



# 2nd Quarter Fiscal 2023 Report

Committed to a Connected World



# Management's Discussion and Analysis of Financial Condition and Results of Operations

This Management Discussion and Analysis (MD&A) dated November 30, 2022, comments on our operations, financial performance and financial condition as at and for the three and six-month periods ended October 31, 2022 and October 31, 2021 and should be read in conjunction with the unaudited condensed interim consolidated financial statements of Tecsys Inc. ("Tecsys", the "Company") and Notes thereto, which are included in this document, and the annual report for the year ended April 30, 2022. The Company's second quarter of fiscal year 2023 ended on October 31, 2022.

The Company prepares its unaudited condensed interim consolidated financial statements in accordance with International Financial Reporting Standards ("IFRS"). The unaudited condensed interim consolidated financial statements are prepared by and are the responsibility of the Company's Management.

This document and the unaudited condensed interim consolidated financial statements are expressed in Canadian dollars unless otherwise indicated. The functional currency of the Company and its subsidiaries is the Canadian dollar with the exception of its Danish subsidiaries whose functional currency is the Danish kroner.

The unaudited condensed interim consolidated financial statements were authorized for issue by the Board of Directors on November 30, 2022. Additional information about Tecsys Inc., including copies of the continuous disclosure materials such as the annual information form and the management proxy circular, can be obtained from SEDAR at [www.sedar.com](http://www.sedar.com).

## Forward-Looking Information

This management's discussion and analysis contains "forward-looking information" within the meaning of applicable securities legislation. Although the forward-looking information is based on what the Company believes are reasonable assumptions, current expectations, and estimates, investors are cautioned from placing undue reliance on this information since actual results may vary from the forward-looking information. Forward-looking information may be identified by the use of forward-looking terminology such as "believe", "intend", "may", "will", "expect", "estimate", "anticipate", "continue" or similar terms, variations of those terms or the negative of those terms, and the use of the conditional tense as well as similar expressions.

Such forward-looking information that is not historical fact, including statements based on management's belief and assumptions, cannot be considered as guarantees of future performance. They are subject to a number of risks and uncertainties, including but not limited to future economic conditions, the markets that the Company serves, the actions of competitors, major new technological trends, and other factors, many of which are beyond the Company's control, that could cause actual results to differ materially from those that are disclosed in or implied by such forward-looking information. The Company undertakes no obligation to update publicly any forward-looking information whether as a result of new information, future events or otherwise other than as required by applicable legislation. Important risk factors that may affect these expectations include, but are not limited to, the factors described under the section "Risks and Uncertainties" in the Company's annual report for the year ended April 30, 2022.

Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this management discussion and analysis. Such statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to, assumptions about: (i) competitive environment; (ii) operating risks; (iii) the Company's management and employees; (iv) capital investment by the Company's customers; (v) customer project implementations; (vi) liquidity; (vii) current global financial and geopolitical conditions; (viii) implementation of the Company's commercial strategic plan; (ix) credit; (x) potential product liabilities and other lawsuits to which the Company may be subject; (xi) additional financing and dilution; (xii) market liquidity of the Company's common shares; (xiii) development of new products; (xiv) intellectual property and other proprietary rights; (xv) acquisition and expansion; (xvi) foreign currency; (xvii) interest rates; (xviii) technology and regulatory changes; (xix) internal information technology infrastructure and applications; (xx) cyber security and (xxi) expected impact of COVID-19 on the Company's future operations and

performance.

## Use of non-IFRS Performance Measures

The Company uses certain non-IFRS financial performance measures in its MD&A and other communications which are described in the “Non-IFRS Performance Measures” section of this MD&A. The non-IFRS measures do not have any standardized meaning prescribed by IFRS and may not be comparable to similarly titled measures reported by other companies. Readers are cautioned that the disclosure of these metrics is meant to add to, and not to replace, the discussion of financial results determined in accordance with IFRS. Management uses both IFRS and non-IFRS measures when planning, monitoring and evaluating the Company’s performance.

## Overview

Tecsys is a global provider of cloud-based supply chain solutions that equip the borderless enterprise for growth and competitive advantage. Spanning multiple complex, regulated and high-volume distribution industries, Tecsys delivers dynamic and powerful solutions for warehouse management, distribution and transportation management, supply management at point of use, order management and fulfillment, as well as financial management and analytics solutions.

Customers running on Tecsys’ supply chain platform are confident knowing they can execute, day in and day out, regardless of business fluctuations or changes in technology. As their businesses grow more complex, organizations operating a Tecsys platform can adapt and scale to business needs or size, expand and collaborate with customers, suppliers and partners as one borderless enterprise, and transform their supply chains at the speed that their growth demands. From demand planning to demand fulfillment, Tecsys puts power into the hands of both front-line workers and back-office planners, helping business leaders operate sustainable and scalable logistics so they may focus on the future of their products, services and people, not on their operational challenges.

Customers around the world trust their supply chains to Tecsys in the healthcare, automotive and service parts, third-party logistics, converging commerce, as well as industrial and general wholesale high-volume distribution markets. Tecsys is the market leader in North America for supply chain solutions for health systems and hospitals. Tecsys serves a number of marquee brands located in the U.S., Canada, Europe and Australia, and continues to expand its global footprint across its principal markets.

The Company has five principal sources of revenue:

- Software as a service (SaaS) subscription which represent the right to access our software platform in a hosted and managed environment for a period of time; these subscriptions are typically sold in three to five year term agreements with auto-renewal provisions;
- Maintenance and support services sold with perpetual licenses and hardware maintenance services; these services are typically sold in annual agreements with auto-renewal provisions;
- Professional services, including implementation, consulting and training services provided to customers;
- Licenses;
- Hardware.

