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Sylogist Ltd.

Third Quarter 2024 Results

Conference Call Transcript

Date: November 7th, 2024

Time: 8:30 AM ET

Speakers:

Jennifer Smith
Capital Markets Communication, LodeRock Advisors Inc.

Bill Wood
President and Chief Executive Officer

Sujeet Kini
Chief Financial Officer

Operator:
Welcome to the Sylogist Limited Third Quarter 2024 Results Conference Call and Webcast.

As a reminder, all participants are in listen-only mode and the conference is being recorded. After the presentation, there will be an opportunity to ask questions. To join the question queue, you may press star, then one on your telephone keypad. Should you need assistance during the conference call, you may signal an Operator by pressing star, then zero.

I would like now to turn the conference over to Jennifer Smith with LodeRock Advisors. Please go ahead.

Jennifer Smith:
Thank you, Alan, and good morning.

Joining me to discuss Sylogist's Q3 Fiscal 2024 Results are Bill Wood, Sylogist's President and Chief Executive Officer, and Sujeet Kini, Chief Financial Officer. This call is being recorded live at 8:30 AM Eastern Time on November 7, 2024.

Our Q3 press release, MD&A, financial statements, and accompanying notes have been issued and are available for download on SEDAR+. Please note that some of the statements made on the call may be forward-looking. Actual events or results may differ materially from those expressed or implied, and Sylogist disclaims any intent or obligation to update or revise any forward-looking statements, whether as a result of new information, future events, or otherwise. The complete Safe Harbour statement is available in both our MD&A and press release, as well as on sylogist.com. We encourage our investors to read it in its entirety.

We are reporting our financial results in accordance with International Financial Reporting Standards, or IFRS. Before, we will also discuss non-GAAP performance measures, which should be reviewed as supplemental. The MD&A contains definitions of each one used in our reporting. All of the dollar figures expressed on this call are in Canadian, unless otherwise noted.

I'll turn it over to Bill first for his opening remarks, then Sujeet will review our Q3 financial performance, after which Bill will conclude scripted remarks, at which time we will open it up for questions. Bill?

Bill Wood:
Thank you, Jen. Good morning, and good afternoon to those of you joining us overseas.

Building on the momentum we generated the first half of 2024, it was a strong Q3 for the business. Our results continue to validate the successful transition to a SaaS-driven enterprise, with growing recurring revenue, an effective and engaged partner network, and an expanding presence across our three strategic markets. In short, we're very pleased with the results we're seeing from the execution of our value creation strategy.

I'd like to add some colour to our Q3 performance. We saw 14% year-over-year bookings growth in the quarter. Especially encouraging was our successful customer upsells and cross-sells that's largely attributable to happy customers using more of what our SaaS platforms now offer. I also want to highlight that nearly 40% of our bookings came from our SylogistEd sector, reflecting the continued acceleration I'd been signalling was on the horizon is now clearly occurring.

The success we're seeing from our targeted competitor displacement strategy, the success of our SaaS offerings relative to the competitive landscape, and strong customer referrals drove our overall win rate even higher, to above 70% in Q3. This impressive win rate is inclusive of both direct and partner web sales motions.

We're now seeing an increasingly balanced pipeline in bookings across all three strategic markets: SylogistMission, Ed, and Gov. At the end of Q3, our bookings pipeline is up 122% year-over-year. These leading indicators bode well for more balanced fast ARR growth across all three sectors as we look out to 2025 and beyond.

One of the pillars of our value creation strategy is a carefully selected, aligned, and enabled partner network to allow us to scale profitably and capture market opportunity quickly. It's been just over a year since we turned earnest attention to building a strong partner community, and we're well ahead of plan in terms of the results we're seeing. As of Q3, partner-attached bookings have grown more than 700% year-over-year, and grew 52% quarter-over-quarter. Partner-attached bookings represented almost 50% of our total bookings this quarter, compared to just 7% in Q3 of 2023.

In our SylogistMission and SylogistGov sectors, so net of SylogistEd, where we don't yet engage partners, partner-attached bookings came in at 77% of total bookings. Again, a very strong result for a KPI that bodes well for future value creation. To help ensure project implementation success, we continue to maintain our expert internal team to both empower the expanding partner community, as well as deliver SylogistMission, Gov, and Ed project services to customers directly.

