Call Participants

EXECUTIVES

Alim Virani
Chief Financial Officer

Glen Nelson

Sasha Grujicic
Chief Operating Officer
Glen Nelson

Good morning, everyone, and welcome to NowVertical's First Quarter 2023 Earnings Call. My name is Glenn Nelson. I'm the Vice President of Investor Relations. And with me on the call today, I have Sasha Grujicic, Chief Executive Officer; Alim Virani, our Chief Financial Officer; and Andre Garber, our Corporate Development and Legal Affairs. So after the markets closed yesterday, we did issue our Q1 2023 press release with our MD&A, our financial statements and supplemental slides to accompany this call, all of which can now be accessed on our Investor Relations section of our website at ir.nowvertical.com.

For the record, this call is being broadcast live at 9:30 a.m. on May 31, 2023. A replay will be available on our website following the conclusion of the call today. And during the call, we will make statements related to our business that may be considered forward-looking under securities law. These statements reflect our views only as of today and should not be regarded as representative of our views of any subsequent date.

We disclaim any obligation to update these forward-looking statements or the outlook. Before further discussing the material risks and other important factors that could affect our results, please refer to our filings that are on SEDAR. Today, all figures or most figures will be discussed in non-IFRS basis, unless otherwise noted. And after today's call, we will refer to those. You can refer to those nonspecific IFRS measures, which are included in our press release.

During the call today, you may ask questions during the duration of our prepared remarks in the Q&A section, and we will be taking calls or questions after the following prepared remarks. And so with that, I'd like to pass the call over to Sasha...

Sasha Grujicic

Chief Operating Officer

Thanks, Glen, and good morning, everyone. So as Glenn mentioned, my name is Sasha Grujicic. I'm the incoming CEO of NowVertical. I've been with the company for about 18 months now, and I've served as its COO, building up the operating model and helping to organize the business for scale and was most recently promoted to President and overseeing all of our business units.

Since joining the company in December of '21, Daren the outgoing CEO, and I have been working on a succession plan. And specifically looking at transition over the course of our working together and identified today as being that day. And the announcement of our strong Q1 2023 financials was a great opportunity for us to be able to make kind of make this announcement.

So Daren is stepping back from his duty as a CEO as well as stepping down from the Board. Myself and one of Now's co-founders and EVP of Corporate Development and Legal Affairs, Andre Garber will be joining the Board. Elaine Kunda, one of our existing Board members will be taking over as Chairperson of our Board, and Daren will remain as a special adviser to the Board, lending his immense talent on us, to us via the Board on our go-to-market M&A scale-up and will continue to be a constant and long-term ambassador of our story of Now.

Daren is a huge supporter of the entire team that he's put in place here at Now, and he's been a huge supporter of me. I'm truly thankful to him for this opportunity, and I wanted to now take us forward, pardon the Now puns. I can talk a little bit more about Q1.

Since becoming a company for a little more than 2 years ago, we've [Audio Gap] a lot. I mean we've ramped up this -- our operations to build significant scale and positioned Now to compete and work with some of the biggest and most well-known technologies and practices around the world. We've built this business with 12 acquisitions that all-in generated approximately $60 million of revenue in a full year of 2022. And we've done this with a really strong and dedicated team that's internally sourced, pursued and closed these 12 acquisitions.
We are becoming a scaled offering in the market. We're over 600 employees. We cover all time zones, and we're delivering solutions to some of the world's most difficult problems. What we do is we activate data, analytics and AI capabilities within our customers' environments. It's all about deploying the right data, the right technologies and the right processes that's specific to the verticals in which they operate. And we do this by solving the critical bottlenecks to AI deployments, that's data, risk, returns and resources.

The bringing together of our global group with our differentiated offering is what we call vertical intelligence, all the critical ingredients to be able to bring [Audio Gap] to the AI and industry and with our customers. The way in we do this is we sell our VI solutions that are comprised of our people, our own technologies and third-party technologies to do this. Our outcomes are things like predictive pricing models, supply and demand optimization for power generation, first-party customer analytics and propensity analysis, data discovery and governance. All of these things are critical inputs and outputs in the world of AI and industry. We're very focused on this and our group is dedicated to be becoming a global leader in this sector.

