Quorum Information Technologies, Inc.

Q2 2021 Results Conference Call

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## CORPORATE PARTICIPANTS

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

**Marilyn Brown,** *Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**David,** *Private Investor*

**Gabriel Leung,** *Beacon Securities*

**Maxim Barron,** *Cormark Securities*

## PRESENTATION

**Operator**

Welcome to the Quorum Information Technologies, Inc. Q2 2021 Results Conference Call.

At this time, all participants are in listen-only mode.

I will now like to hand the conference over to your speaker today, Maury Marks. Thank you. Please go ahead.

**Maury Marks**

Thank you, Theresa. Good morning, and thank you for attending Quorum Information Technologies' Q2 2021 Results Conference Call and Concurrent Webcast. Quorum offers modern, innovative and robust technology solutions and services to traditional and electric vehicle dealerships, and original equipment manufacturers or OEMs across North America.

Today, we will provide you with a financial and operational overview of our Q2 2021 results. After our presentation, we will open the floor to your questions.

Marilyn will now begin with our forward-looking information advisory and a financial overview of the quarter. Marilyn, please go ahead.

**Marilyn Brown**

Thank you, Maury, and good day, everybody. Thank you for being here with us today.

I would like to remind everyone that certain statements in this presentation and on our call are forward-looking in nature. These include statements involving known and unknown risks, such as the continued



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risks related to COVID-19, uncertain risks, and other factors outside of management's control that could cause actual results to differ materially from those expressed in the forward-looking statements. Quorum does not assume any responsibility for the accuracy and completeness of these forward-looking statements and does not undertake any obligations to publicly revise the forward-looking statements to reflect subsequent events or circumstances. For additional information on possible risks, including risks related to COVID-19, please refer to our annual MD&A dated December 31, 2020, on the SEDAR website.

We are happy to report that our revenue figures were again the highest in Quorum's history. Total revenue for Q2 2021 was $9.1 million as compared to $8.6 million in Q1 2021, delivering a 6% increase over Q1 2021 and a 53% increase over Q2 2020. Our SaaS revenues were also a record setter, reflecting the highest organic growth rate in our history. SaaS revenue totaled $6.4 million, an increase of 5% from $6.1 million in Q1 2021, and reflecting an annualized growth rate of 20%.

Q2 2021 SaaS revenue was also an increase of 51% from $4.3 million in Q2 2020. BDC total revenue was $2.4 million, an increase of 9% from $2.2 million in Q1's percent. Q2 is also an increase of 55% from $1.5 million in Q2. This made up 97% of our Q2 revenue, with SaaS representing 71% and BDC 26% of total revenue.

Our gross margin percentage remained consistent at 44%, totaling $4 million in Q2 2021 compared to $3.8 million in Q1 2021. SaaS growth margin was 65% coming in at $4.2 million in Q2 2021, compared to 65% and $4 million in Q1 2021. BDC gross margin increased to 13% or $300,000 in Q2 2021, compared to 10% or $215,000 in Q1 2021. The 30% increase in our BDC gross margin percentage is due to the successful execution of our BDC gross margin improvement opportunities.

Additional Q2 2021 financial highlights include the following, Adjusted EBITDA was $1.1 million, an increase of 4% as compared to $1.06 million in Q2 2020. Adjusted cash income was $0.45 million, a decrease of 31% as compared to $0.65 million in Q2 2020.

On April 26, Quorum made a prepayment of $1.5 million in principal and interest on its BDC capital loan facility. As of March 31, 2021, we reported a cash balance of $9.2 million, so we were in a strong financial position to start the process of paying down the BDC capital facility. We have also extended other credit facilities to provide Quorum with lower interest debt.

At June 30, 2021, Quorum had a cash balance of $7.2 million, net working capital of $7.8 million, and a current ratio of 3. Long-term debt was $8.7 million, which included the $7.3 million secured portion drawn on our $15 million BDC capital debt financing facility, and the $1.4 million unsecured with the Atlantic Canada Opportunities Agency.

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

**Maury Marks**

Thank you, Marilyn.

