Blackline Safety Corp.
Fiscal 2021 Third Quarter Results
Conference Call Transcript

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Speakers: **Presenters**

Scott Boston, Corporate Controller

Cody Slater, Chief Executive Officer & Chair of the Board

Shane Grennan, Chief Financial Officer

Operator:
Good morning, everyone, and welcome to the Blackline Safety Corp. Fiscal 2021 Third Quarter Results Conference Call.

I'll now turn the call over to Scott Boston, Blackline's Corporate Controller. Please go ahead.

Scott Boston:
Thank you.

Welcome and thank you for joining us.

I'd like to remind everyone that this call is being recorded today, Tuesday, September 14, 2021.

Before turning the call over to our CEO and Chair, Cody Slater, I would like to note that some of the information discussed in this call is based on information as of today and contains forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those set forth in such statements. For a discussion of these risks and uncertainties, you should review the forward-looking statements disclosure in the earnings news release as well as in the Company's SEDAR filings.

During this call, there will be discussion of IFRS results and non-IFRS financial measures. A reconciliation between IFRS results and non-IFRS financial measures is available in the Company's earnings news release and MD&A, both of which can be found on our website, blacklinesafety.com, and on SEDAR.

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I will now turn the call over to Cody Slater, Chief Executive Officer and Chair at Blackline Safety Corp. Mr. Slater, please go ahead.

Cody Slater:
Thank you, Scott.

Good morning, everyone, and welcome to Blackline Safety's first earnings call. Today we will be discussing our third quarter results, which were issued before market opened this morning. With me on the call is Shane Grennan, Chief Financial Officer.

To set the agenda for today's remarks, I will start by providing a broad Company overview. Shane will then discuss some of the highlights of our third quarter in greater detail, and I'll conclude with closing remarks and some comments on the path forward.

This morning we were pleased to announce our eighteenth consecutive quarter of year-over-year quarterly revenue growth, with 35% growth overall and 60% growth outside the Canadian market in Q3 2021, compared to Q3 2020. This represents Blackline's highest quarterly revenue ever at $12.7 million.

Our growth has not only been in revenue but also in our geographic reach, as we now have customers in over 60 countries around the globe, continuing to play an expanding role in keeping workers safe while contributing to the digital transformation efforts of industrial workplaces. Our post-quarter announcements of contract activity and wins speak to the demand for our connected worker products and services and are encouraging for the continued growth of Blackline.

During the quarter we took several major steps as part of our long-term strategy.

Firstly, we completed our graduation to the Toronto Stock Exchange and are now Alberta's largest publicly listed company in the technology sector.

The second step was the expansion of the Executive team, adding Christine Gillies as Chief Marketing Officer and Brian Sweeney as Chief Technology Officer. Blackline's success depends on and continues to be driven by a highly talented and committed workforce guided by a world-class leadership team. Brian and Christine bring with them a deep experience in high-growth SaaS enterprises, and we look forward to the impact their knowledge will bring to Blackline.

The next step was to deepen Blackline's product and services sales momentum and continue our expansion into new markets. Our G7 EXOs have gained particular traction and were responsible for two of the largest orders in our Company's history early in the fourth quarter: one in North America and one in Europe. The EXO was also recently recognized with a Gold Award for Design from INT Designs in Europe and a Product of the Year award from *Occupational Health and Safety* magazine in the United States. The EXO is the first of a series of new impactful products Blackline intends to bring to the market over the coming years.

We were not immune, however, to the continued challenges from COVID-19 and the Delta variant, which hindered our performance during the quarter. Like everyone, I had hoped we would not still be talking about the pandemic with relation to its impact on our business and our lives. But regardless, it has continued to slow many of our industrial customers as they look to return to full capacity.

That being said, since the onset of the pandemic five quarters ago, we have seen our overall quarterly revenue grow by 50% globally and 74% excluding the commodity-impacted Canadian markets. We may not be out of the woods yet, but I'm happy to see the increase in order activity at the beginning of Q4 as more of our customers return to normal business operations. We expect to see the impact of these increased product deployments on this rate of service revenue growth in the coming quarters.