So looking at Q1, I mean, there's a ton to be proud of here. On the revenue, we came in a little ahead of what we were targeting, and that's credit to the great balance of customer expansion that we had, net new wins across industrials, commercial services, public sector and consumer goods are verticals in which we target.

Our new revenue operations team is doing tremendous work across the global group to generate cross-sell, upsell, pipeline development, sales trading, all to accelerate commercial integration across our group. We're deeply embedded with our teams and our units to be able to drive enhancements in the way in which that we source and expand revenue and work with new customers.

Jumping quickly over to GP, Strong margin across our global group with increased use of our global delivery model that can now cover all time zones, tons of opportunity for improvement here across the group, but we're really, really excited about the early results that we're seeing from our focus and our work here.

On adjusted EBITDA, and Alim will dive into a little bit more detail on this shortly, but our first quarter generating positive adjusted EBITDA is a huge result for our group. And as we push for further improvements across our units, our operating model, our ultimate target is going to be free cash flows net of all debt service earn-outs and taxes, which is what we're really focused on as a part of our operations.

Right now, adjusted EBITDA is a strong proxy for us, and it's a way in which that we're going to continue to measure our success in the way in which that we acquire and integrate and operate these companies that join our global group. As was the case with any operating company that grows through acquisitions, we're always looking at cost efficiencies across the group to be more efficient in the way in which we work.

In Q1, we identified just under $600,000 of annual savings and our team is comprised of really disciplined operators from companies like Constellation, Brookfield, and we apply similar types of rigor across our global group regardless of what country in which they operate.

I'm going to hand it over to Alim Virani, our CFO, who's going to dive into a little bit more detail, and I'll come back and offer some more commentary on Q1 and our forward-looking plan.

Alim Virani
Chief Financial Officer

Thank you, Sasha. What we provided here is a breakout of the financial performance of our business units and our operating models. Our business units are essentially the acquisitions that we've completed over the last 24 to 30 months. The view over here, as you can see, compares the performance as of March 31, 2023 to March 31, 2022. So you can see the tremendous growth that we've achieved over the last 12 months, which has been fueled by 7 acquisitions. As Sasha pointed out -- pointed to revenue in Q1 2023 hit $13.7 million, which was about a 60% growth rate compared to Q4 2022.

The revenue in 2023 included 3 new acquisitions that we had closed during the quarter. The revenue that these acquisitions contributed to the total was a partial ones as they closed within the quarter. So we
expect to maintain and improve on this specific run rate. With regards to gross margin, as Sasha pointed out to, we had $6.2 million and about -- which is a 45% margin. If you think about specifically what's driving the gross margin, a lot of our businesses are service-centric. Hence, this cost typically relates to utilization and billings of specific resources. And we see an opportunity here to mobilize our global delivery model to really improve on -- or see improvements in the gross margin. And this is something that we'll touch on a little later in the presentation.

With regards to profitability, our business units are performing at approximately 14% EBITDA for Q1, which obviously comparing to Q1 2022, given the nature of these -- the profile of these businesses, this will move around quarter-over-quarter. But the admin and other expenses is an area that we look at very closely for each of the acquired companies. And we're always looking for ways to make operations more efficient as they further integrate within the Now umbrella.

I want to speak a little bit about the operating model. And essentially, this covers a lot of the compliance, tax, legal costs that we incur to operate a public company as well as the infrastructure that we're building to help scale the organization. A lot of a focus within this group is around -- it's commercially oriented as well as we have teams that are dedicated to either development of product or focus specifically on organic growth.

So the idea behind the operating model is that we expect these costs to remain relatively consistent as we continue to scale our operations. We're also looking very closely at our compliance costs that fall into this bucket and are finding ways to minimize those. Q1 was a little high given we had just gone through an auditor transition in Q4 and the costs associated that are a little lumpy in Q1 as well as a couple of other one-off expenses related to financing and whatnot. So we do expect these costs to be trending downwards in coming quarters. So with that, I'll pass it off to Sasha to give an overview of a few Q1 highlights.

Sasha Grujicic
Chief Operating Officer

Thanks, Alim. So lots again to be proud of here in terms of what we've executed as a group in Q1. I'll highlight a couple of these. One is that the new relationship that we have with Toronto Dominion Bank relationship that's led by Andre Garber, who is on the call with us today alongside the relationships that he manages with MVB and EDC are other important lending partners -- is a tremendous result for a company of our kind of age and size. So something that we're tremendously proud of and a credit to Andre and the whole team for leading that.

