM and the customers' internal systems.

- The Company's employee roster continued to increase with 20 new hires completed during the past 20 months and employee retention remaining high.

- o Development staff trained in new Microsoft technologies and systems during Fiscal 2023 and this, together with our new customer additions, resulted in the Company earning the Microsoft Solutions Partner designation for "Digital and App Innovation (Azure)".

- o This provides the Company access to accelerated support and discounted or free internal user rights for a wide swath of Microsoft products.

- The Company's SOC 2 Type 2 re-certification was completed in 2023, by an independent audit performed by a third-party CPA firm. Because our solutions store customer data in the cloud, Management believes it is mandatory to demonstrate its commitment to security by seeking SOC 2 certification and providing assurances to Company stakeholders that our information security measures can withstand the challenging requirements of today's cloud computing environments.

Slide 17 – TAM Estimates

- We updated our TAM estimates in 2023, based on PHMSA's 2022 published data. This information was researched and compiled to assist us to determine our go-forward strategies. It's sorted in priority based on solutions we have released and have in the market where we have greater intel and knowledge of customer adoption.

- For example, we have very good insights into core-CIM and are starting to build on our intelligence around ICM and CM, specifically, ROI variables and cost drivers. We continue to gather similar intelligence on modules further down the list.

- I caution attendees that these TAM figures are not meant to project Company revenues … rather that they represent our estimates of 100% of potential market opportunities for the various SaaS products/modules listed. As with all TAM estimates, this is a point in time estimate and while we have learned much since we published our estimates, we will continue to learn more as we release solutions into each of these areas. Specifically, around applicable mileage and rates.

Slide 18 – AI/ML roadmap slide

- And finally, I want to reiterate our thoughts about AI, as this is of increasing interest to all of our stakeholders.

- o We continue to evolve machine learning capabilities as part of our technology development, and continue to increase our data lake, which is necessary to evolve AI.

- o We believe that OneSoft has one of – if not the largest – collection of industry data that will support AI in the future. This, coupled with the capability of our CIM platform to ingest and align vendor-agnostic data sets, regardless of who collects such data, gives us a unique advantage to prevail in what we believe will be an upcoming AI technology race for the industry at some future point in time.

- o What OneSoft has already done in this regard is pretty unique, and our customers continue to work closely with us to share data that we can use to extract new learnings and best practices with everyone who uses our solutions.

I'd like to thank you for attending today's webinar and I'll now hand it back to Dwayne to wrap up.

Slide 19 Investment Highlights

Dwayne Kushniruk

Thanks, Brandon.

Looking ahead, we believe that OneSoft is very well positioned for continued success, with no boulders on the hill that are evident today.

- We have a strong balance sheet and all the cash we need to execute our business plans as currently envisioned, and no debt other than a small amount that arose from the acquisition we completed in mid 2022.

- We have the leading solution in the market, hallmark Fortune 50, 100 and 500 customers who have strongly validated it, and a strong pipeline of potential new customers who we believe will adopt our solutions in future periods.

I'd like to thank everyone for taking the time to tune in today for our third shareholder webinar and invite anyone with questions to raise them now, or by email at your convenience.

I'll now pass the call back to the operator to start the Q&A session.

Slide 20 Thank you slide

Operator

Operator

I would now like to hand the floor to Sean Peasgood, who will moderate the Q&A session.

Sean Peasgood

Thank you. Thanks, everyone, for submitting questions throughout the call. We'll try to get to all of them. But if we don't have sufficient time, we will get back to you via e-mail.

The first question ….

      [address questions]

To end the webinar

Okay. We are out of time, so we'll answer any remaining questions by email.

I'd like to thank everybody again for submitting questions. If you think of any other questions after the call, or we've left anything unanswered, please feel free to reach out to us, using the contact information on the screen in front of you, and we'll get back to you as soon as we can.

I'll now pass the call back to management for closing remarks.

Dwayne Kushniruk

We're done. Thanks, everyone for taking time to join the call today and following our progress. We look forward to continuing these quarterly calls to share information and updates with you. Have a great rest of your day and week.

I'll now turn this back to the operator.

Operator

Thank you. This concludes OneSoft Solutions Q2 2023 Conference Call. We thank you for joining us.