A final strategic step involves our own journey with the release of our first ever ESG reports, detailing our ongoing efforts to support and strengthen both our own workplace and our impact on the larger community. Amongst the highlights were the expansion of Blackline Collective, our forum for businesses to share safety insights and best practices, with the addition of U.S.-based Kokosing Materials Inc. We also announced our partnership with the Calgary Zoo, providing our connected safety solution in support of its conservation efforts.

Before moving on, I would like to thank our customers, shareholders, vendors, partners, and especially our 445 employees worldwide for working together to further our vision that every worker has the confidence to get the job done and return home safe.

I'll now turn the call over to our CFO, Shane, to discuss our third quarter results and the ESG report in more detail.

Shane Grennan:
Thank you, Cody, and good morning, all.

As a reminder, unless otherwise noted, all figures reported on today's call are in Canadian dollars and reported under IFRS.

As Cody said, we achieved a record $12.7 million in revenue, including product revenue of $5.3 million, which represents a 91% increase from the same quarter last year. We continued to see strong demand for our G7 EXO area gas monitor, contributing $1.8 million of product sales in the quarter.

Service revenue was up to $7.4 million from $6.7 million, including a 19% increase in software services revenue, which comprises 89% of our total service revenue.

We continued to see the investments in our sales team over the past year pay dividends, particularly in Europe where overall revenue grew 115% compared to the prior year quarter. The revenue in our European region totalled $4.2 million, which equalled one third of our total revenue for the third quarter.

We also saw robust growth in the United States, with total revenue coming in just shy of $5 million for the quarter, a 29% increase compared to the same period in 2020.

We continue to see encouraging returns from our channel investments in the rest of the world, with revenue outside North America and Europe growing 9% quarter over quarter to $700,000.

The $5.3 million of product revenue represents the first time since the onset of the pandemic, five quarters ago, that we achieved over $5 million. In fact, this represents the second-highest quarterly product revenue in the Company's history. However, we did see some major contracts that were expected to be concluded and shipped in Q3 pushed to Q4, which you would have seen in several recent announcements.

The team continues to work intently with new digital marketing efforts as well as preparing for more traditional trade shows, which were all canceled due to COVID-19 last year. We are, however, looking forward to getting back to key locations where we can interact in person with current and prospective customers.

Service revenue was also a record at $7.4 million, driven by recent G7 and G7 EXO product sales and strong retention and renewal activity. Service level increases contributed growth of $900,000 in the quarter. This increase was offset by customers who renewed fewer active devices due to workforce reductions of $400,000 and only $17,000 from customers who declined to renew this quarter. Overall, total service revenue was up 11% this quarter over the prior year, with software services revenue up 19%.

Our service margin percentage improved to 70%, as we have been able to maintain and even reduce our cost structure associated with our hardware-enabled software as a service offering while consistently growing our service revenues.

Product margin for the quarter was negatively impacted by global supply chain shortages, causing increased cost of inputs for the Company's manufactured devices. We were able to navigate this with product gross margin of 13% for the quarter with, most importantly, no interruptions to our manufacturing operations. We expect these challenges to continue for the next 12 months at least, and we continue to proactively manage our inventory levels and supplier relationships to maximize flexibility and margin where possible while ensuring we are in a position to meet customer demand for our products.

The overall margin percentage was 46%, which was lower than the same quarter last year, driven by a sales mix that was more heavily weighted on the products side versus service.

When looking at the Company's expenses for the quarter, I would draw your attention to the table in our MD&A which details the amount of Canada Emergency Wage Subsidy, or the CEWS, that we received for the quarter, totalling $74,000 compared to $852,000 in Q3 2020. While we were happy to utilize this funding to support maintaining a full workforce, we are pleased to note that our growth in revenue meant we were eligible for a much smaller percentage of wage subsidy this quarter. Since the quarter has ended, we have evaluated our eligibility for the most recent periods and are not eligible for additional funding under this program.