Tecsys expects SaaS revenue to continue to grow over time. Revenue from maintenance and support services relate in a large part to our prior business model of selling perpetual licenses with attached maintenance and support fees. The Company expects maintenance and support services revenue to generally decline over time as new customers acquire SaaS subscriptions and existing customers eventually migrate to SaaS.

In the three and six months ended October 31, 2022, the Company generated \$38.1 million and \$72.3 million in total revenue, respectively. The revenue mix for the three months ended October 31, 2022, was: SaaS 23%; maintenance and support 21%; professional services 36%; license 3%; and hardware 17%. The revenue mix for the six months ended October 31, 2022 was: SaaS 23%; maintenance and support 23%; professional services 38%; license 2%; and hardware 14%.

## **Key Performance Indicators**

The Company uses certain key performance indicators in its MD&A and other communications which are described in the following section. These key performance indicators do not have any standardized meaning prescribed by IFRS and therefore may not be comparable to similarly titled indicators reported by other companies and cannot be reconciled to a directly comparable IFRS measure. Readers are cautioned that the disclosure of these metrics are meant to add to, and not to replace, the discussion of financial results determined in accordance with IFRS. Management uses IFRS and Non-IFRS measures as well as key performance indicators when planning, monitoring and evaluating the Company's performance.

### **Recurring Revenue**

Recurring revenue (also referred to as Annual Recurring Revenue (ARR)) is defined as the contractually committed purchase of SaaS, maintenance, and customer support services over the next twelve months. The quantification assumes that the customer will renew the contractual commitment on a periodic basis as they come up for renewal unless the customer has cancelled. This portion of the Company's revenue is predictable and stable.

### **Bookings**

Broadly speaking, bookings refer to the total value of accepted contracts. This includes SaaS ARR bookings (the average annual value of committed SaaS recurring revenue at the time of contract signing), professional services bookings and perpetual license bookings. The Company believes that these metrics are primary indicators of business performance.

### **Backlog**

Backlog in general refers to the value of contracted revenue that is not yet recognized. Our backlog reporting focuses on (a) Annual Recurring Revenue and (b) Professional Services Backlog.

The Company also focuses on Remaining Performance Obligation (RPO) as a key performance indicator. The Company enters into SaaS subscription agreements that are typically multi-year performance obligations with original contract terms of three to five years. SaaS RPO represents revenue that we expect to recognize in the future related to firm performance obligations that are unsatisfied (or partially unsatisfied) at the reporting date. Unlike ARR which has a one-year time horizon, SaaS RPO can include multiple years of contracted SaaS subscriptions.

## Results of Operations

The following table presents a summary of the results of operations:

| <i>(in thousands of CAD, except earnings per share)</i>  | Three months ended October 31, |           | Six months ended October 31, |           |
|--|--------------------------------|-----------|------------------------------|-----------|
|  | 2022                           | 2021      | 2022                         | 2021      |
| <b>Statement of Operations</b>                           |                                |           |                              |           |
| Revenue  | \$ 38,111                      | \$ 34,269 | \$ 72,315                    | \$ 67,501 |
| Cost of revenue  | 21,432                         | 18,751    | 40,878                       | 37,554    |
| Gross profit   | 16,679                         | 15,518    | 31,437                       | 29,947    |
| Operating expenses                                       | 15,631                         | 13,891    | 30,299                       | 27,232    |
| Profit from operations                                   | 1,048                          | 1,627     | 1,138                        | 2,715     |
| Net finance (income) costs                               | (56)                           | 128       | (31)                         | 243       |
| Profit before income taxes                               | \$ 1,104                       | \$ 1,499  | \$ 1,169                     | \$ 2,472  |
| Income taxes   | 389                            | 791       | 414                          | 1,520     |
| Profit   | \$ 715                         | \$ 708    | \$ 755                       | \$ 952    |
| Adjusted EBITDA <sup>1</sup>                             | \$ 2,777                       | \$ 3,206  | \$ 4,261                     | \$ 5,662  |
| Basic earnings per share                                 | \$ 0.05                        | \$ 0.05   | \$ 0.05                      | \$ 0.07   |
| Diluted earnings per share                               | \$ 0.05                        | \$ 0.05   | \$ 0.05                      | \$ 0.06   |
| SaaS Remaining Performance Obligation (RPO) <sup>2</sup> |                                |           | \$ 109,534                   | \$ 72,673 |
| Total Annual Recurring Revenue (ARR) <sup>2</sup>        |                                |           | \$ 71,198                    | \$ 56,939 |

## Non-IFRS Performance Measures

The terms and definitions of the non-IFRS measures used in this MD&A are provided below. These non-IFRS measures do not have any standardized meanings prescribed by IFRS and may not be comparable to similar measures presented by other companies. Accordingly, they should not be considered in isolation.

### EBITDA and Adjusted EBITDA

EBITDA is calculated as earnings before interest expense, interest income, income taxes, depreciation and amortization. Adjusted EBITDA is calculated as EBITDA before stock-based compensation, gain on remeasurement of lease liability and recognition of tax credits generated in prior periods. The exclusion of interest expense, interest income and income taxes eliminates the impact on earnings derived from non-operational activities, and the exclusion of depreciation, amortization, share-based compensation, gain on remeasurement of lease liability and recognition of tax credits generated in prior periods eliminates the non-cash impact of these items.

The Company believes that these measures are useful measures of financial performance without the variation caused by the impacts of the items described above and that could potentially distort the analysis of trends in our operating performance. In addition, they are commonly used by investors and analysts to measure a company's performance, its ability to service debt and to meet other payment obligations, or as a common valuation measurement. Excluding these items does not imply that they are necessarily non-recurring. Management believes these non-GAAP financial measures, in addition to conventional measures prepared in accordance with IFRS, enable investors to evaluate the Company's operating results, underlying performance and future prospects in a manner similar to management. Although EBITDA and Adjusted EBITDA are frequently used by securities analysts, lenders and others in their evaluation of companies, they have limitations as an analytical tool, and should not be considered in isolation, or as a substitute for analysis of the Company's results as reported under IFRS.