We've been actively evolving all of our various different technology products, including our data discovery and privacy products, which serve as some of the largest financial companies in the world. These products continue to support those companies to not only understand where their data is and the risks associated with it, but also reduce the cost associated with its storage and help them identify how to mobilize that data to build the models that they're looking to do things like credit risk analysis. It's an incredibly powerful set of technologies that enable AI to work in industry, which is why we're so excited and why we are so excited to acquire those.

Our DataBench product has evolved as well to better integrate with modern [ data stock ] partners. And that enables our people to simply manage data wrangling, near real-time analytics and machine learning operations. This is a critical product for us going forward to help bring our global workforce together to be able to do these advanced solutioning -- this advanced solutioning work for our customers. I mean our public sector goes from strength to strength. We had recorded our highest grossing month with key wins there, tremendous credit to that group for continuing to execute on the plan.

And something that we don't talk enough about is the incredible work that our people operations team being led by Jennifer Carmen has been done around onboarding people to a single HRIS system. And that helps us improve reporting, people management, onboarding, compliance and approvals. So beneath the surface, there's a ton of work that's going on within our global group as we continue to execute against our strategic plan.
Kind of one note of highlight that I wanted to draw a little bit of attention to is part of our strategy to constantly be refining our focus on the work that we do and an opportunity that emerged with a global leader in third-party data-oriented customer analytics and audience. So this strategic sale of an asset that really wasn't core to our first-party strategy came up, and it was something that we took advantage of. And this IP sale revenue sharing agreement and long-term partnership that supports us from a free cash flow perspective, from a relationship that made a ton of sense, especially in being able to retain the Snowflake IP that we acquired as a part of the Affinio transaction, which, by the way, will be showcasing on stage at Snowflake Summit in Vegas in June, so tune into that. It just was a great opportunity with a great partner that made a lot of sense for our business, so we took advantage of it. Let me hand it back to Alim to just offer a little bit more commentary on our financial growth to date.

**Alim Virani**  
*Chief Financial Officer*

Thank you, Sasha. So as you see here, this is an overview of the revenue growth from Q1 2022 to Q1 2023. As you can see, the focus in 2022 has been on inorganic growth. We have seen a lot of opportunities in the market with regards to targets that would be a really good fit within NowVertical. And we did want to capitalize on those opportunities in 2022 and early 2023, which has really driven a lot of this growth.

We continue to see a lot of opportunity in the M&A market; however, a big focus for 2023 will be on organically to own these companies. Part of the acquisition strategy with each of the targets is that they have an opportunity to scale within NowVertical given the customer base that they'll have access to. And this is something that we want to ensure materializes early on within the acquisition, and it's a core focus of our -- the individuals who are incorporated within the operating model.

So in the coming quarters, we will be providing more insight on revenue by vertical, as Sasha gave a quick overview at the beginning of the call and slowly start to bring in annualized organic growth metrics as well.

If we move on to the next slide. Again, here's just an overview of our gross profit margin that's been trending since Q1 2022 as well as our adjusted EBITDA. The adjusted EBITDA is obviously with profitability, it's a core focus for us. We realize that it is obviously a P&L metric. There's things that we back out just to give a sense of the true run rate going forward. But free cash flow to us is extremely important as we understand that, that's going to be required to sustain the business in the long term.

So as much as we focus on profitability and adjusted EBITDA, we're also very much focused on understanding what the cash flow to the business is, net of debt service and tax and when we'll be in a position to redeploy that cash for further investments. So that for us is the medium- to long-term role that we're setting but it's really good to see that our profitability metrics are tracking in the direction, right, that obviously, what we're striving for, and this will be a continued focus in 2023. So with that, I'm going to hand it off back to Sasha.

**Sasha Grujicic**  
*Chief Operating Officer*

Thanks, Alim. So looking forward for the balance of ‘23 in terms of our strategy, it remains unchanged. I mean we continue to look at inorganic growth via acquisitions and then balance that out, as Alim mentioned, in terms of organic growth via revenue and margin enhancement. We have loads of opportunity across the global group to continue to deliver against this plan. Our M&A team actually sources the majority of our deals direct, and our diligence and rigor with our acquisition model that Now targets free cash flows, net of debt, tax, earnouts is a credit to the work in which that we do in bringing on companies into the Now umbrella, but then also as we evaluate future targets.