Product development costs were up 106% to $4.4 million for the quarter. Excluding the impact of CEWS and increased costs for our new subsidiary, Wearable Technologies, the increase was 64%. We continue to invest in product development as we push to ready G6 for market, accelerate our entry into the construction and light industrial market through Wearable Technologies, and build even more resilience into our back end supporting platform for the Blackline Live portal to enhance its ability to absorb data.

On the sales and marketing side, we saw an increase of 124% to $7.4 million. Excluding the impact of CEWS and additional costs for Wearable Technologies, the increase was actually 100%. This growth has focused on broadening our sales team and supporting functions across the United States, Europe, and in other international markets.

There was also a $408,000 bad debt charge in the quarter related to the settlement of an account that was heavily impacted by COVID-19.

As we ramped up our product development and sales efforts across the Company, including bringing on Wearable Technologies and expanding to include a facility in France to better serve our European Union-based customers, we've added incremental staff and tools corporately in our people services, accounting and finance, and enterprise IT teams, whose focus is on supporting the continued scaling of the Company.

We've also added to our operations team that oversees our production lines, quality management and procurement in response to the challenges we've seen across our supply chain. This resulted in G&A increasing 196% to $4.1 million for the quarter. However, excluding the impact of CEWS and Wearable Technologies, the increase was actually 117%.

The Company continues to maintain a strong balance sheet with no debt and a solid working capital position of $35 million, including cash and short-term investments of $33.1 million.

One additional topic I'd like to mention is our approach to ESG. Social responsibility is not new to Blackline. In fact, it's baked into our DNA, as our mission is to save lives and get people home safely. We help our customers achieve their own ESG goals by enhancing workplace safety, but we've always focused internally on ESG objectives that help us build greater resiliency and adaptability into our overall business model and safeguard the value we've created.

It's become clear that our investments in worker safety, talent, environmental sustainability, supply chain resiliency, and various risk mitigation programs all help to create a better business model and a better world. We believe that companies who do these things effectively will be the ones to prosper and be fit for the future. We are proud to have issued our first-ever ESG report during the quarter and see this as one of the many steps in our commitment to our environmental, social, and governance goals.

I will leave it there and turn it back over to Cody for our outlook and closing remarks.

Cody Slater:
Thank you for that summary, Shane.

As we look toward the end of our Fiscal 2021 and the start of Fiscal 2022, we have many reasons for optimism. We are seeing the early impact of our investment in the expansion of our sales and marketing teams in our European revenue growth of 115%. We see our investments in the United States and other international markets bearing similar fruit in the future. Our service retention remains excellent across our diverse verticals and geographies as we continue to see virtually no customer loss. We see this, along with the increasing velocity of our product deployments as drivers for even greater service revenue gains in the future.

G6, our compliance-oriented gas detection product, is on schedule for release next summer, which will open Blackline Safety's connected safety offering to thousands more industrial workers. This, along with the investment in our software infrastructure, will allow us to deliver more value through data-driven insights to a significantly larger addressable market.

There is much work to be done, but we strongly believe that we have the team in place to deliver on our future goals. We've grown throughout our Fiscal 2020 and Fiscal 2021, and now, after our first quarter on the Toronto Stock Exchange, we are starting to see the momentum in product adoption that will get us back on the accelerated growth trajectory we were on prior to the pandemic.

We anticipate realizing returns on our significant investments in innovation and sales expansion throughout 2021 and beyond, as we have laid the foundation for a world-leading Company.

I want to thank everyone now for their attention today and their support for Blackline Safety. I'll leave it there and will turn the call over to the Operator and open it up to questions.

Operator:
Thank you.

The first question comes from David Kwan from TD Securities. Please go ahead.

David Kwan:
Morning, guys.

Cody Slater:
Morning, David.

David Kwan:
Hi, Cody.

So, obviously we've seen a flurry here of large deals announced over the last month, I think the most that I've seen in the many years that I've been following you guys, and a bit pleasantly surprising given several of them have fallen in one of if not the slowest month for you being August. I think you mentioned some of that I think was due to some deals slipping from Q3 to Q4. But I was wondering if anything else has changed. Is it just that business activity picked up since the end of July and deals are moving faster through the pipeline, or is there anything else going on?