<sup>1</sup> Refer to section below "Non-IFRS Performance Measures" for definition.

<sup>2</sup> Refer to section "Key Performance Indicators" for definition.

The reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable IFRS measure is provided below.

| <i>(in thousands of CAD)</i>                                   | <b>Three months ended October 31,</b> |             | <b>Six months ended October 31,</b> |             |
|--|---------------------------------------|-------------|-------------------------------------|-------------|
|  | <b>2022</b>                           | <b>2021</b> | <b>2022</b>                         | <b>2021</b> |
| Profit for the period  | \$ 715                                | \$ 708      | \$ 755                              | \$ 952      |
| Adjustments for:   |                                       |             |                                     |             |
| Depreciation of property and equipment and right-of-use assets | 429                                   | 553         | 859                                 | 1,096       |
| Amortization of deferred development costs                     | 114                                   | 69          | 216                                 | 123         |
| Amortization of other intangible assets                        | 394                                   | 411         | 790                                 | 822         |
| Interest expense   | 178                                   | 145         | 297                                 | 306         |
| Interest income  | (150)                                 | (40)        | (254)                               | (80)        |
| Income taxes   | 389                                   | 791         | 414                                 | 1,520       |
| EBITDA   | \$ 2,069                              | \$ 2,637    | \$ 3,077                            | \$ 4,739    |
| Adjustments for:   |                                       |             |                                     |             |
| Stock based compensation                                       | 708                                   | 569         | 1,184                               | 923         |
| Adjusted EBITDA  | \$ 2,777                              | \$ 3,206    | \$ 4,261                            | \$ 5,662    |

### Constant currency

Financial results at constant currency allow results to be viewed without the impact of fluctuations in foreign currency exchange rates, thereby facilitating period-to-period comparisons in the analysis of trends in business performance. Financial results at constant currency are obtained by translating prior period results denominated in U.S. dollars and Danish kroner at the foreign exchange rates of the current period. Current period foreign exchange rates used in the constant currency translation include the impact of designated U.S. dollar revenue hedges.

### Revenue

Total revenue for the three and six months ended October 31, 2022, was \$38.1 million and \$72.3 million, respectively, an increase of \$3.8 million or 11% and \$4.8 million or 7%, respectively, compared to the same periods last year. Total revenue excluding hardware for the three and six months ended October 31, 2022 increased by 9% and 10%, respectively, compared to the same periods last year (6% and 7%, respectively, on a constant currency basis). Revenue is broken down as follows:

| <i>(in thousands of CAD)</i>     | <b>Three months ended October 31,</b> |             |                 | <b>Six months ended October 31,</b> |             |                 |
|----------------------------------|---------------------------------------|-------------|-----------------|-------------------------------------|-------------|-----------------|
|                                  | <b>2022</b>                           | <b>2021</b> | <b>Change %</b> | <b>2022</b>                         | <b>2021</b> | <b>Change %</b> |
| SaaS                             | \$ 8,798                              | \$ 6,565    | 34%             | \$ 16,799                           | \$ 12,218   | 37%             |
| Maintenance and support          | 8,098                                 | 8,200       | -1%             | 16,366                              | 16,526      | -1%             |
| Professional services            | 13,539                                | 13,076      | 4%              | 27,170                              | 26,202      | 4%              |
| License                          | 1,055                                 | 982         | 7%              | 1,514                               | 1,333       | 14%             |
| Hardware                         | 6,621                                 | 5,446       | 22%             | 10,466                              | 11,222      | -7%             |
| Total Revenue                    | \$ 38,111                             | \$ 34,269   | 11%             | \$ 72,315                           | \$ 67,501   | 7%              |
| Total Revenue Excluding Hardware | \$ 31,490                             | \$ 28,823   | 9%              | \$ 61,849                           | \$ 56,279   | 10%             |

Approximately 70% of the Company's revenues were generated in U.S. dollars during the second quarter of Fiscal 2023 (2022-65%). The U.S. dollar averaged CA\$1.3314 in the second quarter of Fiscal 2023 in comparison to CA\$1.2570 in the same period of Fiscal 2022. The increase in the value of the U.S dollar combined with the net impact of the Company's partial hedging of U.S. revenue gave rise to a net favorable foreign currency related revenue variance of \$1.4 million in comparison to the second quarter of Fiscal 2022.

Approximately 68% of the Company's revenues were generated in U.S. dollars during the first six months of Fiscal 2023 (2022-66%). The U.S. dollar averaged CA\$1.3091 in the first six months of Fiscal 2023 in comparison to CA\$1.2431 in the same period of Fiscal 2022. The increase in the value of the U.S dollar combined with the net impact of the Company's partial hedging of U.S. revenue gave rise to a net favorable foreign currency related revenue variance of \$2.0 million in comparison to the first six months of Fiscal 2022.

On a constant currency basis, revenue for the three and six months ended October 31, 2022 grew by approximately 9% and 5%, respectively, compared to the same period last year.

Total ARR on October 31, 2022, was \$71.2 million, up 25% compared to \$56.9 million on October 31, 2021. A significant amount of ARR is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will have an impact on ARR. On a constant currency basis, ARR increased 18% during the twelve months ended October 31, 2022. ARR was up 9% sequentially compared to the first quarter of Fiscal 2023 and up 4% on a constant currency basis.

### **SaaS revenue**

The Company generates revenue from proprietary software under a SaaS model. SaaS subscriptions represent the right to access our software platform in a hosted and managed environment for a period of time. The Company enters into SaaS subscription agreements that are typically multi-year performance obligations with original contract terms of three to five years.

