Blackline Safety Corp.
Third Quarter 2023 Results
Conference Call Transcript

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Speakers:

Scott Boston
Vice President, Finance

Cody Slater
Chief Executive Officer & Chairman of the Board

Shane Grennan
Chief Financial Officer

Operator:
Welcome to Blackline Safety's Fiscal Third Quarter Results Conference Call.

This 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.

Today, we will be discussing our fiscal results for the third quarter ended July 31, 2023, which were issued before market opened this morning.

With me today is Cody Slater, CEO and Chair of Blackline Safety Corp., as well as our CFO, Shane Grennan.

I will turn the call over to Cody in just a moment for an overview of our third quarter. Following that, Shane will discuss the financial highlights of the quarter in greater detail. Cody will then close with our outlook and some additional commentary before we take questions.

I'd like to remind everyone that an archive of this webcast will be made available on the Investors section of our website.

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. A reconciliation between IFRS results 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.

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

Cody Slater:
Thank you, Scott. Good morning, everyone, and welcome to Blackline Safety's Third Quarter 2023 Conference Call.

I'm pleased to share today Blackline's third fiscal quarter results, our 26th consecutive quarter of year-over-year revenue growth. These results demonstrated the successful execution of our plan to deliver positive Adjusted EBITDA through revenue growth, margin expansion, and cost discipline. We saw revenue growth of 34% over the prior year, while we incurred an 18% lower operating cost. Blackline also achieved the highest-ever gross margin for the Company, at $13.4 million, which was driven by product margins of 29%, their highest in over two years, and continued strong service margins of 75%.

We also exceeded our target for the key metric of net dollar retention, reaching 125% one quarter ahead of schedule. This drove our annual recurring revenue, or ARR, to $47 million, up 43% year-over-year. Our growth, combined with our continued cost discipline, led to an improvement of $7.7 million in Adjusted EBITDA, compared with the prior year quarter. The past year has seen Blackline improve every single financial metric as we continue to deliver value to our growing list of customers through our unique and innovative product, data, and communications services.

With our improving margins, growing ARR, and decreasing cash burn, we exited the quarter in the strongest financial position ever, with total liquidity of $25.6 million in our cash, short-term investments, and operating facility, and $50 million available on our lease securitization facility.

As we continued to win market share, we saw 26% Hardware revenue growth year-over-year, taking business from our competitors and expanding the connected safety market through our industry-leading products and services.

In Europe, we saw growth in the water, wastewater, and utility sectors, which led to a 55% revenue increase for that region. Other significant global wins include several orders across the

Middle East, totalling $1.3 million in total contract value, and a deal worth $3.2 million to protect 1,000 workers for a large energy company in the U.S. Permian Basin.

We continue to see strong customer interest in the G6, especially with our soon-to-be-released enhanced feature levels, launching as Protect and Protect+. These feature sets are driving customer adoption as well as higher service revenue. As expected, we have recently started to see the first large opportunities emerge as we demonstrate these enhanced functionalities, illustrating again how data and communication are central to the way that Blackline differentiates its fully connected solution.

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

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

As Cody mentioned, we achieved our 26th consecutive quarter of year-over-year revenue growth, up 34%, generating total revenue of $24.8 million. This includes $11.3 million product revenue, which increased 26% year-over-year. The increase in the current year reflects the past investments in the Company's expanded Sales network and Global Sales team, with continued strong demand generation and sales development activities.

Product gross margin of $3.3 million more than doubled in the third quarter, thanks to the growth in revenue and an increase in gross margin percentage to 29%, from 17% in the prior year period. Product margin increased sequentially for the third consecutive quarter, as we began the rollout of a secondary pricing increase, and saw benefits from increased throughput from our expanded production facility, where we have enhanced capacity and process automation.

Service revenue during the quarter increased 41% to $13.6 million, our second consecutive quarter with greater than 40% growth in this segment. Software Services were a major contributor to this growth, up 41% year-over-year, which also drove ARR growth of 43% to $47 million. Newly activated devices contributed to year-over-year growth of $1.4 million in the quarter, and net service increases within our existing customer base contributed $2.4 million. This resulted in net dollar retention of 125%, achieving our Q4 FY 2023 target one quarter ahead of schedule.

Our pricing increase, combined with customer device count expansions, and the efforts of our Client Success team to increase the penetration of higher-value services, including Blackline's Safety Operations Centre, personnel monitoring, two-way voice, and push-to-talk all contributed to this remarkable number.

Our Rental business also continues to generate a robust growth, with revenue increasing 35% from the prior year to $1.1 million. Rental revenue was slightly down from the second quarter of 2023, with Q3 being a slower season for rental projects. We expect to continue our strong year-on-year growth in the Rental business in the fourth quarter, as well as fiscal 2024, with the Rental team having expanded to cover Europe and the Middle East regions, where there is huge demand for our connected area and wearable monitors for three to nine-month projects.