Cody Slater:
You know, David, in general we're seeing a shortening of the sales cycle, partially as we come out of COVID, but also because we have a larger install base and more recognition in the market in a series of different industries. Having said all that, this period of COVID has been one where the sales cycle has been hard to predict, and it's unclear if we're out of this period yet. But as I say, in general, we're definitely seeing a tightening-up of the sales cycle and more momentum to the order book there.

David Kwan:
Perfect. How much of that could be attributed to the ramp-up in the RSMs that you've brought on in recent quarters? I know you've mentioned in the past that these new hires have been kind of more seasoned than typically ones that you've brought on in the past, so probably a shorter timeline to hit full quota. How much of an impact are those new sales hires having on the increase in business that you've seen? Maybe not so much in Q3, because of deals that slipped into Q4, but definitely with the Q4 deal flow that you've announced over the last month or so.

Cody Slater:

Significant for sure, David, I mean you can just see that by the growth in the European sales particularly, where we've gone from just having a few RSMs to having a reasonable presence on the ground there. So definitely the deal flow you're seeing now is being impacted by that, by the new —not only the new RSMs, the new channels, and just that penetration or presence in the marketplace, so those investments we've made over the last year or two, but I also even say the same in Q3, even though Q3 didn't hit the numbers we'd have liked to have seen, a lot of what came through there was because of those investments we made over the earlier stages of the pandemic.

David Kwan:

Great. Just two more questions. One on the gross margins. The Q3 gross margin came in notable below what I was looking for and is down roughly half from Q2. How much of that was the impact from the supply chain shortages and increased freight charges?

Cody Slater:

It's hard to be specific there when you look at it as exactly what the impact was, but what we're finding is there's just a wide range of products and materials, from chips to potting mix to certain plastic components, that are either hard to get or almost impossible to get, so you're shifting to different suppliers and higher cost base. Product mix also impacts that of course, and just absorption of the amount of product going out. I'm sure your models would have shown us shipping a lot more product in the quarter as well. But there's no doubt that there's an impact from—it's that sort of supply chain world today.

The other impact you'd see on the supply chain side is the increases in our inventory; that's part of the way we're trying to manage that, though, is to make sure that we're inventorying up on components that we feel are at risk. So, you'll also see that in the balance sheet there on inventory utilizing cash to put ourselves in a better position, really as a hedge to make sure that we're able to deliver product.

David Kwan:

How should we be thinking about it going forward? Like should we be expecting product gross margins to kind of stay in this level for, you know, it sounds like you said roughly the next 12 months or so; or could we see, you know, what are there maybe some one-time items that negatively impacted the quarter as well and that they could trend back into the 20% to 25% range that we've seen in recent quarters?

Cody Slater:

Really I'd say, David, as you see the volumes come up in the products, you'll see those numbers get back into that 25%, 30% range is what we would anticipate. There'll still be an impact from some of the supply chain stuff, but I think we've taken a lot of that hit, and again, as you know with our business base, it's really volume driven. As we bring those volumes up on the manufacturing side, we fully absorb all of our costs, and you'll see those margins return to sort of more traditional levels.

David Kwan:

Okay. Sorry, one last question on the gross margins. Should we expect any increased cost ahead of the G6 launch?

Cody Slater:

Good question. There's mostly that's being seen right now in product development, there will be—I think what you'll see in the cost is, again, the same sort of thing in inventory impact as we'll be bringing on the parts and materials to ramp up to build the G6. You're also seeing, we've currently invested in extra about $0.75 million in our surface mount lines and other equipment, so there's some additional investments there. But not a significant impact to the actual overall gross margin.

David Kwan:

Okay, perfect. I'll pass the line. Thanks.

Cody Slater:

Thanks, Dave.

Operator:

The next question comes from Doug Taylor with Canaccord. Please go ahead.