SaaS revenue in the second quarter of Fiscal 2023 was \$8.8 million, up 34% or \$2.2 million compared to the second quarter of Fiscal 2022 and up \$0.8 million sequentially compared to the first quarter of Fiscal 2023. The increases are due to new SaaS revenue from bookings in recent quarters and foreign exchange, net of cancellations impacting the quarter. Foreign exchange positively impacted reported SaaS revenue growth as a significant portion of the Company's SaaS revenue is denominated in U.S. dollars. On a constant currency basis, SaaS revenue in the second quarter of Fiscal 2023 grew by approximately 30% compared to the same period of Fiscal 2022. SaaS revenue for the first half of Fiscal 2023 was \$16.8 million, up 37% (34% on a constant currency basis) or \$4.6 million compared to the same period in Fiscal 2022.

In the second quarter of Fiscal 2023, SaaS subscription bookings (measured on an ARR basis) were \$2.8 million, down 31% compared to \$4.0 million in the second quarter of Fiscal 2022. In the first six months of Fiscal 2023, SaaS bookings were \$6.7 million, up 30% from \$5.1 million in the same period last year. The Company has historically seen some lumpiness in quarterly deal closings, and the Company expects this to continue.

On October 31, 2022, SaaS RPO was \$109.5 million, up 51% from \$72.7 million at the same time last year. A significant amount of SaaS RPO is denominated in currencies other than Canadian Dollars. As a result, movements in exchange rates will impact reported SaaS RPO. On a constant currency basis, SaaS RPO increased 43% during the twelve months ended October 31, 2022. SaaS RPO was up 7% sequentially compared to the first quarter of Fiscal 2023 and up 2% on a constant currency basis.

### **Maintenance and support revenue**

Maintenance and support revenue derives largely from the Company's legacy perpetual license installed base. The Company enters into maintenance and support contracts that typically have an original term of one year and are subject to annual renewal. Maintenance and support revenue for the second quarter and first half of Fiscal 2023 was \$8.0 million and \$16.4 million, respectively, both down 1% compared to the same periods of Fiscal 2022. On a constant currency basis, second quarter and first half of Fiscal 2023 maintenance and support revenue declined by approximately 3% and 2%, respectively, compared to same periods of Fiscal 2022. Maintenance and support revenue generally follows the trend of License revenue, and we expect a decline in maintenance and support revenue over time as the business continues to shift to SaaS.

### **Professional services revenue**

Professional services revenue includes fees for implementation, consulting and training services provided to customers, as well as reimbursable expenses. Professional services revenue for the second quarter and first half of Fiscal 2023 was \$13.5 million and \$27.2 million, respectively, both up 4% compared to \$13.1 million and \$26.2 million, respectively, in the same periods last year. Foreign exchange positively impacted reported professional services revenue growth as a significant portion of the Company's professional services revenue is denominated in U.S. dollars. On a constant currency basis, second quarter professional services revenue was flat compared to the same period last year and first half of Fiscal 2023 professional services revenue grew by approximately 1%, compared to the prior year period. In the second quarter of Fiscal 2023, Professional services bookings were \$15.0 million, down 16% compared to \$17.9 million in the same period of Fiscal 2022. In the first half of Fiscal 2023, Professional services bookings were \$24.6 million, down 24% compared to \$32.4 million in the same period of Fiscal 2022. Professional services bookings are in part linked to SaaS subscription bookings and license bookings and are subject to timing. The decline in Professional Services bookings is also impacted by lower customization services as a result of growth in SaaS and healthcare vertical sales as well as increased collaboration with implementation partners. We are starting to see an uptick on work performed by implementation partners and expect this trend to continue and have a long-term effect of moderating professional Services revenue growth.

### **License revenue**

License revenue includes revenue from proprietary software as well as third-party software. In the three months ended October 31, 2022, license revenue amounted to \$1.1 million, up 7% from \$1.0 million in the same period last year. For the six months ended October 31, 2022, license revenue was \$1.5 million, up 14% from \$1.3 million compared to the same period last year. Perpetual license bookings in the three and six months ended October 31, 2022 and 2021 were \$1.0 million and \$1.3 million respectively. We expect license revenue to generally decline over time because of the shift to SaaS.

### **Hardware revenue**

Hardware revenue includes third-party hardware products and proprietary technology products. While hardware revenue can tend to be uneven, it is a key component of our market offering and thereby supports our recurring revenue business. Hardware revenue for the three months ended October 31, 2022, was \$6.6 million, up 22% from \$5.4 million in the same period last year. For the six months ended October 31, 2022, hardware revenue was \$10.5 million, down 7% from \$11.2 million during the same period last year. The variation in hardware revenue is due to timing of deliveries.

## Cost of Revenue and Gross Profit

| <i>(in thousands of CAD)</i>                                      | Three months ended<br>October 31, |                  |  | Change<br>% | Six months ended<br>October 31, |                  |  | Change<br>% |
|---|-----------------------------------|------------------|--|-------------|---------------------------------|------------------|--|-------------|
|   | 2022                              | 2021             |  |             | 2022                            | 2021             |  |             |
| <b>Cost of revenue:</b>   |                                   |                  |  |             |                                 |                  |  |             |
| SaaS, maintenance, support and professional services              | \$ 16,401                         | \$ 14,324        |  | 15%         | \$ 32,656                       | \$ 28,682        |  | 14%         |
| License and hardware  | 5,031                             | 4,427            |  | 14%         | 8,222                           | 8,872            |  | -7%         |
| <b>Total cost of revenue</b>                                      | <b>21,432</b>                     | <b>18,751</b>    |  | <b>14%</b>  | <b>40,878</b>                   | <b>37,554</b>    |  | <b>9%</b>   |
| <b>Gross profit &amp; gross profit margin:</b>                    |                                   |                  |  |             |                                 |                  |  |             |
| SaaS, maintenance, support and professional services gross profit | \$ 14,034                         | \$ 13,517        |  | 4%          | 27,679                          | 26,264           |  | 5%          |
| Gross profit margin   | 46%                               | 49%              |  |             | 46%                             | 48%              |  |             |
| License and hardware gross profit                                 | \$ 2,645                          | \$ 2,001         |  | 32%         | 3,758                           | \$ 3,683         |  | 2%          |
| Gross profit margin   | 34%                               | 31%              |  |             | 31%                             | 29%              |  |             |
| <b>Total gross profit</b>   | <b>\$ 16,679</b>                  | <b>\$ 15,518</b> |  | <b>7%</b>   | <b>\$ 31,437</b>                | <b>\$ 29,947</b> |  | <b>5%</b>   |
| <b>Total gross profit margin</b>                                  | <b>44%</b>                        | <b>45%</b>       |  |             | <b>43%</b>                      | <b>44%</b>       |  |             |