As our community of high-quality partners becomes more self-sufficient, we see increasing leverage in sales, and even more importantly, broader implementation capacity in the back half of 2025 and beyond. As we execute our channel strategy, one of the outcomes is the accelerating handoff of our direct-to-customer project service revenue. This effectively inhibits our top line revenue growth in the near-term as we settle to a new top line revenue mix that's increasingly comprised of one lucrative SaaS ARR. As I said previously, this is an exciting, purposeful shift, and we're very pleased it's happening at a faster-than-expected clip, as it validates that our partner strategy is working.

To that end, strong execution continues to drive robust growth in our high-margin, high LTV SaaS ARR, as well as our SaaS NRR. Our SaaS ARR increased by 13% year-over-year to just shy of $30 million, and SaaS NRR came in at a healthy 107%.

I'll pause here and let Sujeet take you through our financial performance for the quarter in a little more detail. Sujeet?

Sujeet Kini:
Thank you, Bill, and good morning, good afternoon, everybody.

Before we get into the numbers, I wanted to remind everyone that in Q2 2024, we completed the divestiture of our managed IT services division. In order to facilitate an apples-to-apples comparison of key financial and operating metrics, all comparisons to prior periods have been adjusted to reflect the sale of this division. Additionally, within our Q3 2024 MD&A, we have included for your reference, a four quarter table that quantifies the revenue and Adjusted EBITDA impact of the managed IT services division.

As Bill mentioned, our Q3 results demonstrate the meaningful transformation of Sylogist into a SaaS enterprise while staying focused on profitable growth. Total revenue for the quarter was $16.6 million, led by 15% growth in our SaaS subscription revenue. This growth was partially offset by an anticipated decrease in project services revenue related to our strategic shift to a partner-led delivery model. Overall revenue growth continues to be driven primarily by our SylogistMission segment, that grew at 15% year-over-year, closely followed by our SylogistEd segment, that grew by 10% year-over-year.

Q3's overall comparative year-over-year revenue growth was additionally impacted by significant levels of noncore hardware sales that happened in Q3 2023. I want to remind everyone that we had a large partner-led booking within our Sylogist Solutions business segment in Q3 2023, and this was in the amount of $545,000. Absent the impact of this hardware sale in Q3 2023, year-over-year top line revenue growth would have been approximately in the 6% growth range that is literally our Q3 2024 versus Q3 2023.

Our gross profit margin for Q3 2024 was relatively consistent with recent quarters coming in at 60% for the current quarter.

Total operating expenses for Q3 '24 were also relatively consistent at 34% of revenue, compared with 35% during the same period last year.

G&A expenses decreased by $0.6 million to $2.7 million in Q3 2024 compared with the corresponding period last year, coming in at 16% of revenue as compared to 19% of revenue in Q3 2023. This decrease in G&A is a result of various operational savings in the current quarter.

Sales and marketing expenses for Q3 2024 were $2 million, or 12% of revenue, compared to $1.7 million or 11% of revenue in the same period last year. This increase was due to anticipated strategic investments made in additional sales quota carrying headcount, and increased marketing programmatic spending, including the spend on our SylogistEd user conference. Our sales and marketing FTE headcount increased to 26 people at the end of Q3 2024, up from 22 people at the end of Q3 2023.

Net R&D expenses for Q3 2024 were consistent, at 6% of revenue for Q3 2024, compared to 5% of revenue for Q3 2023. Similarly, gross R&D expenses were consistent, at 14% of revenue for both periods.

Adjusted EBITDA for Q3 2024 was $4.2 million and our Adjusted EBITDA margin came in as expected, at 25.3% in the current quarter, compared to 27.2% in Q3 2023.

At the end of Q3 2024, we had $13 million in cash. This level of cash is in line with the seasonality of our operations and the renewal cycle of a material cohort of our SylogistEd customer community.

On October 31, 2024, we renewed our corporate credit facility. The renewal now includes a revolver for $50 million, with an additional $75 million optional accordion feature. This is in comparison to the prior facility, which is essentially a revolver for a headline amount of $125 million. The new credit facility is committed for a three-year term and is renewable annually thereafter. We purposefully constructed the renewal in this manner as it saves us approximately $200,000 in standby fees annually, while at the same time preserving access to the same borrowing range that we would have had under the prior facility.

Finally, I would also like to point out that, at the end of this quarter, we completed the three-year anniversary of the MissionCRM acquisition and its related earn-out. Including the accruals for the third year earn-out, the total purchase consideration for this acquisition is approximately $7.8 million. We're extremely pleased to say that the overall ARR for MissionCRM at the three-year point, or the three-year mark, is $1.9 million. This compares to $140,000 when we acquired MissionCRM back in October 2021. All of this is a compounded annual growth of approximately 141%, and so this acquisition, we believe, has undoubtedly strengthened our Mission platform and team.