On the organic side, it really is about integration across our global group, and it's really focusing around operational diligence. It's a core part of our efforts for ‘23. We really are trying to establish strong baselines with our performance as we've demonstrated in Q1. And with our 12 acquisitions to date in terms of the accelerated path to integration, it's really, really important for us to be able to do that in a
commercial model within an operating model that enhances those businesses as soon as possible when they come into our global growth. So we're committed to this strategy, and we're going to be continuing to execute it on a go-forward basis.

In closing, I want to say thank you to the shareholders for the support to date. I and the team will do right by you. Know about it. I want to say thank you to Daren for this opportunity and the commitment and ongoing support as well. I really look forward to working together in this new capacity buddy and fulfill this vision that we started to create and build at scale. Thank you to our customers for your continued trust and helping us to navigate you through this complex world of data, technology, ML and AI, we got you. And thank you to all our people who are working hard every day to build a truly differentiated global group that operates in a very, very exciting set of sectors in time. You're amazing people, and it's an absolute privilege to be able to work with you and represent you. And with that, I will now open it up to questions.
Question and Answer

**Glen Nelson**

Perfect, Sasha. I think if you guys have any questions at all, please enter them into the Q&A, and we will go through them. So we'll just take a quick moment now for people to add questions. Okay. First question is from Rob Goff. Question is, how do you look to make your mark? And I assume that's referring to you, Sasha.

**Sasha Grujicic**  
*Chief Operating Officer*

Okay. Thanks. So Sasha, incoming CEO. I mean my experience very much comes from scaling organizations on a global basis and really looking at the systematic and programmatic way in which that you can do that. And the mark that I aim to leave here right now is to be able to -- in some respects, replicate what we did previously with the scale and the scale that we developed at Aegis Media that was acquired by Dentsu in the mid-2010s. And to be able to do that in this sector, which is incredibly dynamic, incredibly interesting, but doing it and executing that vision with discipline.

And I'd say that my perspective on the business is that you have to be able to balance prudence and operational diligence with trying to grow a global company. And the mark that I'd like to leave is to be able to build a truly scaled offering in one of the most dynamic sectors that operates at the level of diligence and prudence that creates a really, really exciting and inspiring company.

I'll maybe jump to this next question because I assume this is associated with me and maybe even the next one, which is an M&A pipeline question -- so do I have any business involvements outside of Now?

No. Now, it's my full-time job. I'm based here in Toronto. This is what I love. This is what I do. Like I said, we've got a global group and I am being able to do this from my hometown after having left and lived in the U.K. and worked in the U.K., U.S. and then back in Canada, this is my full-time job, and my commitment to Now is 150% if that -- even if that logically doesn't make sense.

On the -- how do you -- so the next question is, how do you see your M&A pipeline? What cadence could you see?

So as Alim mentioned, we're really looking at balancing organic and inorganic growth, excuse me, and the discipline and diligence that we do around acquisitions, again forecasting out ways in which that we can generate free cash flows to the company net of all the obligations associated with that is the level of diligence and prudence that we execute as a part of this strategy. We also have a very specific strategy with regards to acquisitions, 3 key pillars of that. So scale, infill, and innovate.

So scale is around acquiring companies that offer us to -- offer us the ability in which to scale, which you saw with some of the recent acquisitions and the kind of all-time zone delivery model capacities that we've brought on board. Infill is just identifying targets that have gaps, either geographically, technically from a vertical perspective. And then Innovate is just really staying ahead of the market and identifying these dynamic companies. In terms of specific cadence, I mean this stuff is all intended to be opportunistic, accretive financially. It's core to the story. Companies want to join us. We get inbounds all the time, but it's really about identifying ways in which these companies are additive, and it's not a strategy in its own right. It has to be part of a broader vision. So hopefully, that answers your question, Rob, and I appreciate the questions.

**Glen Nelson**

Great. Thank you and our next question comes from Jesus Sanchez Leon, and he has a number of questions. First off, and this one is for Sasha as well. Given your experience and deep understanding of AI, should we expect a pivot in the company's focus or strategy?

