# Blackline Safety Corp.
# Fourth Quarter 2022 Results
# Conference Call Transcript

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**Time:** 9:00 AM MST/ 11:00 AM EST

**Speakers:**

**Scott Boston**
Vice President of Finance

**Cody Slater**
Chief Executive Officer & Chairman of the Board

**Shane Grennan**
Chief Financial Officer

**Operator:**
Welcome to the Blackline Safety Corp. Fourth Quarter 2022 Results Conference Call.

As a reminder, all participants are in listen-only mode and the conference is being recorded.

I would now like to turn the conference over to Scott Boston, Vice President of Finance. Please go ahead.

**Scott Boston:**
Welcome and thank you for joining us. I'd like to remind everyone that this call is being recorded today, Tuesday, January 24, 2023. With me today is Cody Slater, CEO and Chair of Blackline Safety Corp., as well as our CFO, Shane Grennan.

Before turning the call over to Cody, 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, please 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 a discussion of IFRS results, non-GAAP financial measures, non-GAAP ratios, and supplementary financial measures. Reconciliation between IFRS and non-GAAP financial measures is available on the Company's earnings news release and MD&A, both of which can be found on our website, blacklinesafety.com and on SEDAR. All dollar amounts are reported in Canadian dollars unless otherwise noted.

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With that, I will now hand the call over to Mr. Slater.

**Cody Slater:**

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Thank you Scott. Good morning everyone and welcome to Blackline Safety's fourth quarter 2022 conference call. Today we'll be discussing our fiscal results for the fourth quarter and fiscal year ended October 31, 2022, which were issued before market opening this morning.

To set the agenda for today's call, I will start by providing some high level remarks; Shane will then discuss key financial highlights of the quarter in greater detail; and I'll conclude by providing our outlook and some closing comments before we take questions.

Our fourth quarter represented a strong finish to our Fiscal 2022 as we not only grew revenue on a year-over-year basis for the 23rd consecutive quarter, resulting in record annual revenue of nearly $73 million representing 34% annual growth, in Q4 we also executed on a meaningful cost reduction plan that we laid out to investors during our second quarter earnings call. Continued revenue growth coupled with the tremendous progress we have made in reducing our cost structure is building momentum towards positive Adjusted EBITDA generation for the Company.

Speaking to our continued revenue growth, total revenue for the quarter was up 14% from the prior year to $22 million, which included outsized growth of 33% from our higher margin services segment. Our overall growth was driven by strong regional performance in multiple key markets. Our rest of the world revenue, which includes regions outside of Canada, the United States and Europe, grew 105% driven by our two largest deployments to date for the region, as we continued to win stronger returns on the prior investments we have made in this region.

In Canada, our sales team continued to execute across a variety of industries, resulting in a 79% revenue increase. In Europe, we began to see the benefits of the leadership and strategic alignment changes we undertook last year as the region returned to growth, generating a 13% increase over the prior year period and a 57% over the prior quarter. We are pleased with this performance and the outlook in Europe as we expect the region to be a meaningful contributor towards Blackline's future revenue growth.

Now shifting to our business segments. Product revenue of $11.1 million was largely unchanged compared to the prior year quarter but was up 25% sequentially. It should be noted that prior year Q4 hardware sales benefited from the Company's single largest order ever shipping during the quarter. Product gross margin came in at 26%, our best performance in Fiscal 2022 as our operations team successfully mitigated global supply chain challenges and inflationary pressures.

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It is worth highlighting that product margins in the quarter saw negligible benefit from the 15% pricing increase we recently implemented as we fulfilled orders in our pipeline in place before the pricing change. This pricing increase is expected to generate a significant increase in margins through Fiscal 2023. When we combine the pricing increase with forthcoming integration of product design improvements from learnings in the G6 development, we believe we are building towards 40% product margins by the end of Fiscal 2023.