Total cost of revenue for the second quarter and first half of Fiscal 2023, increased to \$21.4 million and \$40.9 million, respectively, or an increase of 14% and 9%, respectively, compared to the same periods last year. The increase is mainly driven by higher SaaS, maintenance, support and professional services costs.

For the second quarter and first half of Fiscal 2023, the cost of SaaS, maintenance, support and professional services increased to \$16.4 million and \$32.7 million, respectively, up \$2.1 million and \$4.0 million, respectively, compared to the same periods last year. Cost of SaaS, maintenance, support and professional services increased compared to prior year periods as a result of direct costs associated with higher revenue, including higher employee costs and higher public cloud infrastructure costs. Sequentially from the first quarter of Fiscal 2023, cost of SaaS, maintenance, support and professional services was up less than 1%. For the second quarter and first half of Fiscal 2023, the cost of SaaS, maintenance, support and professional services includes tax credits of \$0.8 million and \$1.5 million, respectively, compared to \$0.6 million and \$1.3 million, respectively, for the same periods in Fiscal 2022.

The cost of license and hardware increased to \$5.0 million in the second quarter of Fiscal 2023, up \$0.6 million or 14% in comparison to the same period in Fiscal 2022. The increase was attributed primarily to higher hardware revenue. The cost of license and hardware decreased to \$8.2 million in the first half of Fiscal 2023, down \$0.7 million or 7% compared to the same period last year, mainly driven by lower hardware revenue.

Gross profit was \$16.7 million, up \$1.2 million in the second quarter of Fiscal 2023 compared to the same period last year led by higher gross profit contribution from both SaaS, maintenance, support and professional services as well as license and hardware. In the first half of Fiscal 2023 gross profit increased to \$31.4 million, up \$1.5 million compared to the same period in Fiscal 2022. This is mainly due to higher SaaS, maintenance, support and professional services gross profit contribution.

As a percentage of revenue, total gross profit margin for the three months ended October 31, 2022 was 44% compared to 45% for the same period last year. For the six months ended October 31, 2022, total gross profit

margin was 43% compared to 44% for the same period in Fiscal 2022.

Combined SaaS, maintenance support and professional services gross profit margin for the three and six months ended October 31, 2022 was 46%, compared to 49% and 48%, respectively, for the same periods last year. This decline was primarily driven by the impact of our investment to expand delivery capacity.

## Operating Expenses

| <i>(in thousands of CAD)</i>                          | Three months ended October 31, |                  |  | Change     | Six months ended October 31, |                  |   | Change     |
|---|--------------------------------|------------------|--|------------|------------------------------|------------------|---|------------|
|   | 2022                           | 2021             |  | %          | 2022                         | 2021             | % |            |
| Sales and marketing expenses                          | \$ 6,703                       | \$ 6,022         |  | 11%        | \$ 12,953                    | \$ 11,704        |   | 11%        |
| <i>As a percentage of Revenue</i>                     | 18%                            | 18%              |  |            | 18%                          | 17%              |   |            |
| General and administration expenses                   | 3,072                          | 2,801            |  | 10%        | 5,806                        | 5,660            |   | 3%         |
| <i>As a percentage of Revenue</i>                     | 8%                             | 8%               |  |            | 8%                           | 8%               |   |            |
| Research and development expenses, net of tax credits | 5,856                          | 5,068            |  | 16%        | 11,540                       | 9,868            |   | 17%        |
| <i>As a percentage of Revenue</i>                     | 15%                            | 15%              |  |            | 16%                          | 15%              |   |            |
| <b>Total operating expenses</b>                       | <b>\$ 15,631</b>               | <b>\$ 13,891</b> |  | <b>13%</b> | <b>\$ 30,299</b>             | <b>\$ 27,232</b> |   | <b>11%</b> |
| <b><i>As a percentage of revenue</i></b>              | <b>41%</b>                     | <b>41%</b>       |  |            | <b>42%</b>                   | <b>40%</b>       |   |            |

Total operating expenses for the three and six months ended October 31, 2022 were \$15.6 million and \$30.3 million, respectively, an increase of \$1.7 million and \$3.1 million, respectively, compared to the same periods last year. The impact of foreign exchange during the three and six months ended October 31, 2022 had an unfavorable impact on expenses of \$0.6 million and \$1.0 million, respectively, when compared to the same periods last year.

### Sales and marketing expenses

Sales and marketing expenses for the three and six months ended October 31, 2022 amounted to \$6.7 million and \$13.0 million, respectively, an increase of \$0.7 million and \$1.3 million, respectively, when compared to the same periods of last year. The increase is mainly attributed to higher personnel costs, travel and marketing program costs representing investments to take advantage of expected market opportunity.

### General and administrative expenses

General and administrative expenses for the three months ended October 31, 2022, were \$3.1 million, an increase of \$0.3 million compared to the same period last year. The increase is attributed to higher professional fees, bad debt expense and stock-based compensation.