As I had mentioned on our last earnings call, we began to see very positive SaaS revenue growth momentum in March, which in fact, continued through Q2. The result is at Q2, we posted the highest quarter-over-quarter organic SaaS revenue growth in the Company's history at 5%, which represents annualized growth of 20%.

BDC growth continued in Q2 as we posted 9% quarter-over-quarter growth, which represents annualized growth of 36%. Based on our Q2 2021 results, our reoccurring annual revenue run rates are $25.7 million



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of SaaS revenue and $9.5 million of BDC revenue. The combined reoccurring annual revenue run rate is now $35.3 million, which is 97% of our total revenue.

Our revenue growth success in the quarter is the result of four key factors. Number one, during the quarter, we increased our dealership customer count from 1,010 to 1,025 rooftops, with 898 of those in Canada, and 127 in the U.S. This represents over 27% market penetration in Canada and 0.6% penetration in the U.S. We have a lot of total available market, or TAM, to continue to sell to.

Number two, our monthly reoccurring revenue per customer, or MRRPU, expanded to $2091 in Q2 2021, from $2,013 in Q1 2021. We continue to focus on cross selling our product suite to our existing customer base. The cross selling opportunity that we have is $5,000 MRRPU, which is 2.4 times our existing MRRPU of $2,091.

Number three, our consumer direct products saw increased market adoption in the quarter. As a reminder, our consumer direct products include both MyDeal, our digital retailing solution that allows a consumer to buy a vehicle online, and PowerLane, our service lane vehicle inspection tool that provides a touchless, digital service experience.

Number four, in partnership with AutoCanada during the quarter, we expanded our BDC services to include all of AutoCanada's collision centers. Michael Rawluk, AutoCanada's President, stated that "DealerMine has been instrumental in not only capturing more incoming leads, but also driving more bookings through outbound marketing." Quorum now sells our BDC services to other dealerships collision centers in both Canada and the US.

**Next I'd like to talk about our product and operations related developments.**

Quorum's approach is to provide a frictionless workflow for dealerships combined with a digital retailing experience for consumers. This allows dealership to provide a modernized consumer experience that also beautifully integrates to the in-dealership process.

Quorum continues to innovate to provide solutions that both modernize dealerships, as well as grow Quorum's future revenues. We have a number of product and operations led innovations that should help meet both of these objectives. Let me discuss these opportunities.

Number one, MyDeal. In Q2, we saw strong adoption of the MyDeal digital retailing solution through Quorum sales channels. Additionally, we were excited to announce a partnership with EDealer in Q2. EDealer is the largest provider of franchise dealer websites, and under the partnership, EDealer will be selling the MyDeal and Autovance Desk products to their dealership customers. This provides a new sales channel for MyDeal and Desk that should start to generate sales in Q4 of this year.

Number two, PowerLane. After launching PowerLane late in 2020, we are starting to see some impressive metrics from our PowerLane dealership customers. For those dealerships that fully embraced the PowerLane process, they've seen a 25% plus increase in hours per work order, which can increase revenue per work order by $50 to $100 or more. As always, the value and adoption of our products is determined by the ROI we generate for the dealerships.

Number three, QCloud. In partnership with Microsoft, we are now ready to deploy XSellerator DMS on the Microsoft Azure cloud platform under the brand name QCloud. We are actively marketing and selling QCloud to existing and prospective XSellerator DMS customers. When we sell QCloud deployed on Azure, we replace an on-premise server sale that generates one-time revenue with a QCloud sale that generates added SaaS revenue. With a QCloud sale, we will see incrementally higher Microsoft licensing costs. However, overall SaaS gross margins should increase as compared to an on-premise service sale.



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Number four, Azure Synapse. Once again, in partnership with Microsoft, we are consolidating our dealerships data across all our products into a data lake, utilizing Microsoft Azure Synapse. This data can provide many insights to help our dealerships make better data-driven decisions and for Quorum to develop future machine learning applications for our dealerships.

An exciting short-term opportunity is that by leveraging this data, we should be able to access a new licensing model with Microsoft to provide a more affordable Q Analytics pricing model to everyone in the dealership. Today, Q Analytics is only sold to dealership managers, which represents 10% to 15% of all XSellerator DMS users.