**Sasha Grujicic**
Chief Operating Officer

Great question. So not a pivot, no. So we've been executing against, I guess, not just my but our deep understanding of what it means to deploy AI in industry. And the way in which that you need to do that, and again, sorry to get a little bit pointy-head and in the weeds here, but to be able to execute AI in industry or anything specific that's not based on just large language models or image classification, which is largely generalized, is that you need the right data in the right form, mobilized into the right environment to build those models. So the assets and the teams and the resources that we've acquired thus far enable those things to happen in the industry.

So you need to be able to execute a data discovery process to figure out what data you have, what that data indicates from within itself to be able to kind of articulate that into a baseline model to determine, hey, like how is the company operating, what are some of the opportunities for improvement and then ultimately deploying those into kind of machine learning or AI-based models that are more specific to those specific verticals.

So the strategy is very much focused on that. We've acquired companies and have built a global group in order to enable AI and industry to happen. What we're not going to be doing is chasing these general purpose AI types of technologies and solutions that have limited utility when you bring them into enterprise or governments. Those -- the utility of those technologies are largely limited, primarily because companies don't operate and aren't built upon just large general language databases. They're built on their own data, their own teams, their own functions, their own processes, their own suppliers, et cetera.

So not a pivot, and sorry for getting too much into the weeds there, but all of those things enable us to be able to execute against AI and industry in a truly unique way. And I'll leave you, I guess, with one tiny point on this. We also cooperate and compete with some of the world's largest technologies and consultant providers. And we often win in those instances because we have a very specific technical and differentiated view in terms of how you generate meaningful solutions like the ones I mentioned earlier around like predictive pricing or dynamic power generation optimization.

Glen Nelson

Fantastic. Thank you, Sasha. So a follow-on question there is given the -- just really given the current macro environment, should we expect Now to focus on profitability instead of growth from -- so that would be promoting organic growth over M&A?

Sasha Grujicic

Chief Operating Officer

I don't think so. I think that the -- I think the way -- it's both, really. I think the way in which that we continue to operate and evaluate our growth strategy is across both accretive acquisitions, but then also just being disciplined operators in our business and knowing what we have and making sure that we're leveraging those internal capacities to maximal outputs.

As Alim was mentioning, the GP profile of the business is strong, there's opportunities for improvement there. We've got all time zone coverage with highly efficient, highly capable, highly technical teams and resources around the world to be able to support this particular work at very, very efficient cost. And so it's actually both because this foundation that we've built that Daren has been so critical in helping us to establish enables these new companies to come into this operating model with immediate scale, immediate capabilities.

And the macro environment, while tough, I think, doesn't necessarily depress the interest that we have with our customers in wanting to transform their business. And because we're so disciplined in the way in which we deploy the work that we do, they generate positive returns. So that's what everybody is looking for. If you can pull cost out of cost centers by the data discovery and governance work that we do, awesome. If you can generate positive returns against customer data set normalization, so you can model out better outcomes for your kind of product or marketing initiatives, awesome. Those things, we don't turn -- we don't -- people don't turn away from those opportunities in this new capacity. And thank you, by the way, for the congratulations on my new role.
Glen Nelson
Okay. And so lastly, how much of the 425% increase in revenue is due to acquisitions made since Q1 2022?

Alim Virani
Chief Financial Officer

I can jump in here. If you think about the activity since Q1 2022, so there were 7 acquisitions. It is a mix of organic and inorganic growth, obviously, but the bulk of it is inorganic growth, so related to the acquisition. So this is something that will break out in more clarity in coming quarters.

Glen Nelson

Right. So I would like to give people an opportunity again to input any questions. If there aren't any further, then we will -- I'll pass it back to Sasha to give us a closing.

Sasha Grujicic
Chief Operating Officer

Cool. Well, thanks very much, everybody, for joining us this morning. We're super excited about the path forward. And I just also wanted to thank Daren one last time for this opportunity and his continued support of me and the whole Now team. As mentioned, this was a planned transition that we've been working on. And I'm super excited and super committed to deliver for everybody along with the teams that are here as well. So any questions or on chat, feel free to reach out to myself and Glen and the whole team, we're here...

Glen Nelson

Thank you.

Sasha Grujicic
Chief Operating Officer

Thanks, everyone. Have a great rest of your day.