General and administrative expenses for the six months ended October 31, 2022 were \$5.8 million, an increase of \$0.1 million compared to the same period in fiscal 2022. The increase is attributed to higher bad debt expense and stock-based compensation, partially offset by lower professional fees.

### Net R&D expenses

Net R&D expenses for the three and six months ended October 31, 2022, were \$5.9 million and \$11.5 million, respectively, an increase of \$0.8 million and \$1.7 million, respectively, from the same periods last year. The increase

was mainly attributable to higher personnel costs resulting from investment in the second half of last fiscal year. For the three and six months ended October 31, 2022, the Company deferred development costs of \$0.3 million and \$0.5 million, respectively, compared to \$0.2 million and \$0.7 million, respectively, in the same periods last year.

The Company recorded R&D tax credits and e-business tax credits of \$0.7 million for the second quarter of Fiscal 2023 compared to \$0.6 million for the same period in Fiscal 2022. The Company amortized deferred development costs and other intangible assets of \$0.1 million in the second quarter of Fiscal 2023 and Fiscal 2022.

For the first half of Fiscal 2023, the Company recorded R&D tax credits and e-business tax credits of \$1.4 million compared to \$1.2 million for the same period in Fiscal 2022. Amortized development costs and other intangible assets during the first half Fiscal 2023 was \$0.2 million in comparison to \$0.1 million for the same period in the prior fiscal year.

## Net Finance (Income) Costs and Income Taxes

| <i>(in thousands of CAD)</i>  | Three months ended<br>October 31, |        |  | Change<br>% | Six months ended<br>October 31, |        |  | Change<br>% |
|---|-----------------------------------|--------|--|-------------|---------------------------------|--------|--|-------------|
|   | 2022                              | 2021   |  |             | 2022                            | 2021   |  |             |
| Net Finance (Income) Costs  | \$ (56)                           | \$ 128 |  | -144%       | \$ (31)                         | \$ 243 |  | -113%       |
| Income Tax Expense  | 389                               | 791    |  | -51%        | 414                             | 1,520  |  | -73%        |
| Income Tax Expense as a percentage of<br>profit before income taxes | 35%                               | 53%    |  |             | 35%                             | 61%    |  |             |

Net finance income for the three months ended October 31, 2022 was \$0.1 million, compared to net finance costs of \$0.1 million in the same period last year. For the first six months of Fiscal 2023, net finance income was not significant, compared to net finance costs of \$0.2 million in the same period last year. Net finance income and costs consist primarily of interest expense on long term debt and lease obligations as well as interest income and foreign exchange.

Income tax expense for both the three and six months ended October 31, 2022 were \$0.4 million, compared to \$0.8 million and \$1.5 million, respectively, for the same periods last year. The decrease in income tax expense was due primarily to a lower consolidated effective tax rate resulting from the amalgamation of certain entities in the group as well as lower pre-tax income. The amalgamation was completed effective May 1, 2022.

## Profit

| <i>(in thousands of CAD)</i> | Three months ended<br>October 31, |          |  | Change<br>% | Six months ended<br>October 31, |          |  | Change<br>% |
|------------------------------|-----------------------------------|----------|--|-------------|---------------------------------|----------|--|-------------|
|                              | 2022                              | 2021     |  |             | 2022                            | 2021     |  |             |
| Profit                       | \$ 715                            | \$ 708   |  | 1%          | \$ 755                          | \$ 952   |  | -21%        |
| Adjusted EBITDA              | \$ 2,777                          | \$ 3,206 |  | -13%        | \$ 4,261                        | \$ 5,662 |  | -25%        |
| Basic earnings per share     | 0.05                              | 0.05     |  |             | 0.05                            | 0.07     |  |             |
| Diluted earnings per share   | \$ 0.05                           | \$ 0.05  |  |             | \$ 0.05                         | \$ 0.06  |  |             |

Profit, Adjusted EBITDA and earnings per share were all negatively impacted by investment in delivery capacity, sales and marketing and research and development, primarily in the second half of last fiscal year. Approximately 68% of the Company's revenue in the first half of Fiscal 2023 is denominated in US dollars while a significant majority of the Company's costs are denominated in Canadian dollars. As such, foreign exchange movements can have a material impact on reported Profit, Adjusted EBITDA and earnings per share. During the second quarter and first half of fiscal 2023, favorable foreign exchange movements had a positive impact on Profit and Adjusted EBITDA of approximately \$0.8 million and \$1.0 million, respectively, compared to the same periods in Fiscal 2022.

## Quarterly Selected Financial Data

The following table summarizes selected results for the eight most recently completed quarters to October 31, 2022:

| <i>(in thousands of<br/>CAD, except<br/>earnings per<br/>share)</i> | FY 2023   |           |           | FY 2022   |           |           | FY 2021   |           |  |
|---|-----------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|--|
|   | Q2        | Q1        | Q4        | Q3        | Q2        | Q1        | Q4        | Q3        |  |
| Total revenue   | \$ 38,111 | \$ 34,204 | \$ 34,288 | \$ 35,411 | \$ 34,269 | \$ 33,232 | \$ 32,374 | \$ 31,942 |  |
| Profit  | 715       | 40        | 2,586     | 940       | 708       | 244       | 2,020     | 1,847     |  |
| Comprehensive<br>(loss) income                                      | (796)     | (110)     | 2,159     | 317       | 489       | (147)     | 1,088     | 1,527     |  |
| Adjusted EBITDA <sup>(3)</sup>                                      | 2,777     | 1,484     | 1,730     | 2,738     | 3,206     | 2,456     | 3,917     | 3,964     |  |
| Basic earnings per<br>common share                                  | 0.05      | 0.00      | 0.18      | 0.06      | 0.05      | 0.02      | 0.14      | 0.13      |  |
| Diluted earnings<br>per common share                                | 0.05      | 0.00      | 0.17      | 0.06      | 0.05      | 0.02      | 0.14      | 0.12      |  |

Total quarterly revenue excluding hardware has generally trended upward over the past eight quarters, primarily due to an increase in revenue from SaaS. During Fiscal 2022, the impact of foreign exchange, lower license revenue as well as additional investment in delivery capacity, sales and marketing and research and development moderated Profit and Adjusted EBITDA. Profit in the fourth quarter of Fiscal 2022 included the recognition of approximately \$1.9 million net deferred tax assets, \$0.6 million gain on remeasurement of lease liability and \$0.6 million recognition of tax credits generated in prior periods.