Number five, mobile sales CRM. Our development teams are ready to pilot a new mobile sales CRM application for the DealerMine's sales CRM solution. This is exciting news because it dramatically increases the saleability of our DealerMine's sales CRM solution. Later in 2021, we should be ready to actively sell the solution to our existing DealerMine customers and new prospects, regardless of the DMS that they utilize.

Currently, the DealerMine sales CRM penetration across the DealerMine customer base is approximately 15%. Additionally, we have integrated Autovance Desk menu and MyDeal into the DealerMine sales CRM solution, and consequently, we should see increased cross sales opportunities of Autovance products to DealerMine customers.

Quorum's commitment to a complete product suite that provides a digital retail experience for consumers, and with our commitment to continued innovation and focus on helping dealerships make more money, is why O'Regan selected Quorum in Q2 as their long-term partner for their primary sales, service and DMS software.

Susan Johnson, the VP, Marketing and Communications at the O'Regan's Automotive Group, has stated that Quorum's product suite and corporate vision have helped the O'Regan's Automotive Group grow its revenue over the last four years, and that they look forward to working even closer with Quorum and utilizing our solutions to streamline and enhance their operations across all their locations.

The Company has worked hard to provide a product and services strategy that would resonate with the groups like O'Regan's. We would not have been able to achieve this without our amazing employees that are the driving force behind our strong results and their continued innovation, which ensures Quorum has a product suite and services offering prepared for the future of automotive.

We are looking forward to continued strong growth in both SaaS and BDC revenue through 2021 as auto dealerships continue to modernize their operations.

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

**Operator**

Your first question comes from David Echenberg as a Private Investor.

**David**

Hi, Maury. Thanks for showing up.

**Maury Marks**

Hi, David. Thanks for joining us.



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**David**

I have prepared three questions. First of all, congrats on the quarter actually, and congrats on more than fully recovering from Q2 of last year, which was actually a good achievement, and also achieving organic growth and sequential growth on top of that. So, congratulations on that.

**Maury Marks**

Thank you.

**David**

I have prepared three questions. The first question has to do with the most recent press release you issued concerning the BDC expansion. Second question has to do with inflation, and the third question has to do with the rooftop metric.

Let's move to the first one. My question is, you stated that you expanded the BDC services so that it sits with collision repair centers. I was wondering if you could quantify in terms of incremental revenues and EBITDA, if possible, what does it mean like 12 to 24 months forward?

**Maury Marks**

Okay. Well, David, we don't provide future financial forecasts or forward-looking forecasts, but let me just try and put this in context for you.

We do provide BDC services to, it has traditionally been mechanical repair shops. Every franchise dealership will have one of those, and typically, they can range in size. They're often measured based on sort of number of technicians, but there's all kinds of ways to measure them. We see in the Canadian marketplace, the U.S. marketplace is a little bit different, but in the Canadian marketplace, we see dealerships with anywhere from four technicians, and they can get as high as 40 or 40 plus technicians for very large shops.

Probably, the average out there is somewhere around the 16 mark, I'm shooting from the hip a little bit on that one. I don't have any sort of data right in front of me, but just based on my experience. Now, not all dealerships—so like you've seen traditionally out of us is our BDC services being applied or supplied through those particular dealerships, as I described in terms of their number of technicians.

What we're doing with collision centers is not every dealership has a collision center. Once again, I'm going to estimate for you. I would say there's probably about 15% to 20% of the dealerships have a collision center. We've traditionally not provided our BBC services to those collision centers in partnership with AutoCanada. That's where we worked on this project, and we're excited to now offer the services. Hence, the services only really apply to those dealerships that will have a collision center.

A lot of those collision centers are typically larger. They're usually in and about the same size as the average size that I talked about for mechanical repair facilities that, like I said, every single dealership has out there. We view this as an opportunity that's likely 15% to 20% the size of the existing sort of BDC services that we offer.

I'll just add one more comment in the mix and that is that we continue to look for other ways that we can expand our BDC services. We have worked with AutoCanada in the past on things like electronic message cues, and elements like that, and so you likely will see future announcements from us on other ways that we're expanding our BDC services.