Doug Taylor:

Thank you. Hi Cody and Shane. I'll echo David in congratulating you on the recent deal flow of some sizable transactions, I think over $7 million in total since quarter end that you've announced.

As we think about those contracts rolling out here in Q4 and into next year, is there any way you can help us understand the timing and cadence of the rollouts there and in particular how they should flow into recurring services revenue, which is of course a key watch item as you know.

Cody Slater:

Sure. Pretty much everything that we've seen announced, Doug, is something that's going to—is either frankly shipped in some cases, or is shipping this quarter, so look to service really being impacted Q1 then Q2 next year, depending on when the product really flows out the door here. Typically we see about a—typical numbers would be about a 60, 90 day between product shipment and starting to recognize services. But again the larger orders, as customers actually train, deploy; and once it's fully deployed, that's when you'll start seeing that service kick in.

Doug Taylor:

Appreciate that. Wondering if you can provide a bit of an update on the Wearable Technologies. We can see ramp spending there. Can you update us on the timetable and when we should be expecting you to be in market with products and so investors can begin to see a return on those investments that you're making right now?

Cody Slater:

Sure. I mean it's early days in many respects with WTL. We have been mostly investing in their operations, product development infrastructure, and really also in the sales. I'd say although you may see some early adopter sales over the next six to nine months with WTL, we expect real commercialization of the product to be about a year's time.

Doug Taylor:

Okay. Maybe one more for me. Sales and marketing spend had another meaningful step higher; I know that's been a focus area for you, and we're seeing some returns on that. Is Q2 a level that you think is reflective of the amount of spend you'd like to have? Should we expect kind of further increases? I guess what I'm getting at is when do you think we should begin to see kind of operating leverage and your revenue growth outpacing your front end loading of sales and marketing spend?

Cody Slater:

I'd say it's fair to say the rate of growth won't be the same as it has been over the past year. We've made fundamental investments throughout the Company to put ourselves into a position to enable the significant growth we're really looking for here. I'd see that growth levelling off and being more reflective of sort of overall corporate growth going forward, Doug.

Doug Taylor:
Okay, thank you. I will pass the line.

Cody Slater:
Thanks very much.

Operator:
The next question comes from Amr Ezzat with Echelon Partners. Please go ahead.

Amr Ezzat:
Good morning, congrats on your inaugural call.

I'm just wondering how discussions with customers are evolving in light of the Delta variants. You guys like see risk on the cadence of your recent contract wins, or do you feel the discussions are still very fruitful relative to say like last quarter or two quarters ago?

Cody Slater:
You know, at this stage I'd say they are very fruitful. We definitely saw a pickup in the cadence at the end of Q2, but that shifted pretty dramatically in Q3 with the Delta variant. But as you can sort of see from the deal flow that's been coming through now, we're seeing customers get back to a, you know, maybe let's call it a new normal, but a course of business where things are starting to flow. That sort of pushes everything along in this last is what's happened in Q3 with Delta, but it's been a long road with the pandemic here, and I hate to say we're out of the woods yet, but in our European markets, our North American markets, we're seeing customers start to get back to a normal cadence in their business and start to look at—you particularly see that in the larger deal flow. The smaller ones are easier to manage and handle through this, but the larger deal flow is what I think you're going to see the biggest impact out, and we see that in a much better position than it's been since the beginning of the pandemic.

Amr Ezzat:
Great, no, I think new normal is a good way to put it.

Then just a follow-up on the margin front. So, when I look at the product margin specifically coming in at 13%, is it fair to assume that this is a trough number?

Cody Slater:
Yes, I think that's fair to assume.

Amr Ezzat:
Okay…

Cody Slater:
Though when we see the revenue—sorry, Amr, go ahead.

Amr Ezzat:
Sorry, go ahead.

Cody Slater:
No, I was just following on from that, saying I would say it is a trough in the base that I think a lot of the impacts we've talked about from that supply chain side are there, and as we see revenue from product sales ramp up, then we'll absorb more of the overall costs in the operation labor and you'll see the margins improve.