On the service side, we continue to generate strong growth with a 33% increase to $10.9 million in Q4. This exceeded the 30% growth we recorded last quarter which at the time was the strongest service growth we had achieved over the past two years. We also generated 35% year-over-year growth in ARR to $36.6 million. This increase was driven by our software services, which increased 35% to $9.2 million as we continued to activate new devices, which is the inherent benefit of our hardware-enabled SaaS business model that drives high margin recurring revenue as we take market share and deploy new devices.

Our rental business also continued to grow at a high rate, resulting in 70% growth to $1.1 million, our first quarter over $1 million for the rental business as we continued to generate strong value on our past investment in the rental fleet.

Overall service margins remained healthy, coming in at 70%. Similar to our hardware business, we implemented a 15% pricing increase late last year that, along with greater adoption of our higher value service offerings across our installed base, puts us in position to push our service margins towards 75% by the end of Fiscal 2023.

While we are confident in our revenue and margin outlook, I want to highlight the impact of the cost reductions we achieved in the second half of Fiscal 2022 as we focus on profitability. We recorded total operating expenses for Q4 of $20.3 million, representing a more than $4 million sequential decrease and meeting our guidance to have Q4 operating expenses at or below our Q2 levels of $21.5 million. This success is the result of better leveraging our past investments in our sales and marketing teams and rationalizing our product development costs as we move past our most significant product launch in recent history with the G6. This step change reduction in our operating costs along with our continued success in the market puts us in strong position to deliver on our goal of achieving profitability.

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I will now turn the call over to our CFO, Shane Grennan to discuss our fiscal fourth quarter results and financial position in more detail.

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

As Cody mentioned, we achieved another quarter of year-over-year growth of 14%, generating revenue of $22 million. This includes $11.1 million in product revenue, which remained largely unchanged from the prior year period as Q4 of last year benefited from the previously mentioned largest single order in our history. I would point out, though, that our Q4 product revenue grew 25% sequentially.

Product gross margin percentage in the fourth quarter decreased to 26% from 30% compared to the prior year period. That represented our highest product margin in Fiscal 2022 as we saw some relief in supply chain constraints and inflationary pressures on the costs of certain components. As Cody mentioned but is worth reiterating, product margin performance in Q4 received negligible benefit from the 15% pricing increase we recently implemented, and we therefore expect Fiscal 2023 to show meaningful product margin expansion.

Overall service revenue during the quarter was $10.9 million, a 33% increase from the prior year quarter. The 33% year-over-year increase exceeded last quarter's 30% year-over-year growth, which was already the strongest quarterly service growth achieved over the past two fiscal years. Software services was a strong contributor to the growth, up 35% year-over-year which drove ARR growth of 35% to $36.6 million. Our rental business also continues to generate robust growth with revenue increasing 70% from the prior year to $1.1 million, marking the first quarter with over $1 million in revenue. Newly activated devices contributed to year-over-year growth of $2.4 million in the quarter and net service increases within our existing customer base contributing $0.7 million of the growth.

Our service gross margin percentage remained strong at 70%, slightly above last year's 69% as service revenue continued to grow, absorbing more fixed cost of sales. With the pricing increase recently implemented, we expect a smooth margin increase over time as we add new customers and renew existing customers under the new pricing model.

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Our total gross margin was up 17% to $10.5 million, outperforming our revenue growth as our gross margin percentage increased from 47% to 48% and is a dynamic we expect to continue throughout 2023. Growth in total gross margin is largely attributable to a shift in our sales mix with our higher margin service revenue comprising 49% of total revenue in the fourth quarter, an increase of 7 percentage points from the prior year quarter.

In terms of our geographic growth mix, we are pleased with our performance. Our rest of world region that includes the Middle East grew 105% from the prior year as we continue to reap the benefits of prior investments made in the region and capture strong demand. Additionally, Canada continued its strong performance, resulting in a 79% increase from the prior year as market demand remains healthy. We also saw Europe return to growth, generating 13% higher revenue from the prior year as we successfully executed on the leadership transition in the region. We have strong confidence going forward that Europe will be a long-term growth driver for our business. The U.S. market declined 17% in Q4 as Q4 of Fiscal 2021 benefited from a significant sales order from a customer. We remain confident that the U.S. region will return to growth in Fiscal 2023 given our robust pipeline of opportunities.