With that, I will hand it back to you, Bill.

Bill Wood:
Thank you, Sujeet.

With our street-leading test platforms now in market, our competitor displacement business strategy gaining traction, and the successful shift to a partner-driven model, we're well-positioned to deliver increasingly profitable growth that's scalable, repeatable, and aligned with long-term value creation.

To the credit of our outstanding team and a customer-first mindset, our investments are yielding the desired results. We've laid the foundation for growing very sticky reoccurring revenue, expanding free cash flow, and enhanced margins that we expect to become even more evident in the back half of 2025. Make no mistake, we envision a day when Sylogist is a materially larger enterprise with operating leverage. Thank you for your continued confidence and support as we push Sylogist to new heights.

With that, let's take some questions.

Operator:
We will now begin the question-and-answer session. To ask a question, you may press star, then one on your touchtone phone. If you're using the speakerphone, please pick up your handset before pressing any keys. To withdraw your question, please press star, then two. We will pause momentarily to assemble our roster.

Our first question comes from Amr Ezzat from Ventum Capital. Please go ahead.

Amr Ezzat:
Good morning, Bill and Sujeet. Just a few questions. The first one, can you update us on the pace of your targeted competitor displacement? I'm wondering, how does it compare to the previous few quarters? Is it holding steady or are you seeing it accelerate?

Bill Wood:
Hi, good morning, Amr. We're actually seeing it accelerate. Now we're expanding the aperture of who those targeted competitors are, as now all three platforms are in-market, so we have cross hairs in the Ed, Gov and Mission segment. Within the Mission segment specifically, we're seeing good strength in that area, continuing strength, and better efficiencies as we work through each and every one, in light of new customers from a given competitor. The momentum is building to be really good and sustainable for many quarters ahead.

Amr Ezzat:
Okay, perfect. On your NRR for the quarter and SylogistEd, we saw a slight dip in NRR quarter-over-quarter. I also expected that you had a bigger sales number in education, especially with the strong bookings last quarter. The MD&A notes some anticipated exits in the vertical that impacted NRR. Can you maybe give us colour on that?

Bill Wood:

For sure. There were some legacy customers deepened their cycle in terms of where they sit with our go-forward SylogistEd strategy, so I would consider that the kind of cycling. That's been strategic attrition, that we have identified several customers within the legacy customer community that really weren't a good fits for the go-forward, and so because of the budgeting cycle, they went off as a cohort in that Q3 timeframe. Nothing really should be derived from that, and any candid churn of picking up more or whatever. It was really more of a strategic churn on that than anything that gives us pause.

Amr Ezzat:

Okay, and is that mostly done, or do you foresee more of that over the coming quarters?

Bill Wood:

We see that mostly done. While there may be the odd here and there, but ultimately, we have a good sight line to that community. We've been engaged with them for several years now and we have a very good handle on the go-forward. We think anything that would happen, churn-wise, would be minor as we think about the go-forward.

Amr Ezzat:

Great. Then, I guess on your partner strategy, I wonder, can you share with us what kind of staff growth rates you'd anticipate as we enter 2025, with an increased implementation capacity both internally and externally? You're sort of going south in the mid-teens. Do you guys foresee 2025 to be materially higher, in terms of staff scopes with that view, or with the new capacity?

Bill Wood:

Sujeet?

Sujeet Kini:

Yes. Good morning, Amr. From a 2025 perspective, one of the comments I'll make is obviously working…

Bill Wood:

Pardon me, Sujeet, is your line muted?

Sujeet Kini:

My apologies. Can everybody hear me now? Everyone can hear me?

Bill Wood:

Yes, yes, loud and clear. We missed all the good parts.

Sujeet Kini:

No, my apologies, I was speaking to a muted mic, when Bill was trying to get my attention.

To answer your question, Amr, I would look at it in terms of maintaining staff growth rates at the current rates. Since your question is more specific to the partner channel, certainly we do see lots of traction happening there. But just from a pure modeling perspective, I would view it as maintaining our SaaS recurring revenue growth in kind of the current range.

Part of that also is in connection with, there is issue with a certain lag between the bookings and revenue, and essentially maintaining the growth rate at its current level allows for that limited lag, if you will. That's how we're thinking about it within our ourselves. Like I said, we're at the moment looking through our pipeline in terms of the impacts on 2025 and how that would translate out into bookings and bookings into revenue. But my answer really would be to continue to maintain it in the range that it is right now.