Our service gross margin percentage continues to be strong at 75%, generating over $10 million of gross margin for the quarter. We expect to see incremental margin improvements in Q4 and fiscal 2024, as we increase our penetration of value-add data and communication services for our customers. Our total gross margin percentage came in at 54%, yielding $13.4 million, setting another quarterly record for total gross margin. The growth in total gross margin is due to revenue mix, cost optimization efforts across our business, and the rollout of our pricing increase.

In terms of our geographic growth mix, we are pleased with our performance, as each one of our key geographic markets improved from the year-ago comparable period. Our European market represented our largest growth region, improving 55% from last year's Q3, as our Sales team secured several major wins in this region. The U.S. continues to be our largest market, and demonstrated strong growth at 35% from the year-ago comparable period, as we leveraged our established sales network in the region. Additionally, our Canadian and rest of world markets were able to see year-over-year increases of 19% and 5% respectively, as we continue to have excellent product wins and strong renewals across these regions.

Shifting now to operating expenses; those expenses for the quarter were $20.1 million, which was down $4.5 million or 18% compared to our expenses of $24.6 million in the prior year quarter. Excluding impacts of foreign exchange, this was the sixth consecutive quarter where Blackline has achieved its total expenses as a percentage of revenue.

General and administrative expenses decreased 8% from the prior year quarter to $5.7 million, which represented 23% of revenue compared to 33% in the prior year. This decrease was primarily due to reduced legal and consulting costs as we continued to focus on our fixed cost base.

Sales and marketing expenses decreased 3% from the prior year quarter to $9.3 million, which represented 38% of revenue, compared to 52% in the prior year period. The decrease was the result of lower headcount and contractor expenses compared to the prior year. I would like to underscore that even with this decrease, these go-to-market teams drove revenue growth of 34% for the quarter.

Product research and development costs decreased 43% from the prior year quarter to $4.3 million, and decreased as a percentage of revenue to 17% from 40% in the prior year period. Salaries, recruitment expenses, and consulting and contractor costs associated with the G6 were all down, with the core development work for that product having been completed. Our Development teams are now focused on the next generations of our core products and services, and we look forward to the impact these innovations will make as these products begin to launch in late 2024.

Moving on to capital expenditures, these totalled $1.4 million for the quarter, primarily for additions of revenue-generating sensor cartridges in use by customers, and rental equipment to support the continued growth of that service line.

Inventory totalled $16.6 million at quarter-end, compared to $18.7 million at the end of the fourth quarter, as we worked to improve our inventory turnover while our sales continued to grow. We see inventory continuing to be a source of cash for us over the next several quarters.

Our G7 lease program has a total of $38.2 million in future contracted cash flows at July 31, 2023, up from $36 million on October 31, 2022. During the quarter, we received proceeds from our lease securitizations facility with CWB Maxium of $2.6 million, and we have scheduled repayments of $0.8 million. We expect to see similar advances and repayments in the fourth quarter, based on third quarter lease contracts.

We continue to have over CAD$50 million equivalent of availability on the facility as of the end of this quarter, as we continue to use the facility to optimize our working capital.

At quarter-end, we had total cash and short-term investments on-hand of $17.6 million, with $8 million of availability on our senior secured operating facility with ATB Financial, and $50 million CAD equivalent of availability under the lease securitization facility with CWB Maxium. We remain confident that we have the resources required to execute our business strategy of achieving sustainable growth, innovation, and disciplined cash management, so that Blackline can generate a positive free cash flow in fiscal 2024.

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

Cody Slater:
Thank you, Shane.

We want to reiterate our goal to achieve positive quarterly Adjusted EBITDA in Q4 of this year and for the full year of fiscal 2024. I would also underscore that we have the liquidity and resources to take us to free cash flow in fiscal 2024.

It is clear from everything we have discussed today that Blackline is a different, dramatically stronger Company than it was a year ago. We've grown to be one of the most significant players in our industry and proven that our business model can successfully take our Company through to profitability and beyond, and demonstrated that we have the resources to do so. Everything we have done to-date has positioned us to become the dominant player in the multi-billion-dollar gas detection and connected safety markets. It is now time to focus on the true opportunity this presents to both our top and bottom line, driving value for our shareholders over the coming years.

I want to thank the Blackline team across the globe for their commitment to our purpose, and for the incredible results they have collectively delivered to-date. I speak for all Blackline employees when I say that we are grateful to our customers for their continued trust in Blackline to protect their people around the world.

Thank you for your attention this morning, and I'll now turn it over to the Operator for questions.