Shifting now to operating expenses, which came in at $20.3 million compared to $18.6 million in the prior year quarter. Product research and development costs increased 19% from the prior year quarter to $5.6 million. Salaries and wage expense increased $1.6 million as the Company retained and attracted resources with the required skills for our research and development activities in a competitive market. Additionally, the acquisition of Swift Labs in Q2 of Fiscal 2022 contributed $0.4 million to the increase. This was partially offset by a decrease in contractors and consulting of $0.7 million as the Company made efforts to significantly reduce its use of external resources with the completion of the G6 launch and on-boarding of Swift Labs employees who had previously been consultants.

Sales and marketing expenses decreased 8% from the prior year quarter to $9 million as we executed on multiple cost reductions. Bad debt expense decreased by $0.8 million due to improvements in the overall aging of the Company's receivables and fewer write-offs. Advertising expenses decreased $0.4 million and recruiting costs decreased by $0.2 million. These decreases were partly offset by increases to salaries and wage expenses of $0.2 million due to adjustments in salaries and new hires, including our customer care, demand generation and rental teams to fuel our commercial engine. Lifting of travel restrictions also allowed us to more effectively present

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to existing and potential customers, resulting in higher sales and business development travel costs of $0.4 million.

General and administrative expenses increased 35% from the prior year quarter to $5.7 million due to a number of structural changes across the Company in the year, as well as its overall growth. Salaries and wage expense increased $0.6 million, consulting expenses increased $0.2 million, and software maintenance and subscription costs increased $0.2 million as we added more licenses and functionalities to our platform to support additional team members joining Blackline.

It is worthwhile to note the meaningful cost reductions we have undertaken during the second half of fiscal 2022 as we achieved our goal of having Q4 operating expenses to be at or below our Q2 levels of $21.5 million. In fact, Q4 operating expenses were more than $4 million lower sequentially as the team continues to make tremendous progress scrutinizing our operating cost base as we look to better leverage our past investments in reinforcing Blackline's position as a global leader in connected safety solutions.

The largest contributors towards this reduction include a $1.9 million sequential decrease in product research and development costs attributable to lower salaries, consulting and recruitment costs. Also, sales and marketing expenses were $0.6 million lower sequentially due to lower salaries, and general and administrative expenses were $0.5 million lower sequentially due to a reduction in salaries and software maintenance costs.

Now moving to capital expenditures, which totaled $3.2 million for the quarter primarily for revenue-generating gas sensor cartridges, property and equipment additions of rental equipment, and service mount technology. Inventory totaled $18.7 million at the quarter end compared to $18.6 million at the end of the third quarter and $12.7 million at the end of our prior fiscal year. Recall that we had built up our inventory during Fiscal 2022 to mitigate supply chain challenge and build towards the launch of the G6. With past supply chain constraints improving, the change in our delivery schedule away from next day fulfillment and the launch of the G6, we expect our inventory needs to moderate, allowing us to harvest some cash from our inventory in the coming quarters.

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Blackline provides the option for our customers to purchase outright our devices or to lease through our G7 lease program, with this customer decision affecting the timing of our cash in-flows associated with that sale. We've expanded the number of customers opting for finance leases with a total of $35.9 million in future contracted cash flows at October 31, 2022, which is up from $16.3 million at the end of the prior year and up from $31.2 million at July 31, 2022. These finance leases positively impact our immediate product revenues and service retention over time but negatively impact the Company's cash flows in the near term as the associated cash inflow from leasing can take one and a half to two years to catch up to a purchase.