Amr Ezzat:

Okay. I would have thought we'd see an inflection point given that you've got a slight increase, like implementation capacity. At some point, we see SaaS growth, from 15% to 20-something percentage.

Sujeet Kini:

The answer is yes. There will be an inflection that will happen. I think the more nuance, or more to define this is that is pinpointing exactly where that inflection will happen. That's sort of where I think we need to think through the fact that there is a little bit of a lag between bookings and revenue, and the inflection point has a lag effect compared to the actual booking happening.

Amr Ezzat:

Understood, so it's happening, but it's hard to pinpoint where. That's great.

Then, maybe one last one; any update on SylogistPay that you guys can share with us?

Bill Wood:

Nothing this quarter. We will have some updates in the coming periods, but nothing has materially changed from our belief that SylogistEd continues to be an integral part of our strategy as we monetize and transact, and flowing through the platforms. Ultimately, as we see more of the SylogistGov activity and the transactions that close through that platform, within municipalities, we see strength there as well. But stay tuned.

Amr Ezzat:

Okay, great. Thanks for taking my questions.

Bill Wood:

Thanks, Amr.

Operator:

Our next question comes from Gavin Fairweather of Cormark. Please go ahead.

Gavin Fairweather:

Oh, hey, good morning. Thanks for taking my questions.

Bill Wood:

Hi, Gavin.

Gavin Fairweather:

Maybe just to start out, Bill, on the partner channel; can you refresh us on how many partners you're up to now? I'm also curious how mature that partner cohort is. Are they all kind of reaching the level of bookings and deal generation you would expect, or are some of those still in the process of ramping?

Bill Wood:

We haven't given a specific number, but it is approximately 2x from where we were this time last year. It's both in terms of the coverage we're looking for at this point, I would say, call it a third to a half of those are now getting their legs underneath them and we're moving into the phase where they're not shadowing us but we're shadowing them, in terms of implementations, while the newer partners are more in the former part of going through the certification and training.

It's very pleasing to see the activity, inbound activity worsening from the partner community who are anxious to be able to carry our flag. They have identified us as a leader for the specific solutions that they're looking for, for their customer cohorts that are looking to upgrade. We think the go-forward is very exciting as that community continues to build out. But I would say about half of them are now flipping to the more partner-led versus (inaudible 24:00) shadowing side, which is a great signal.

Gavin Fairweather:

Yes, that's great to hear. Then, the KPIs this year are super impressive in terms of the pipeline and the win rates that you're seeing. It strikes me as though you just need to see more deals. I mean, I'm curious what those metrics are telling you, and in terms of the need to invest in marketing and partner enablement, and potentially a few more bodies and direct sales force.

Bill Wood:

We agree. As we now have the motions reflected, we're not just throwing money into the wind. We do believe that, as we look at enabling the partner community to be able to bring us into deals, as well as us being able to activate deals ourselves, what we see the ability to now get even more efficiency out of our marketing motions, and as well as our customer referrals, are starting to become more meaningful.

As our pod of Gov and Ed customers expand, we were starting from relatively a very small base and ultimately wanted to make sure that would progress in a thoughtful way before we got out over our skis of more people knocking on the door that we could accommodate. But we're now through that gate, and we feel that there is—for the scalability portion, we feel very good about—and now that's really being supplemented by the idea of our pipeline. It is growing with more balance, and really mature year-over-year. We feel good about what growth can occur in the coming quarters, in terms of just bookings.

Gavin Fairweather:

Appreciate the colour. Then just on Gov, I know you've transitioned some customers onto the new SaaS platform and partners are increasingly working with it on deals. Can you just provide a bit of colour on the feedback that you're getting from that existing customer cohort that's moved over and the partners that are increasingly looking to sell it? How is that kind of influencing your view on the growth prospects of that platform going forward?

Bill Wood:
From the customer side, they're delighted. They were able to transition from a standpoint of core business functions, and now empowered with a fully SaaS platform. The prospective customer, the RFPs that are out there, we see almost an open-armed kind of welcome. That's an issue here, because there really has been a void of new technology for the segment that we're aimed at. The RFP activity is very strong. The desire for the Microsoft-based platform is very strong. We're well-positioned, obviously, and uniquely positioned there.

We're quite bullish on the Gov sector in terms of an accelerator for us as we think about the go-forward and as we expand the footprint, not only East to West in Canada, but into North America overall. Partners will be a big part of that; that is 100% partner-driven. They have cohorts of great playing customers and so on that they've been looking for a solution to be able to fit the needs and budgets of customers that really hasn't existed for some time. We're very excited about the Gov sector overall, and we think we're now in a very good position to accelerate in that space.