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**David**

Thanks, Maury. That's helpful. Also, just related to that, when you add a collision center that's associated with a dealership, does that collision center count as one more rooftop, or is it just included in the rooftop that the dealership was representing?

**Maury Marks**

A very good question. Typically, we would add a rooftop count if we were providing our software to a franchise store and they had a significant separate collision center. With the AutoCanada BDC services that we supplied, we did not add in any rooftops related to that. Normally, we would. In this case, we didn't.

**David**

Okay, that's interesting. It's actually part of your cross-selling strategy.

**Maury Marks**

Well, what we tend to do with BDC services is we're not adding rooftop counts based on BDC services into the mix. Our rooftop count is really more related to our SaaS revenue line.

**David**

Okay, so actually, since we're speaking about rooftop count, I'll skip right to my third question. I assume you are sitting on a pretty nice like 1,000 or so, 1,025 or something rooftop count, and that's a pretty respectable number, and it doesn't seem to go anywhere. In speaking of the downside, it's pretty steady and it seems to have a little trend rate here. Congratulations on that.

My question is, how is it achievable for you to expand or compound at a very high clip the rooftop count? Is it something achievable to say, well, in a certain amount of time, we could achieve 200 more rooftop counts? Or, how would that be organically achievable?

Because I know that you have made some acquisitions in the past that have moved the rooftop count much higher, but is that something that can be done organically? Like how possible is it to, I don't know, displace an incumbent software provider in a large number of dealerships? I'd just like to know your comments on this question.

**Maury Marks**

Yes, sure. No, I've got a number of comments on this one. What we have to do is we're going to split—keep in mind, we have a product suite of 11 different sort of core products. We have more than that in the suite, but there's 11 core products, and we have four different partner products within the suite.

When we talk about growth of rooftops and organic growth of rooftops, what we need to do is we need to split the conversation in between some of the core pieces or core brands that we sell to the marketplace. I mean, obviously, everybody in the call, especially if you've been an investor with us for a period of time, you understand the XSellerator DMS. That's one of our core brands that we sell.

In that particular case, we are displacing an incumbent in the dealership, and there's a lot of change management that we go through to switch a dealership over. A lot of times, we're restricted by the amount of staff that we have that can sort of help the dealerships manage through that change. Normally



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speaking, it takes us, I'm just going to talk about our onsite effort, normally speaking, it takes us over a two week period. We have approximately, depending on the size of the dealership, six people on site for that dealership over a two week period to get them switched over.

Contrast that to DealerMine, our DealerMine brand in the marketplace, which is a product that's focused on BDCs and helping dealership drive more revenue specifically into their service lanes, but also into their collision center. That particular product (technical difficulty) doing a remote install. We can be doing a remote install, and that install can be anywhere from sort of two to four days of time, whether it be, like I said, onsite, or we dedicate the resources and they work virtually with the dealership.

Our last brand that we have, our last sort of core brand that we have is our Autovance brand. Our Autovance brand is the key product. Within it is Autovance Desk, but now we've got new products that we're introducing, one of which, of course, is MyDeal. That particular brand, and for installing Autovance Desk, we can do that remotely, and we're typically doing it through half a day of virtual session. I'm being conservative there. We can typically do it quicker than that.

My reason for talking to you through that is different brands are more scalable for us as an organization than other brands. Obviously, if there's less work required to take a dealership wise, then we can scale those particular brands quicker than other ones. We'll just (multiple speakers) and see if I've answered your question.

**David**

Well, yes, that's really helpful. Also, I had a sub question with this. I've not noticed, my computer's battery ran out, but does your MD&A discuss your customer acquisition cost and lifetime customer value?

**Maury Marks**

We do not discuss that in our MD&A. I will take that under advisement as something that would be a good thing for us to add in the future for MD&A.

**David**

Thanks then. That will be interesting, and just the last question for me. Everybody's speaking about inflation and, obviously, you work in a high-tech, or growing tech business, you know, IT people are really sought after these days and I guess salaries must be going up for finding quality people. How do you view this kind of inflationary situation in regards to your business?