Another topic on our lease portfolio worth mentioning is that we are evaluating several potential financial structures that would allow us to access the value embedded in our lease portfolio to enhance our liquidity position. Since these are contractual payments with a broad and diverse customer base, many of which are investment-grade quality, we believe our lease portfolio could present an attractive option to increase our liquidity and lower our overall cost of capital. Executing on such an option would provide immediately available, non-dilutive liquidity with a possibility for growth in line with the lease portfolio.

As we worked towards this goal, we drew $8.6 million on our new senior secured operating facility, representing the value of hardware revenue from the last three quarters of new finance leases. This helps to normalize the working capital position of the Company's balance sheet.

Lastly on our balance sheet, we ended the quarter with a working capital position of $40.3 million, including cash and short-term investments of $31.1 million, and we had $6.4 million of availability remaining on our new senior secured operating facility. Recall that during the quarter, we closed a bought deal and private placement equity financing that raised nearly $25 million in gross proceeds, and closed a credit facility with ATB Financial for a new $15 million secured operating facility. We believe these financial resources coupled with continued revenue growth and the cost reductions we have achieved put us in a solid position to fund the Company through our transition to generating sustained positive Adjusted EBITDA.

As we execute towards this goal, I would like to note our updated definition of Adjusted EBITDA in today's filings that no longer adds back product research and development costs and normalizing for foreign exchange gains and losses. This makes us more consistent with peers and is a better measure of our path to profitability. Please reference the non-GAAP measures section of our

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MD&A and earnings release, which details this change and provides and a reconciliation of Adjusted EBITDA to net income for the quarter and year ended October 31, 2022 and the prior year comparative periods.

I will hand it back to Cody to discuss our outlook and provide closing remarks. Cody?

**Cody Slater:**
Thank you Shane. The next topic I want to cover is the G6, which was launched at the end of Q4. We believe the product market fit is strong and the opportunity to disrupt the $220 million annual zero maintenance gas detection market is significant. We have a strong track record of deploying disruptive solutions in the gas detection market with our connected safety solutions that deliver significant value for our customers, and we remain convinced of our solution for this new market which overlaps with many of our existing customers. We are building the commercial pipeline and expect to see an acceleration of shipments later in Fiscal 2023. We look forward to providing more comprehensive updates on the G6's penetration into the zero maintenance gas detection market throughout the year.

As we embark into our Fiscal 2023, we believe we are in an exceptionally strong position to execute on a plan of continued robust growth, healthy margin expansion, and cost containment which should culminate in the Company exiting Fiscal 2023 in a position of generating sustained positive Adjusted EBITDA. This is a significant milestone for Blackline that we are committed to achieving in a timely manner. Importantly, we believe we are fully funded to accomplish this milestone based on our existing liquidity options.

To be clear, our move to begin generating positive Adjusted EBITDA is not expected to be a one-time event as our business model is supportive of sustainable profitability with the path we are on. We have a long and demonstrated track record of revenue growth and, as Shane discussed, we have made meaningful progress towards executing our cost reductions. This is a powerful combination that would yield strong operating leverage in Fiscal 2023 and beyond as we demonstrate the strength of our hardware-enabled SaaS business model and continue our dominance in the connected worker market. We look forward to successfully executing against our strategy throughout the year, enabling the Company to exit Fiscal 2023 generating positive Adjusted EBITDA.

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Thank you to everyone who tuned in for our call today and your continued support for Blackline Safety. I'd like to thank our shareholders for their continued belief in our Company, and I would like to thank all our employees for their dedication and hard work.

With that being said, I'll turn the call over to the Operator and open it up for questions.

**Operator:**
Thank you. We will now begin the analyst question-and-answer session.

The first question comes from Martin Toner with ATB Capital Markets. Please go ahead.

**Martin Toner:**
Good morning. Thanks for taking my question, and congrats on the good quarter.

I wanted to ask you about the G6. Do you expect the launch to be sort of a trickle, or are you able to build up pent-up demand in front of launching it recently in this current quarter?