Gavin Fairweather:
Great, that's it for me. I'll pass the line. Thanks so much.

Operator:
The next question comes from Suthan Sukumar of Stifel Canada. Please go ahead.
Suthan Sukumar:
Good morning, gents. Congrats on a solid print. My first question, I want to just touch on your go-to-market success to-date. It was really good to hear that competitive statements are sustaining well. But just curious, how much of your go-to-market success to-date has been driven from greenfield opportunities, meaning going after that segment of the market that has yet to adopt a meaningful technology?

Bill Wood:

Good morning, Suthan. That segment, just greenfield, is quite small. The technology may be really dated, which is very common in the Ed and Gov, and frankly a little less so on the Mission sector. Look, most everyone is coming off of an existing system of some sort. As I said, it could be maybe in place for decades.

The key, and I'll give you a sense of our displacement strategy, almost 75% of our bookings this quarter were with targeted competitor displacement, so that really gives you a sense of, A, our focus, the efficiency that we're bringing to those motions, the activity that's going on within those cohort communities that now have visibility to us as a viable and exciting alternative. I would say that the motions around our targeted displacement shouldn't be taken as a small pond; it's a very, very large ocean of opportunity. We're just focused on those where we can win at a very high rate and have good efficiency to lead to happy customers.

Suthan Sukumar:

Great, fantastic. My second question, Bill, is really around the Education vertical. Can you talk a little bit about the strength that you're seeing there? I think following last quarter, I may have been incorrectly anticipating a little bit of normalization in the pace of this growth and how that translates to revenue growth, but it looks like these trends are continuing. Can you talk about some of the factors of success underlying the strength there?

Bill Wood:

It is the validation of our lift and shift of the technology that we acquired in Oklahoma. That was specific to Oklahoma, and now successfully lifting and shifting that to North Carolina, lighting up customers, existing as well as new on that platform, and then the permeation of that out to other school districts that have been looking for a solution or are unhappy with their existing. That also has been our springboard as we think about '25 and beyond, to target other states. It really is you've got to earn your stripes in a new state, if you will.

There's covenants related to what the idiosyncrasies are, but from a software standpoint now, we've taken all the hard wiring out that was specific to Oklahoma, and now, any state that we move forward, it was validated in North Carolina, we can handle the nuances of state idiosyncrasies without any change to the software itself, it's more setup related. It now gives us the ability to think about scale differently than we had thought of it before when we were first needing to validate that what we believed was true is now proving out to be so.

Suthan Sukumar:

Excellent. On the Government segment, it's good to hear you're quite bullish on the opportunity there and the way the opportunity extends across North America. Can you speak a little bit about the strategy to protect your existing base of, I guess from a migration standpoint, and just a reminder of—what is the key leverage here to drive organic growth in the Government segment?

Bill Wood:

The moat for protecting existing customers is largely, there's few to no real viable alternatives, if you will, that deep specification, as well as the contemporary posture, security posture of the platform, especially with SylogistGov. We're in a very good place now in terms of our ability to demonstrate to partners that we have not just a solution on the come, but something that now is working in cities and towns that they can spin up on and take to their cohorts of customers, to say, "We have something that you really need to look at."

We also have now created visibility through technology and AI where we can go out, and across North America, track all of the RFPs that are going on within the Gov sector. That gives us a real good sense of the timing of what our pipeline should look like, where we're pointing and where partners are already spending their efforts. We are sharing that platform and that data with them, so that we're making sure that we're aware of opportunities that are on the horizon, and are in the queue to make sure that either we're part of that bidding process, but even more importantly some of them, and many of them, and it's increasing, and we can get out to a sole source provider scenario so they don't go out to or aren't forced to go out to a bid for service. Because we have unique technology, the Microsoft platform built on Business Central, that if their needs and desires are of that ilk, they can come in and look at us as a sole source provider. That really shrinks the sales cycle as well.

We're all systems go on the Gov side at this point, and our partners are really enthused. They're actually adding people to better assess the data that's coming into them, to be able to get their kind of attack mode of go-to-market using our platform ramped up.

Suthan Sukumar:

Okay, great. That's good colour. The last one for me, guys, is just on Microsoft. Can you provide a quick update on how this relationship is evolving, and what was the level of contribution to bookings and pipeline this quarter, and what do you expect in the quarters ahead?