Actually my question is, I'm trying to figure out whether you have enough pricing power to come through back potential inflationary pressure from workforce rising costs to protect your operating margin. That's what I'm wondering. I don't know if my question was clear enough.

**Maury Marks**

Yes. Like every tech company, right, we're conscious of the fact that development team people, and other teams as well, are in high demand out there. We're also conscious of the fact that the world has gone a lot more global when it comes to searching for these people.

Traditionally, we've had our development centers, and all of our staff, in sort of smaller metro centers going across Canada, but because things went global, it's changed the dynamic out there. We're constantly working with our teams and making sure that we're competitive in the marketplace. That's sort of comment number one.



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Comment number two is we do have the ability across our whole product suite to do price increases with our customers. The way we can do price increases varies a little bit based on brand and we have traditionally not, if you go back in time, we have not done price increases across all of our brands. We are, of course, changing that due to the inflationary demands that you talked about, and so we're broadening our pricing strategy as well.

**David**

Okay. Well, that's nice to see that you have some certain pricing power, and that does not seem to affect your churn rate. Congratulations on that and thank you very much for having answered my question. It really helps me better understand the business. Thanks.

**Maury Marks**

You bet. Thanks for the questions.

**Operator**

Your next question comes from Gabriel Leung with Beacon Securities.

**Gabriel Leung**

Hi there. Thanks for taking my questions. Maury, a bunch of the dealers that we've spoken to over the course of the last couple of months, some of them over the past year, the biggest issue right now is really just trying to get new and used cars on the lot.

I'm curious the sort of inventory shortages helping to shorten the decision cycles for guys that are considering your, I guess specifically, your services and (?) products, BDC, DealerMine, that kind of stuff.

**Maury Marks**

Well, it probably impacts our sales related products a bit more, Gabe, right, because just from the inventory perspective, I'm not selling as many cars because I don't have the inventory, but the cars that I am selling, I'm selling at a higher gross and inventory, and really starting to sell out of my order bank. We're seeing that across different dealerships.

Another trend in the market is, of course, as a consumer, if you are going to buy a vehicle, a number of consumers out there would like to actually buy that vehicle online, or at least do a big portion of the transaction online, as opposed to coming into the dealership. I'll get back to the service side of the business in a second and make sure I'm answering all aspects of your question.

In the sales side of our business, the focus for us, especially with Autovance Desk and our Autovance Menu products is really a focus around ensuring that you're maximizing grosses from a dealership's point of view. I know as a consumer of vehicles, you don't want to hear that, but from a dealership's perspective, that is their focus, and those Autovance Desk and Menu are both selling tools.

We've got lots of data that shows that they, when you are more transparent with customers and you do a good job of presenting through a proper sales tool like Autovance Desk and Menu, that consumers will actually buy more from that particular dealership. As a consequence, the dealership will make higher grosses.



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Hence, what we tend to see when it comes to Autovance Desk is, as long as we position those products right in the market place, despite the vehicle inventory shortages, they remain in-demand products for us. Then on the digital retailing, because you need to, as a dealership, these days, have some kind of digital retailing solution for your customers that, hopefully, is fully integrated to your in-house process. We've got—that drives with demand for us for MyDeal.

Switching then topics over on the service side of the business, service and parts, the fixed operations side of the business, then what dealerships tend to do is place more emphasis, if they're not selling as much, they tend to place more emphasis on the fixed operations side because that business tends to be a really steady business for dealerships. If you can grow that business, i.e., a BDC can help you drive more customers into your service department, so if you can grow that business or increase your margins in that business, i.e. using something like PowerLane, which once again, provides a more transparent experience for the customer, but it also sells more at the same time, then that drives demand for those particular products. I hope I answered your question.

**Gabriel Leung**

No, that was really helpful. I appreciate that. Then just moving over to the operating expenses side of things, it was up a little bit quarter-over-quarter. I guess part of that was just less government subsidies. You also mentioned the MD&A that you did make additional investments in the business. I'm curious, over the remainder of this calendar year, whether we expect directionally for those investments to continue to accelerate?

**Maury Marks**

Yes. I mean, as you would know all too well, from a technology company perspective, you're always making judgments as to whether you make investments that are going to help you grow it within a quarter, but more importantly, grow consistently quarter-over-quarter.