**Cody Slater:**
Yes, good question, Martin. Really, what you're going to see with the G6 is the market demand—what we're seeing is the market demand is there. Right now, what we're in the process of is building that pipeline. You need the product in people's hands to be able to do that, so you'll see a soft beginning with a really strong finish through the last half of the fiscal year here.

**Martin Toner:**
Fantastic. One more from me. The G7, the installed base, there's a big chunk of it that's turning five years old this year. How much of a tailwind do you expect that to be this year in new product revenue?

**Cody Slater:**
We're looking at something starting to be in the range of 20% of our hardware revenue looking forward coming from renewals. We've started to see the first of those in the last couple of quarters from some of the very early G7 orders, 100% retention of those customers, and the one thing we're seeing is that they tend to be renewing their hardware but also upping their service levels at the same point in time. It's going to be strong—it will be a strong impact to our hardware, but I

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think there will also be a sequential impact to the service. Even though there's still customers currently paying service, the majority of them we're seeing are renewing for higher levels of service that maybe weren't available at the point in time when they purchased the product.

**Martin Toner:**
That's great. Thanks for taking my questions. I'll pass the line.

**Cody Slater:**
Thanks.

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

**Amr Ezzat:**
Good morning. Thanks for taking my questions.

Cody, Shane, just wondering how discussions with customers are evolving since we last spoke with an ever-weaker macro environment.

**Cody Slater:**
You know, the impacts to the macro environment are certainly there. In most of the industries we're in, the heavier industries, it's not really—you know, we're not seeing a major impact. We have seen, you know, which might be part of that, Amr, a shift a bit towards our leasing program from some of the customers, where CapEx becomes maybe a bigger concern, so we've seen an increase over the last few quarters sequentially in the percentage of product going out as a lease. But in general, we're still seeing strong pipeline growth to support the kinds of numbers we want to see this quarter—or this year, I should say.

**Amr Ezzat:**
Okay, that's good to hear. On the product margin, it's nice to see the bounce back to 26%. Cody, I think you spoke to 30% target by the end of 2023. I just wonder with the price increases not fully reflected in the quarter, is there room for improvement above and beyond that 30% target?

**Cody Slater:**

Yes, actually our target here is to hit 40% at the year end, so you'll see that…

**Amr Ezzat:**

Okay, did I mis-hear? It's four-zero?

**Cody Slater:**

Yes, it's four-zero, actually Amr, so.

**Amr Ezzat:**

Okay, great.

**Cody Slater:**

Either I wasn't speaking clearly or, yes, you misheard. We're targeting four-zero because, you're right, the price increase makes a big impact, but also so does some of the—you know, we'd point to the fact that the G6 is leveraging much newer technology that can be, frankly, smaller, cheaper, and moving some of that into the G7 series as well too will improve the product performance, but also improve our margins, so trending everything towards that 40% at the end of the year.

**Amr Ezzat:**

Okay, great. I did think the 30% was conservative.

On the cost reduction plan, you're well below the $21.5 million target. I'm just wondering, how do I look into 2023? Is that $20 million and change level sustainable, or are there incremental investments you are looking to make in '23?

**Cody Slater:**

You know, Q4 is always—in certain aspects, Q4 is always our highest expenditures quarter, Amr, so we have things like the National Safety Council Show, our single biggest marketing spend that aren't in the following quarters, so expect to see a little drop sequentially and then a pretty stable number from there forward. That will mean there will be some expansion of some teams and some—you know, we're still looking at cost savings across aspects of the Company in particularly things like our software services, the services we—you know, that become part of our cost base to operate the business from external aspects as well too, but they're a pretty stable number going forward from Q1.

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**Amr Ezzat:**

Okay. Just one last one from me. On the product revenue growth, you guys spoke to the large contract in the comparative period - I believe it was a G7 EXO. Can you give us a sense of how much G7 EXO sales you had in this Q4 relative to last year's Q4?