Bill Wood:
I'll take the business side of it. We feel really good about our commitment to the Business Central platform and the Dynamics 365 CRM platform. We get so many advantages vis-à-vis our competitors on the AI front, on the security posture front, on the cloud scalability front. It's what our customers, and what prospective customers are looking for. Microsoft is becoming almost a de facto platform of choice, or a provider of choice within the segments that we serve in the public sector, so that's a great tailwind for us relative to Microsoft as a partner. We're also now having a couple of years of engagement, and through Grant McLarnon's efforts and his deep experience with Microsoft, of managing it from KPMG to Microsoft previously, we really expanded how we work with one another and make sure that we are aligned in our marketing efforts and how they think about their go-to-market, in terms of the public sector, and really showcase us as a partner for that side.

They're horizontally oriented, so they're very reliant on a vertical partner like us to be able to deliver their technology, sell their SaaS subscriptions, but with the vertical additions that we add to their horizontal solution. We feel good about it, really good about it on the acceleration side, and maintaining and containing our R&D spend going forward.

Anything on the financial side you want to add there, Sujeet?

Sujeet Kini:
No, Bill, and Suthan, good morning. I don't believe that—I don't recall us having talked about the financial impacts of the Microsoft relationship, either on the bookings side or on the cost side. But again, I will reiterate, the huge, huge advantage of that relationship is obviously on the R&D side and on the business side. It's that ability to leverage also the relationship, and more often than not, actually get walked into deals because of the Microsoft relationship. But we don't share number-related details in terms of bookings attributed, if you will, to Microsoft, or anything on those lines.

Suthan Sukumar:

Okay. Thank you, Sujeet. Thank you, gents. Great update. Thanks for taking my questions. I'll pass the line.

Operator:

Our next question comes from Daniel Rosenberg of Paradigm Capital. Please go ahead.

Daniel Rosenberg:

Hi. Good morning, Bill and Sujeet. My first question is around the partner channel. I think you mentioned doubling the number of partners since last year; quite a positive to see. I was wondering, going forward, if you think bookings, is it about going deeper with these partners, or do you plan on expanding again? That number was just—yes, doubling is quite significant, so just curious about any details there.

Bill Wood:

Good morning, Daniel. As I said earlier, we have a lot of inbound from Microsoft certified, through Business Central and others that are well-known names across North America. You have firms with IT consulting, digital transformation, and specifically financial practices on the consulting side, and implementation for the public sector. If they have a Microsoft orientation as a partner, and that's really our segment, and many of them have also moved to that platform for the reasons I said before, it's what people want, we do see that partner community expanding. We're not doing, "Hey, we're open to business, anybody want to sign up?" It's not our mode, because we really want to make sure their commitment to the effectiveness of the implementation and the long-term partnership is sincere.

I don't mean to say that they're coming to us with false pretence, but the reality is, is we want to peel back and make sure that they're a sustainable partner. Partners coming in and out is a costly proposition for us as we think about the go-forward. There's a lot of them, Daniel, that are knocking on our door that we're in discussions with now, and we are in a good position to be able to select which ones fit well for us. But also, we're very appreciative of the additive aspect of what they bring to other team, particularly in visibility and girth. Many of them have really mature programs in the public sector and deep customer relationships that are really benefiting us as we start to win more deals and they put us on more deals. It's very positive. We see this building as we go forward. Undoubtedly, I think they will go deeper with us and I think we will also add partners and count, without question.

Daniel Rosenberg:
Okay, thanks for that.

I was also curious about the displacement that you spoke of. I was wondering, what is that balance between the local solution, or smaller players, versus some of the larger incumbents? Is any of that displacement coming from the big guys today, and do you see that changing as you look to the future?

Bill Wood:
Big guys is relative, right, in terms of who that could fit. I will say that our displacement strategy is not one that's focused on down markets. We are very much focused on our ICP and the displacement is very much associated with our ideal customer profile in each of the segments that we're working on. No, we're not seeing any deal deflation in terms of our overall booking size, whatsoever, and we're actually seeing some expansion there.

I would say, in certain markets, we are very much displacing the big guy, if you will, or big guys if you will. Others in the Gov side, we're never going to be a replacement for some of the high-end SAP kind of solutions that really compete for those uber-large cities. That's not our ideal customer profile. I would measure ourselves against the large deals. But, what we are seeing is really good, strong deal value continuing and growing as we think about not only the initial install, but the upsell and cross-sell as they use the platform more and bring on more users and bring on more functionality.