Amr Ezzat:
Okay; then, maybe lastly, you can give us a bit of colour on Christine and Brian joining the executive team and what they sort of bring to the company. Then like are there any other gaps that you guys see within your executive team?

Cody Slater:
Really so for both, if you think about both Brian and Christine, I mean, both areas we really needed to put some strength and horsepower behind.

From the marketing side, Christine brings a huge wealth of background knowledge and experience in that software as a service side. But really I think when people think about marketing, we think a lot about the sort of brochure, ad, website side of what the Company's doing. A lot of Christine's background leads in from the demand side, and that's where we're going to see a huge impact there for sure; already are. We're seeing lots of things accelerated, you'd have actually seen a brand-new website launch today, so excellent impact there.

In the context of the CTO role, Brian coming on board, his background from Amazon to Microsoft to Hulu is exactly down the path we really need. Most people don't recognize the degree to which we truly are a software company and having someone lead in that space with that kind of experience is just a—it's a fundamental shift for us.

And we're seeing that impact in both cases; they both hit the ground running and the impact has been excellent.

As we look forward, are there additional spaces within the C suite that we'd be looking at strengthening? Nothing really particular right now. I think right now we've got the team we really want to take the Company for the next reasonable period of time here.

Amr Ezzat:
Thanks, I'll pass the line.

Cody Slater:
Thank you.

Operator:
The next question comes from Kris Thompson with PI Financial. Please go ahead.

Kris Thompson:
Great. Thanks. Good morning.

Cody, just on the outlook, you said in your MD&A you're beginning to see demand turning, though it's a bit more slowly than you'd initially anticipated. If I look out consensus revenue estimates for next year over $90 million, just like to get your sense if you think that's a little bit optimistic or if you think you have line of sight to achieve that type of revenue growth next year.

Cody Slater:

If we look towards the next year, going forward, those are definitely numbers that are within the realm of what our range of expectations are. There's lots of challenges going forward, and we still don't—again, I will highlight again the risks to those kinds of numbers based on what is happening in the world with the pandemic. But between the sales cadence we have today, between the new products coming down the pipeline, and really bolstered by that strengthening of our sales and marketing reach, those are still numbers within which we're comfortable.

Kris Thompson:

Okay, that's good to hear, and just on the new product launch, is the G6 still slated for launch in early Calendar 2022?

Cody Slater:

We're currently looking to see the full launch of the G6 in the summer of 2022. You'll see the product in the market prior to that, as far as just preliminary entry into the marketplace; but full launch, really based a lot around material supply and availability, will be summer of 2022. If I look at the risks on the G6, the risks really aren't on our development side, they're actually just on that materials side.

Kris Thompson:

Okay. Is it fair to say, is that pushed out a little bit then from our last discussion, or is that kind of always what you …

Cody Slater:

Yes. It pushed out at least. That is pushed out a quarter and a half kind of thing from the last times we were talking.

Kris Thompson:

Okay. That makes sense.

Just last for me, maybe for Shane on the R&D, I think you had—or your product development cost, I think you had about $500,00 in consulting fees in there. Is that going to go away, or should we assume that steps down a little bit next quarter, the product development expense line?

Shane Grennan:

For that particular project, Kris, that will be an ongoing one for a number of quarters here as the back end development for Blackline Live-portal continues.

Kris Thompson:

Okay. Roger that. Thanks for taking my calls, guys. Have a good day.

Shane Grennan:

Thanks, Kris.

Cody Slater:

Thank you.

Operator:

The next question comes from Bryan Fast with Raymond James. Please go ahead.

Bryan Fast:

Thanks. Good morning, guys.

You can now count five of the 12 U.K. water authorities as Blackline customers. Can you just characterize the remaining opportunity there?

Cody Slater:

Sure. As you say, there, I think another point I'd make just on that five is that there has been only five RFPs have been let in that market in the last three years, and we've won every single one of them. We anticipate, over the next call it nine months, another two to three of those RFPs to be released, of scale in that market, bringing up to eight in total that would have been released, and it's our view that we'll continue to see that same level of success on those ones as we go forward.