**Cody Slater:**

I mean, the overall hardware number was pretty much similar, but if you pulled out that one order, the growth would have been in the 50%, 60% range. I think a better way to look at it is sequentially. Always for us, the business has trended to be somewhat cyclical, with Q4 always being our best - there's lots of different reasons for timing with that, but the sequential growth from Q3 to Q4 was 25% in the G7 and EXO hardware, so really strong performance in that base if you remove the reflection, which is another way to look at it without looking at that large single order that impacted our prior year.

**Amr Ezzat:**

Fantastic, thanks. I'll pass the line.

**Cody Slater:**

Thanks Amr.

**Operator:**

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

**Doug Taylor:**

Yes, thank you. Good morning. I'll start with another question on the G6 rollout. Perhaps you can add a little bit more colour on how it's shaping up relative to your expectations at this point, and if I can, I'll ask if you'll just comment on—I think you previously said 45,000 to 50,000 units was an achievable goal for that product in year one. Is that still a relevant target, given what you've seen so far?

**Cody Slater:**

Yes, I think so. I think we're seeing—you know, we're now just getting it into the marketplace. We're building our pipelines. Again, more of this will be weighted to the last half of the year, but

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we're still seeing that kind of an opportunity is there, Doug, and I think it's really—that's the build-in for the next year, if you want to look at it that way as well too. This is a sizeable market. I think the velocity that we're going to exit this year at will be exactly where we'd like to be.

**Doug Taylor:**
Now that that product's been in the market, have you seen any competitive response from your key competitors?

**Cody Slater:**
You know, not really. I think it's a bit too early technically. They're not—you know, there really is very—that's going to take a long time for them to try to compete technically, and it's already a market that's pretty price driven, so we don't really think we'll see much of a shift in the business model from our competitors. It's really just a question of us getting in front of the customers and getting the product trialed in the field, and then starting to get that order flow coming in.

**Doug Taylor:**
All right. I'll shift gears here maybe with a question for Shane. You've got your new EBITDA definition, which you expect to flip positive by the end of the year. My question is, given everything you've said about recapturing working capital but also ongoing CapEx, can you speak to the comparability of that new Adjusted EBITDA with positive overall free cash flow - should those overlap and be coincident, or what should we be thinking about when comparing those two?

**Shane Grennan:**
Sure Doug. Yes, they are largely aligned. The new metric for Adjusted EBITDA and our exiting the year with that metric should be positive, but also with our desire and our goal to exit Fiscal 2023 being free cash flow positive as well, so they both are in alignment.

**Doug Taylor:**
All right, I'll pass the line. Thank you.

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

**John Shao:**

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Good morning. Thanks for taking my questions. I just wanted to ask about your shipping costs lately. Do you see any reversal given that the global shipping costs have declined a lot? Also same question to your components from your suppliers, and what is your outlook on these two items in 2023? Thanks.

**Cody Slater:**
Sure. You know, we certainly have seen a lessening of all the impact of the global supply chain impacts that we've seen over the last year. That's partially because I think the team in our operations group has done a very good job, but as you say, the world is changing a little bit, so those are both portions of where we feel there is a—you know, those are both areas where we feel there is positive uptick to happen to get us to that 40% gross margin in the hardware side. Again, that margin improvement is going to come partially from the price increase, partially from some of the kinds of things you're talking about, and partially from newer technology being added into the G7 core line as well, so.

**John Shao:**
Okay, and the other question I had is on the service revenue. I understand the strong year-over-year growth is mainly due to a higher number of devices activated, so how should we think about the growth of your service revenue the next few quarters, just based on your current backlog of devices that are not yet activated?

**Cody Slater:**
Yes, good question. The last period of time here certainly was impacted by a couple of very large orders that took a long time to deploy. That's a bit abnormal, like the length of time they took was a bit abnormal in that base, but going forward what we're seeing is, I think, a strong cadence on that software side, a little more regular as its going up now at the end of the day every quarter. We also see—so to your question on the services side itself, you're going to see that improvement in growth throughout the year.