Daniel Rosenberg:
Okay, thanks for that.
Then, my last question is just around M&A. You mentioned the success of Mission and you provided some data around the success that you've had. I was wondering how you guys are thinking about the M&A market today, and the opportunities and challenges when you look at what's out there as it relates to Sylogist?

Bill Wood:
Yes, our appetite has not changed. We continue to make sure that we're not adding burn to ourselves that doesn't make sense, or lift that doesn't make sense. There are a continuing target. We continue to

have both direct outreach on an ongoing basis, as well as through many partners that bring us the possibilities as well.

We have a strong appetite. We continue to look at a credit facility that allows us to matriculate on deals if they make sense. We haven't seen a lot of the deal values come down overall. We still feel that good assets are demanding or getting a lot of activity if they do come to market in a more public process. We continue to look at opportunities that may not be in a process and provide a compelling case as to why, pre-emptively, we would be a good buyer. We're very much on that hunt, Daniel. We just, over the last few quarters, haven't been able to bring across something that we thought made sense for our value creation process.

Daniel Rosenberg:
Thank you. I'll pass the line.

Operator:
Our next question comes from Adam Wilk of Greystone Capital Management. Please go ahead.

Adam Wilk:
Hi, good morning. Thanks for taking my questions.

There's been a lot of focus on the sort of inflection of SaaS revenue growth in the near-term, and I guess over time. But you have previously mentioned the balance of your internal capabilities and resources, making sure that the customers are taken care of, rather than just ploughing forward with as much growth as possible. Do you still feel like that remains the case in terms of where you sit today, or can we just get an update on that, I guess bottleneck, my word, not yours, in terms of where that sits today?

Bill Wood:
Hey, Adam, good morning. Yes, great question, and I think it's somewhat of an adaptation of a prior one. We do see, undoubtedly, SaaS ARR revenue growth increasing. We're just trying to make sure that through mid-2025, we're not overstating what we believe is possible. But our capacity is growing, both in terms of our direct and indirect. The efficacy is sky high, and our ability to have greater implementation capacity with partners now being able to stand on their own two feet and deliver that.

That allows us to get to SaaS ARR more quickly, and through implementations with a high degree of success.

I would say that we are coming out of the bottleneck. We still consider the success to be precious. We're not necessarily just saying, "Come one, come all." But we're now in a mode where we have clear visibility to greater capacity, both on the bookings side and in all three markets, whereas we were kind of a single-piston machine before. I will generally say, in the back half of '25, we see—and I tried to speak to that in my opening comments, that we see strengthening acceleration and leverage as we get into the back half of 2025.

Adam Wilk:
Okay, excellent. Then, just an update on capital allocation priorities would be great. I know a previous caller asked about M&A, and maybe I'll just add, if there was a deal that made sense for you guys, could you just talk about what that might look like? Would it be, are you more focused on the product side, geography, type of customer? Would just love to get your thoughts on that. Thanks.

Bill Wood:
Sure. It really does continue to be consistent with where we were previously. We will look at exercising our NCIB. We still feel there's lots of headroom in share value, and so we do—and the renewal of our NCIB undoubtedly will be occurring, and we'll be exercising that as the Board sees fit. That continues to be a value creation opportunity for our shareholders.

On the M&A side, I'm staying true to my word there where, as our win rate reflects, we are very, very complete on the IP side, but that does not in any way prohibit us from bolt-on, add-on IP to our platform. That's the concept of a platform where we can easily think about complementary, synergistic IP that would apply to a school district, to a municipality or through a charity. We look at it from the standpoint of strategic—I don't want to call them just tuck-ins, it could be material, as well as the idea of, how do we think about customer density as a key priority of M&A? Can we find an entity that maybe has legacy solutions that has a good customer cohort, that has made the decision that they are not going to bridge to a full SaaS platform, or that there's a risk in cash, to do so is going to be too daunting. That is very attractive in terms of our crosshairs of where we could already have existing technology and think about a deal, and a deal structure that would allow an owner of a legacy customer community to work with us to upgrade those customers to our platform.

Also, on the M&A side, it may not always be an acquisition. Because we now have a broadened partner community, they have relationships with many, many solution providers that may not be in the business—be not thinking of scale, but may be in a situation where they and we can derive loyalties, and dollars, from them plugging into our platform and having access to our customer community. That's another area where we see revenue opportunity, not necessarily through acquisition, but through partnering with a synergistic provider. That necessarily has some capital allocation required, but it broadens out how we think about adding value and adding scale.

M&A, as I said in my closing, we see Sylogist as a materially larger enterprise with leverage. That's both organic as well as inorganic, so we're committed to both sides. We have the team, we have the muscle memory, and then we have a really good playbook to be able to think about acquisitions in a positive light.