It's proven to be an excellent market for us—and with each customer win, we just strengthen our position within that market space.

Bryan Fast:

Yes, that seems fair.

Then just moving on, you cut the EXO in the market for almost a year in Europe and for much of 2021 in North America. Can you just talk about which end markets you've seen the greatest adoption of the product and I guess where you see some of the better opportunities?

Cody Slater:
It's interesting, really. Europe, the initial launch in Europe, we're seeing it in Europe and primarily in industrial applications, which is sort of a little bit different than what we might have expected initially. But that's great; it's a pretty wide variety of different kinds of applications. In North America, the biggest market we're going to see is within the petrochemical market in the refining side. Although we've been in the market for a reasonable period of time, it's only in the last quarter that we saw the EXO with internal pumps be fully approved for the North American market, so that's where the pickup of some of those large orders that you're seeing is coming from.

I think we're starting to—given the success we've had today, I don't want to say we're scratching the surface of the opportunity for EXO, but we just see that as a market that's going to continue to build and build for us. We talked a lot about the commodity-impacted side of the oil and gas space, but refining is a market that we're not in in a great degree, and the EXO will drive that, and that's something I'd look to watch over the next few quarters.

Bryan Fast:
Okay. Thanks, Cody. That's it for me.

Operator:
The next question comes from John Shao with National Bank Financial. Please go ahead.

John Shao:
Hi, Cody and Shane.

I just have a question on the foreign exchange. So would you be able to comment on the constant currency revenue growth for this quarter? I know of other companies that report in Canadian dollar, they all have some sort of FX headwinds. I'm just curious how much revenue growth has been impact by FX this quarter.

Shane Grennan:

Given that, John, some of the particular revenue growth this quarter were in Europe and the United States, so it would have been more heavily impacted than other quarters, but that does depend on the proportion of sales in foreign markets versus the Canadian market, given our reporting in Canadian dollars.

John Shao:

Okay. That makes sense.

My other question is, in the known booked client wins that Blackline announced this subsequent to quarter end, particularly around the G7 EXO, what is the revenue mix between product and service? I have a good understanding of the mix for G7, but would you be able to provide some colour on the EXO product?

Cody Slater:

Sure. Just for clarity, of the deals we've announced so far this quarter, two of them have been G7 deals, and as you say, those are heavily weighted toward service. Two of them have been EXO deals, and the EXO deals will be heavily weighted towards hardware. Almost sort of the opposite ratios, really, at the end of the day, where you're looking with the service component of those announcements will be in the 10% range.

John Shao:

Okay. My last question is, it seems like the supply chain issue has already made some of the largest like chip supplier to increase their price. As a user of those parts and chips, would you think that Blackline will increase the product and service price going to the new year just to retain a margin?

Cody Slater:

You know, the good thing about our business is—I shouldn't say 'the'. One of the good things about our business is the service side, and just the margin there, as you've seen it even growing during this period of time, isn't impacted by any of those supply chain issues, so given that that's the real focus of our growth into the future, it would not be our intent to pass on impacts on the product side to our customer base because we're really looking to see more devices in the field to see that service revenue rate growth increase into the future.

John Shao:
Okay. Thanks. I'll pass the line.

Operator:
The next question comes from Raj Sharma with B Riley. Please go ahead.

Raj Sharma:
Hi, good morning guys.

I had a couple questions, you said Canada was an issue, and outside of Canada your total revenues grew by 60%. Could you give us some colour on Canada and how soon do you think—what the impact of the Canadian customers are, and how soon do you see that sort of stabilizing?

Cody Slater:
Sure. I mean, really, one of the things to look at is really our investments in that sales and marketing side. We're currently not investing in the Canadian market; we're investing in markets outside of Canada, and it's really just simply opportunistic. Those are where the greatest opportunities for growth are. It's not that there aren't opportunities in Canada, but our view is that for every dollar we invest in Europe or the United States or international markets, we'll get a better return than we will off the Canadian side.