The other thing I'd point to is the rental side. You've had—we've started—you know, we exposed that separately just to give some good visibility there. Rental is going to have strong growth year-on-year. It's a seasonal business, though, is one thing to keep in mind, so it's driven by facility turnarounds and construction, so our Q1 and Q2 are our lighter quarter and our Q3 and Q4 are

stronger quarters, so overall service sequentially, strong growth. In the rental side, you'll see year-on-year strong growth.

**John Shao:**
Okay, thanks. That's great colour. I'll pass the line.

**Operator:**
The next question comes from David Kwan with TD Securities. Please go ahead.

**David Kwan:**
Hey guys. I was just curious on the G6, I think you talked about it previously, I think targeting—selling into your existing customer base. Is that still the case, and then secondly, how much interest are you seeing that's being generated from kind of inbound interest versus outbound lead gen?

**Cody Slater:**
Sure. I'd say certainly it is still our goal that the core of those sales will come from our existing customer base in the first year. There's a lot of overlap. Again, to be really clear, the G6 doesn't cannibalize any of the G7 business - it's a different application on the sites and facilities that we work in. It's a combination of inbound interest and outreach as well too that's generating the pipeline right now.

**David Kwan:**
Thanks Cody. In terms of the gross margins, you talked about trying to get it close to 40% on the product side, 75% on the services side. Should we expect that to be relatively linear as we progress through the year, or could it be a little bit more lumpy particularly on the product side?

**Cody Slater:**
The service side, very linear through the year. Product side, a little bit lumpier but still fairly linear going through the year.

**David Kwan:**

Oh sorry. Then the last question from me, understanding, I guess, that some of the R&D work has pushed back, I think to help conserve capital here, but maybe could you talk about the product pipeline, including maybe what's higher up on the priority list and potential timelines?

**Cody Slater:**
Sure. I mean, there's still a lot of things happening on the G6. There's different new feature sets coming out for it and new capabilities that will open some other market aspects, other than that zero maintenance side in the more traditional single gas world. A lot of work on the G7 to add new services to the G7 and new feature sets, and some updates coming down the pipe. We don't like to talk too much about it because we want to sell the products we make right now, but a strong—I'd say just a strong strengthening of the services we provide, of the higher end data services as well as just an ongoing progression on the hardware.

**David Kwan:**
Right, thanks guys.

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

**Raj Sharma:**
Hi, thank you for taking my questions, and congratulations on good solid, continuing growth.

Could you—I know you talked about a reasonable expectation for G6 this year would be about 45,000, 50,000 units. Could you remind us the price point on that and what the revenue expectation would be?

**Cody Slater:**
Yes, so the G6 really sells primarily through that sort of leasing life program, and it's a $10 a month offering. If we look at the kinds of numbers we're talking about, you're talking about a hardware impact for the year of, say, $8 million to $10 million with a services run rate in the—you know, just under the $2 million number at the end of the year.

**Raj Sharma:**

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Great, thank you. Then just wanted to understand a little bit about if you're seeing a slowdown that's impacting sales in MidEast, Asia, or particularly was the U.S. sales down at all due to any slowdown you are seeing or was it entirely related to that big sale last year?

**Cody Slater:**

Yes, good questions. The Middle East, actually we're seeing really strong growth opportunities, and keep in mind we're really—we don't—it's a market we invested in a couple of years ago by putting feet on the ground, by getting the appropriate certifications, doing—you know, dotting all the Is, crossing all the Ts so we can sell into it, so you're now starting to see some real growth. The last quarter saw two of our largest orders ever, and those are both from customers who have a strong ongoing appetite, so we expect to see that become a significant contributor to the Company's revenue over the year.

U.S. strong pipeline growth - I mean, that single largest order last year was a—you know, makes a pretty big impact to try to over-achieve that at the same time, but I'd say the pipeline and strength is there, the growth in that pipeline is there, and we're still seeing that quarter-on-quarter, year-on-year growth as we go forward now in the U.S. market, so not a big impact. I mean, there's a lot of sensitivity to watch what's happening in the markets with potential recession, all the other things along those lines, but we are—again, we're not seeing a major impact with really any of the core markets we're in right now.