<sup>3</sup> Refer to section below "Non-IFRS Performance Measures" for definition.

## Liquidity and Capital Resources

On October 31, 2022, current assets totaled \$80.9 million compared to \$74.4 million at the end of Fiscal 2022. Cash and cash equivalents combined with short-term investments decreased \$1.5 million to \$41.8 million compared to \$43.2 million at the end of Fiscal 2022. The net decrease results from cash inflows from operating activities being more than offset by cash outflows relating to financing activities and investing activities.

Accounts receivable and work in progress totaled \$23.0 million on October 31, 2022, an increase of \$4.5 million compared to \$18.5 million as of April 30, 2022. The increase is mainly attributed to higher revenue and timing of cash collections. The Company's Days Sales Outstanding (DSO) stood at 54 days at the end of October 31, 2022 compared to 49 days at the end of Fiscal 2022. DSO is a measure of the average number of days that a company takes to collect revenue after a sale. The Company's DSO is determined on a quarterly basis and can be calculated by dividing the total of accounts receivable and work in progress at the end of a quarter by the total value of sales during the same quarter and multiplying the result by 90 days.

Current liabilities on October 31, 2022, totaled \$52.2 million compared to \$43.5 million at the end of Fiscal 2022. The increase is mainly due to an increase in accounts payables and accrued liabilities and higher deferred revenues.

### Cash from Operating Activities

Operating activities generated \$7.0 million of cash in the second quarter of Fiscal 2023 compared to \$0.6 million in the same period of Fiscal 2022. Operating activities generated \$2.0 million in the first half of Fiscal 2023 compared to using \$4.4 million in the same period of Fiscal 2022.

Cash from operating activities excluding changes in non-cash working capital items increased by \$0.8 million to \$3.2 million in the second quarter of Fiscal 2023 compared to the same period of Fiscal 2022. Changes in non-cash working capital items provided \$3.8 million in the second quarter of Fiscal 2023. This was a result of increased accounts payable and accrued liabilities and deferred revenue, partially offset by higher accounts receivable due to timing of billing and cash collections.

For the first half of Fiscal 2023, cash from operating activities excluding changes in non-cash working capital items decreased by \$1.8 million to \$3.9 million. Changes in non-cash working capital items used \$1.9 million in the first half of Fiscal 2023 driven primarily by growth in accounts receivable and taxes credits partially offset by growth in deferred revenue.

### Financing Activities

Cash used in financing activities was \$2.7 million for the second quarter of Fiscal 2023 in comparison to \$1.5 million for the same period in Fiscal 2022. The main cash outflow for both periods was payment of dividends. In the prior year quarter, \$1.0 million of cash inflow from the issuance of common shares on the exercise of options partially offset the dividend payment outflow in the quarter. Cash flows used in financing activities was \$3.3 million for the first six months of fiscal 2023 in comparison to \$2.2 million for the same period of Fiscal 2022.

### Investing Activities

During the second quarter of Fiscal 2023, investing activities used funds of \$0.3 million compared to \$0.5 million in the same period in Fiscal 2022. The Company used funds of \$0.2 million for the acquisition of property and equipment in the second quarter of Fiscal 2023 compared to \$0.3 million in the same period in Fiscal 2022. Additionally, in the second quarter of Fiscal 2023, the Company invested in its proprietary products with the capitalization of \$0.3 million reflected as deferred development costs compared to \$0.2 million for the same period in Fiscal 2022.

During the first six months of Fiscal 2023 investing activities used funds of \$0.4 million compared to \$1.2 million for the same period in Fiscal 2022.

The Company believes that funds on hand at October 31, 2022 together with cash flows from operations, and its accessibility to the operating line of credit will be sufficient to meet its covenants and needs for working capital, R&D, capital expenditures and dividend policy, as well as to invest in long-term growth.

## **Related Party Transactions**

Under the provisions of the share purchase plan for key management and other management employees, the Company provided interest-free loans to key management and other management employees of \$0.4 million during the six months ended October 31, 2022 (\$0.3 million for the same period last year) to facilitate their purchase of the Company's common shares. As of October 31, 2022, loans outstanding amounted to \$0.4 million (April 30, 2022 - \$0.2 million).

## **Subsequent Events**

November 30, 2022, the Company's Board of Directors declared a quarterly dividend of \$0.075 per share to be paid on January 6, 2023 to shareholders of record on December 15, 2022.

## **Current and Anticipated Impacts of Current Economic Conditions**

Current overall economic conditions together with market uncertainty and volatility may have an adverse impact on the demand for the Company's products and services as the industry may adjust quickly to exercise caution on capital spending. This uncertainty may impact the Company's revenue.

Based on ARR of \$71.2 million and Professional services backlog of \$31.9 million, the Company's management believes that total services revenue (including SaaS, maintenance and support and professional services revenue) ranging between \$30.0 million and \$31.0 million per quarter can be sustained in the short term.