The world's had the impact of the pandemic, but Canada's also had the impact on the core industry here of the oil and gas space, impacts on the commodity markets themselves. Commodities have recovered, but we don't see that marketplace recovering to the growth it had before. So we'll still see growth in Canada; it's just that it's not going to be at the scale that we're going to see in the rest of the world. Eventually Canada just becomes a smaller and smaller marketplace for us as a percentage of our overall market. I mean we're Canadian and not—we definitely are—it's an important market for us, and the customers there are important for us as well too, it's just not the biggest opportunity for growth for us in the future.

Raj Sharma:
Got it.

Then, Cody, out of the announced deals, in fact, thinking back on the last question, someone asked, was announced deals that there are about $7 million or so of deals that are being announced that all fall in the fourth quarter. How much of that is product? I know you just mentioned G7 deals are more service, but could you—is that service over the entire four-year contract that you're listing as a deal won? I mean how much would we see that, for example, in a particular quarter, of an announced deal?

Cody Slater:
It's so variant on deal from deal, Raj, that that's a question that's really not easy to answer, you really can't give a straight answer to except going through each individual deal, which we don't tend to do because we don't want to sort of highlight the breakdowns of those from a competitive aspect. But suffice it to say that in the G7 world, again, it varies by market, by customer, we can blend it with deals or one-year service contracts, three-year service contracts, etc., so it's a pretty big mix at the end of the day. But the one thing I would say is you'll see the product impact in the quarter but no service impact at all until at least Q1 of 2022.

Raj Sharma:
Got it. Got it. So, in a particular G7 deal, most of the announced contract would be a service, revenues which you wouldn't see in that quarter; you would see that over the period the length of the contract.

Cody Slater:
Even that can be interesting, because in North America we'll typically sell a large deal with a one-year service contract, so hardware and service are pretty balanced, but in Europe we'll typically sell them with three- to five-year service contracts, so you're right, the majority of the deal would be in the service side.

Raj Sharma:
Got it.

Then, just lastly, I know you said that there is almost no—Cody, you said there's almost no customer loss on service retention. Are you not including the workforce reductions that you're seeing?

Cody Slater:
I mean in that space we're—workforce reduction, we haven't lost—you're right, like we look at the service in two real core aspects for current customer base. One is service reductions are where we

maintain the customer but they just have less employees, so there's less business within that particular customer base; that's mostly been the Canadian oil and gas story, as companies have taken the business tact over this last period time of significantly reducing their workforce as the commodity prices were hit. And again that scenario where I don't think I see a real recovery in that, but we've never lost a customer there. The $17,000 we referred to is actual customers that we no longer—the customer is actually no longer a customer. So in fact I think in most of those cases, if we look at the $17,000, more than half of that is from companies that went bankrupt actually, so the company doesn't exist anymore.

As a company, when you talk about those large logos, we don't lose them. That retention has been really key to the growth and for the future for us.

Raj Sharma:
Got it.

Then these workforce reductions, do you have any sort of visibility on this? Because there's a big element of "the churn" of your service customers. Do you expect this going at this rate for the next four quarters, or is it pretty much done?

Cody Slater:
You know, it's a couple points on that. The impact to the workforce reductions is it depends on when the customer renews their contract. If you think about someone with a one-year, two-year, three-year contract, they may have reduced their workforce six months ago, nine months ago, and we won't see the impact until their contract renewal, so it's not so much market-dependent as timing of the contract renewal dependent. We don't believe in the market itself we're seeing the same kinds of workforce reductions, so that should either—again, we'll still see some impacts based on the contract renewal dates, but the true impact on the overall service flow going forward, I think, should be minimized.

Raj Sharma:
Great. Okay. Thank you for answering my questions, I'll go off line. Thanks.

Operator:
This concludes a question-and-answer session. I would like to turn the call back over to Blackline Management for closing remarks.

Cody Slater:

I just like to thank everyone today for their questions and their participation, and we'd like to wish you all a good rest of the day. Thank you very much.