**Raj Sharma:**

Right, and then what would be signs of a slowdown? Would you see more leasing, lower product revenues upfront? You know, what would—and would any regions look more vulnerable than not?

**Cody Slater:**

Yes, you know, for us it's still so much about gaining market share that it's—you know, there's a bit of a balance there within it. Markets like the Middle East, where we're pretty new, you could see—you know, with traction in the overall market, but we'll still see strong growth. In core markets like the U.S. and Europe, and Canada—Canada is very oil and gas focused for us, so that's a different dynamic and it tends to be quite strong right now. I think where we see it, where we would see it if it's happening is in the strength of our sales pipeline, the length of time it takes to close an order and just the build of that pipeline strength going forward, and that's something we watch very carefully.

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I think the more vulnerable markets are—you know, it's probably more in the municipalities that we deal—is one of our vertical markets that has more sensitivity. I think the heavy industrials tend to be doing pretty well, so a little bit—you know, it's probably more vertically oriented than geographically. If you were trying to look at it—if one's trying to guess the geographic spaces, Europe is probably a little more vulnerable than North America, but again it's not something that we're seeing to be—you know, the opportunity for our growth is still very strong in all of those marketplaces.

**Raj Sharma:**
Great, great. Thank you for answering my questions. Again, great quarter, and good luck. I'll take it offline.

**Cody Slater:**
Thanks.

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

**Bryan Fast:**
Yes, thanks. Good morning guys. Could you just maybe dig a bit deeper on the commentary surrounding the lease monetization - I mean, is the goal to monetize that entire amount, and maybe just some colour on timing and if this would be seen as kind of a one-time event.

**Shane Grennan:**
Sure Bryan. Yes, the number of finance leases that the Company has, has grown 121% year-over-year to finish the year at $36 million. What the structure and the form of that takes is probably—is an ongoing item we're looking at right now, and whether it's the hardware component of that or the service, more likely on the hardware side to be financed. That would be a one-time opening item but ongoing from there, and we're looking at that as something early in 2023 to take place there.

**Bryan Fast:**
Okay, thanks Shane. Maybe just some colour on the rental opportunity. Obviously we saw a nice uptick in the quarter. Are you seeing clients maybe turn to that option given the uncertain macro

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outlook, and they're maybe pushing out their purchase commitments? Just some more colour there.

**Cody Slater:**

Yes, it's not—I wouldn't say that's really the driver. The driver really is our entry into the rental market, that was really focused on two things: the EXO product, you need the area monitors to be in that marketplace, and the investment we made in both people and inventory to set that up last year. It's something where you have nice visibility of it because these projects are planned months, years in advance, so you can see the pipeline build and we can see—you know, we can already see a very strong year this year. Again, cyclical is one thing to keep in mind on the rental - Q1, Q2 are lighter quarters, Q3, Q4 are the strongest quarters, but I'd really say it's its own market in that base.

It's two things, there's—I'll add one quick thing to the rental side. For us, it's good revenue, it's very good margin, but it also exposes us to new customers. These turnarounds and construction aspects are happening at different timelines than maybe their purchase of their new hardware for their multi-gas or perimeter monitoring or area monitoring, so the rental is actually exposing us to new customers on a daily basis, which is another real value-add because, once they've seen the product and they've seen the services side, they're—you know, it's more likely for us to see a rental turn into an actual purchase at the end of the day versus a purchase turn into a rental, I'd say.

**Bryan Fast:**

Okay, thanks. Appreciate the colour. That's it for me.

**Operator:**

This concludes the question-and-answer session. I would like to turn the conference back over to Cody Slater for any closing remarks.

**Cody Slater:**

Thank you Operator. I would 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.

**Operator:**

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This concludes today's conference call. You may disconnect your lines. Thank you for participating and have a pleasant day.

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