Strategically, the Company continues to focus its efforts on the most likely opportunities within its existing vertical markets and customer base. The Company also currently offers subscription-based licensing, hosting services, modular sales and implementations and enhanced payment terms to promote revenue growth. We see continued market appetite for subscription-based SaaS licensing. To the extent our bookings continue to shift from perpetual license to SaaS and considering that license revenue is typically recognized up front while SaaS revenue is recognized over the contract period, revenue and operating profit will be impacted in the medium term.

The exchange rate of the U.S. dollar in comparison to the Canadian dollar continues to be an important factor affecting revenues and profitability as the Company generally derives approximately 65% to 70% of its business from U.S. customers while the majority of its cost base is in Canadian dollars.

The Company will continue to adjust its business model to ensure that costs are aligned to its revenue expectations and economic reality to the extent possible.

## **Outstanding Share Data**

As at October 31, 2022, the Company had 14,568,894 common shares outstanding. The Company issued 5,999 shares on the exercise of stock options in the second quarter of Fiscal 2023.

## **Critical Accounting Policies and Critical Accounting Judgements and Key Sources of Estimation Uncertainty**

The Company's critical accounting policies are those that it believes are the most important in determining its financial condition and results.

The preparation of the unaudited condensed interim consolidated financial statements in accordance with IFRS requires management to make estimates, assumptions, and judgments that affect the application of accounting policies and the reported amounts of assets and liabilities, disclosures of contingent assets and liabilities and recognized amounts of revenue and expenses. Actual results may differ from these estimates.

Reported amounts and note disclosures reflect the overall economic conditions that are most likely to occur and the anticipated measures that management intends to take. Actual results may differ from those estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

There have been no significant changes in the key sources of estimation uncertainty and judgements made in

relation to the accounting policies applied to those disclosed in the Company's annual consolidated financial statements for the year ended April 30, 2022.

### **New standards and interpretations not yet adopted:**

A number of new standards, interpretations and amendments to existing standards were issued by the IASB that are not yet effective for the period ended October 31, 2022 and have not been applied in preparing these condensed interim consolidated financial statements. The following amendments are currently being assessed by the Company:

| <b>Standard</b>                             | <b>Issue date</b>                         | <b>Effective date for the Company</b> | <b>Impact</b> |
|---|---|---------------------------------------|---------------|
| IAS 1, Presentation of Financial Statements | January 2020, July 2020 and February 2021 | May 1, 2023                           | In assessment |
| IAS 8, Definition of Accounting Estimates   | February 2021                             | May 1, 2023                           | In assessment |
| IAS 12, Income Taxes                        | May 2021                                  | May 1, 2023                           | In assessment |

Refer to the Company's annual consolidated financial statements for Fiscal 2022 for a discussion of new standards and interpretations not yet adopted.

## **Controls & Procedures**

### **Disclosure Controls and Procedures**

Disclosure controls and procedures are designed to provide reasonable assurance that material information is gathered and reported to senior management on a timely basis so that appropriate decisions can be made regarding public disclosure. The Company's Chief Executive Officer (CEO) and its Chief Financial Officer (CFO) are responsible for establishing and maintaining disclosure controls and procedures regarding the communication of information. They are assisted in this responsibility by the Company's Executive Committee, which is composed of members of senior management. Based on the evaluation of the Company's disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer have concluded that these disclosure controls and procedures were effective as of October 31, 2022.

### **Internal Control over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting ("ICFR") to provide reasonable assurance regarding the reliability of the Company's financial reporting and its compliance with IFRS in its unaudited condensed interim consolidated financial statements. The control framework that was designed by the Company's ICFR is in accordance with the framework criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013) (COSO).

No changes to internal controls over financial reporting have come to management's attention during the three-month period ending on October 31, 2022, that have materially affected or are reasonably likely to materially affect internal controls over financial reporting.

## Supplemental Information

### Reconciliation of EBITDA and Adjusted EBITDA to the most directly comparable IFRS measure

| <i>(in thousands of CAD)</i>                                   | FY 2023  |          | FY 2022  |          |          | FY 2021  |          |          |
|--|----------|----------|----------|----------|----------|----------|----------|----------|
|  | Q2       | Q1       | Q4       | Q3       | Q2       | Q1       | Q4       | Q3       |
| Profit for the period  | \$ 715   | \$ 40    | \$ 2,586 | \$ 940   | \$ 708   | \$ 244   | \$ 2,020 | \$ 1,847 |
| Adjustments for:   |          |          |          |          |          |          |          |          |
| Depreciation of property and equipment and right-of-use assets | 429      | 430      | 515      | 551      | 553      | 543      | 567      | 554      |
| Amortization of deferred development costs                     | 114      | 102      | 87       | 80       | 69       | 54       | 60       | 48       |
| Amortization of other intangible assets                        | 394      | 396      | 382      | 408      | 411      | 411      | 404      | 425      |
| Interest expense   | 178      | 119      | 178      | 138      | 145      | 161      | 158      | 158      |
| Interest income  | (150)    | (104)    | (57)     | (337)    | (40)     | (40)     | (18)     | (43)     |
| Income taxes   | 389      | 25       | (1,111)  | 537      | 791      | 729      | 516      | 683      |
| EBITDA   | 2,069    | 1,008    | 2,580    | 2,317    | 2,637    | 2,102    | 3,707    | 3,672    |
| Adjustments for:   |          |          |          |          |          |          |          |          |
| Stock based compensation                                       | 708      | 476      | 340      | 421      | 569      | 354      | 210      | 292      |
| Gain on remeasurement of lease liability                       | -        | -        | (573)    | -        | -        | -        | -        | -        |
| Recognition of tax credits generated in prior periods          | -        | -        | (617)    | -        | -        | -        | -        | -        |
| Adjusted EBITDA  | \$ 2,777 | \$ 1,484 | \$ 1,730 | \$ 2,738 | \$ 3,206 | \$ 2,456 | \$ 3,917 | \$ 3,964 |