If we think we can make investments that will help us with our, especially SaaS growth rate, but also with our BDC growth rate, we're quite interested in those investments. I can't say we'll not make investments in the future. If we think it's going to help us grow, sure we will.

Within the quarter, within Q2, I mean, some of the investments that we made is we added a new marketing director. We added a new support director. We added a new BDC director with tons of experience that can really help us, not only grow the BDC from a consistency perspective, but also help us with some margin expansion. We put in place a continuous improvement team.

We made investments on the product side of things, things like we incurred higher Microsoft costs in some of the different product pieces that we were putting in place that I talked about before, that will lead to future revenue opportunities for the organization.

In actual fact, if I were to back out the investments that we made within the quarter, we would have went up on EBITDA. Our EBITDA would have increased quarter-over-quarter compared to Q1. We felt these were important investments. We felt they would help us with growth, and we're happy to report, we had a fantastic quarter when it came to growth.

**Gabriel Leung**

Yes. Got you. One last thing for me, can you just talk about how the, I guess it'd be the $700,000 additional from IRAP, how that's going to flow through to the PNL in a couple of quarters.



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**Maury Marks**

In IRAP's case, IRAP is a grant for us and we're delighted to have this deal with our government partners. From a PNL perspective, they cover a percentage of our staff's salaries that would work on the project or new staff that we would add to that particular project. We do have some planned additions to help us with these particular projects, but we think that it will not be a very large add to our financial statements from an additional cost, even though we're adding resources to the team.

Then to my point about growth, we think with us applying machine learning across this incredible set of data that we have now across all of our dealership customers, we believe we have lots of future product opportunities that will come out of this, that will help us collectively with continued SaaS growth in our business.

**Gabriel Leung**

Got you. Appreciate that. Thanks for the feedback and congrats on the quarter.

**Maury Marks**

Yes. Thanks for the questions. Thanks, Gabe.

**Operator**

Your next question comes from Maxim Barron with Cormark Securities.

**Maxim Barron**

Hi, guys. Thanks for taking my question. I only have one question remaining, and my question relates to the migration on QCloud. I was just wondering, do you have any specific targets for the number of migrations you want to do per quarter and just any target that you have in that sense?

**Maury Marks**

I'm not going to share our internal targets, but I'll give you some context here. From the perspective of what we are looking for is we're looking for 100% adoption over time across our dealerships on this based on the brand name that we use. That means that we're likely migrating 10,000 plus users across.

Now, it's not that we're not going to offer our other model with an on-premise server if dealerships want that. There are a number of dealerships that really like that model and we'll have that available, so we might not get to 100% adoption. Yes, we look at it as it's probably about a three to four-year project for ourselves.

We think we'll get a lot of demand initially, and then that demand a little slow maybe after the first year, but that, it's a three to four years' sort of complete conversion of our dealerships.

Now we might be surprised. We might find even more demand out of our stores. We might be able to move our dealerships across quicker. We'll, obviously, be looking for creative ways to do that, but those are just sort of some high-level goal posts.

**Maxim Barron**



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Sure. Yes, that's some good color. If I can just follow up on that, how do you anticipate it might change the economics for the Company looking forward?

**Maury Marks**

I mentioned in the script that I talked about this. We won't have one-time revenue, so that's related to these, but what we will do is we will have an additional price per user, and so we'll have additional SaaS revenue.

Then when we sell an on-premise server in the past, we've always had a Microsoft licensing component that hits our cost of goods sold. That won't change. we'll still have a Microsoft licensing component. It will go up a little bit, but the amount that we're able to charge for QCloud should drive gross margin expansion for us as a company.

**Maxim Barron**

Great. Thanks. That helps a lot.

**Maury Marks**

You bet.

**Operator**

There are no further questions. I'll turn the call back to Maury.

**Maury Marks**

All right. Well, thank you, Operator. Thank you, everybody on the call. Great questions today. We look forward to providing our next updates as our Q3 2021 results come out. Thanks again for your time today.

**Operator**

This concludes today's conference call. Thank you for participating. You may now disconnect.



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