Adam Wilk:
Excellent, thank you.

Just one follow-up on that, the synergistic partner efforts that you mentioned as a source of revenue. What has to take place for you to turn that on, so to speak?

Bill Wood:
Not a lot. Not a lot has to happen technically, but we're continuing to build out our API suite to make that happen in a way that doesn't require "don't look behind the curtain" but is very much plug and play. Because we are part of that Microsoft Business Central, as well as CRM platform, we get a lot of those plug-ins that happen, technically, kind of out of the box. It's just really making sure that we are first focusing on our own knitting and bringing customers on and making sure that we have really good success in that Gov and Ed sector at a high level, and it's very repeatable. Then, we think about complementary IP. But those discussions, from a strategy standpoint, are already going on. Our Director of Partnerships and our Chief Revenue Officer, Grant McLarnon, are all ears and engaged in conversations around how that could look like going forward.

Adam Wilk:

Okay, excellent. Then last question for me; obviously, now the margin targets are sort of soft guidance that you've given in terms of your level of investment. But as you scale, I think I maybe ask this question every quarter, but as you scale, if there's opportunity to invest more or to throw some dollars at something you're trying to accomplish, whether it's like space displacement, are you comfortable maybe giving up the margin to do that? Are you holding firm on where you guys are? Can you just talk a little bit about the trade-off there?

Bill Wood:

I'll try to be consistent. We undoubtedly still, because it's foundational to our thesis as well as how we're thinking and what the Board is thinking about in terms of building the business, profitable growth is key. We're not looking to drain the piggybank and try to Hail Mary it. But undoubtedly, when we have that kind of efficacy in our close and win rate happening, it certainly supports more and more lean-in, in terms of—and the question's happened a few different ways today on the call here. We're very comfortable with more lean-in, because now, if we can get one plus one equal three to four, because of our sales and marketing motions and the efficacy of them, also the wallet share expansion that we're seeing, the lean-in for us to be able to think about top line will—it's a big part of how we think about it.

Again, I just want to say, our top line right now of growth is just wonky, because we're decelerating a major contributor to what that was in years past on project services. That's purposeful, so I just bring that back as a key theme. We want to get to SaaS ARR. That is happening now at a good clip; we see that expanding going forward, and then we see it expanding with leverage in terms of the sales marketing motions directly, as well as the idea of what our partners can add to our leverage on the sales and marketing side.

Growth continues to be a focus, and we will think about a balanced rule of 40 discipline, but ultimately how that flutters between growth and EBITDA will be something that is generally opportunistic as we think about it. Now's the time. We've put in the investments, we've actually now come to market. There's a lot of excitement. We'd be remiss not to lean in and push on that. But it's going to still be done through that rule of 40 posture and the discipline that we've demonstrated so far.

Adam Wilk:

Understood, got it, thank you. Yes, that's it for me. Thank you very much and keep up the great work.

Operator:

This concludes the…

Bill Wood:

Thanks, Adam.

Operator:

…question-and-answer session. I would like to turn the call back over to Mr. Bill Wood for any closing remarks.

Bill Wood:

Yes, I appreciate the questions, and I really appreciate the continuing support of our investor community. Excited about new dollars coming into the story that maybe we just didn't have enough breadcrumbs of performance to bring them in and bring them to the table. That's an exciting development for us and we're very pleased that we're looking at an investment community that's been really incredibly supportive of our efforts. I guess, coming through a four-year anniversary just a couple of days ago for the coming into the Company, I couldn't be more proud of what Sylogist has been able to accomplish over that time. Not to my credit but to the credit of the team and how much we've really stayed true to our mantra. If we can get our customers at a good point, get our technology at a good point, there's very little to hold us back, and you think about growing our footprint within the three sectors.

That is at a higher state of excitement for me than ever before. I continue to think about our team being the best in the business. I feel like the foundation we've laid at this point positions us well for really good things ahead. I appreciate the support of our investor community and certainly our Board, which is at an all-time—I guess I never felt more supported, but I say that through a Board that has now got really good expertise, really good wisdom, really good perspectives of companies that scale, technology companies, SaaS companies. The commercial side, the financial side. I also want to give credit to our Board and appreciation to our Board.

Our Board punches above its weight class. I think our Management team does the same, and I think Sylogist from the standpoint of our execution is really hitting on our cylinders very well. Thank you for your time today. Thank you for your continued support. Be well.

Operator:

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.