Operator:
Thank you.

We will now begin the analyst question-and-answer session. To join the question queue, you may press star, then one on your telephone keypad. You will hear a tone acknowledging your request. If you are using a speakerphone, please pick up the handset before pressing any keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

The first question comes from John Shao with National Bank. Please go ahead.

John Shao:
Hey, good morning, guys, and thanks for taking my questions.

Cody, could you give us an update on the G6 and whether it is still on track for delivery in Q4?

Cody Slater:
Sure, John. As we mentioned in the call, I think that this last—a couple of quarters, we've been working on both an updated version of the capabilities for the six that'll be called Protect and Protect+. Both of these are really designed to give enhanced feature sets to customers who are looking for really getting more value out of the data, both that are completed through their development and beginning their launch right now into the field, along with the accessories that are also necessary for that, such as the large-scale multi-chargers. The Protect+ since it uses a lot more data; it'll have a weeks-long battery life rather than year-long battery life, so you need to have easier methods of charging.

All that's completed and coming into market right now; we're seeing the pipeline start to build all that, as part of this overall strength in our pipelines right now.

John Shao:
Okay, thanks.

A related question on Hardware is, could you comment on your overall Hardware sales pipeline and how this is going to impact your Q4 product revenue?

Cody Slater:

Sure. I think most people are probably aware, Q4 is always our strongest Hardware quarter, it's just seasonality in some aspects. It's just the fact we have a Company that's growing at the rates we are, the last quarter—Q4's always going to be the strongest quarter, and we're seeing a pipeline right now that's continuing that, supports us, seeing strength really across the whole product range.

I'd point to a couple of the markets; in what we call our rest of the world market, which was a little soft in its growth last quarter, is going to be very strong in Q4. We saw the beginning of a return; to really strong growth in Europe in Q3, that's continuing into Q4. Strong pipeline across the portables and across the area monitors, really throughout all of our regions right now.

John Shao:

Okay, got it. My last question is on modeling. In terms of your total operating expense for Q4, should we expect total costs to be relatively flat compared to Q3?

Shane Grennan:

John, that's correct, yes. That would be a fair assessment.

John Shao:

Thank you, I'll pass the line.

Operator:

The next question comes from Rogan Anantharajah with ATB Capital Markets. Please go ahead.

Rogan Anantharajah:

Thanks.

Just had a question on customer behaviour; have you guys noticed customer behaviour has changed over time, and are customers being a little bit more cautious, which could lead to longer lead times?

Cody Slater:

Rogan, it actually—so, you're getting a little bit of the opposite. The penetration, the depth of experience we have in the different vertical markets now just adds strength, so if the customer—what we see is less desire for customers to treat us as a bit of an unknown, because we're in the markets, we're being used by their competitors or people in their same industry, or a lot of our expansion is inside our current customer base itself.

Really, I think shift, if we're seeing a shift in the market, certainly we've seen a shift in the last year and strengthening in the oil and gas space with the strengthening of the WTI pricing, which maintains its strength right now. Penetration into some new verticals is starting well; we mentioned that a little bit in one of our press releases recently about the fire and hazmat world.

I think as we become more of the industry standard for a connected worker, which we really are in the context of the world's gas detection, I think it's a bit of the opposite. We see shorter development times to bring a lead to what we call a commit level, and we see that continuing in the future.

Rogan Anantharajah:

Perfect, that's great colour. Just had another question on your net dollar retention; last quarter, you revised your target up to 120%, and then now you guys are at 125%. Did you guys update a new target, or do you see where NDR could potentially go?

Cody Slater:

We're really pleased, because I think that that's a huge number to look at, 125%, that those are pretty industry-leading kind of numbers in any world. I think internally what we really like about that is just how much it reflects on the customers and how much customers value the services we provide for them. That's what is really driving that, and with that strong customer retention, that growth in net dollars, customers adopt new units and as they adopt new services, the core real growth is reaching 125%. We did that faster than we thought. I think you're able to see similar numbers going forward, but not the same level of growth going forward.

Rogan Anantharajah:

Perfect, that's great. Thank you. I'll pass the line.

Operator:
The next question comes from Jason Zandberg with PI Financial. Please go ahead.

Jason Zandberg:
Hey, thanks for taking my questions.

First of all, just wanted to get your comment on—you had a very strong sales quarter here. Just wanted to get some colour if I could on those strong sales during the third quarter?

Cody Slater:
Sure. I think what you're seeing, really, is just the work that's been done over the last year in Europe, with some shifting in our Sales structure and our approach to markets there. We see that as really the tip of the iceberg there for Europe. They've done a good job getting themselves into the position where we're now seeing visibility in our European pipeline that shows that—we can see that kind of growth going forward. Still a lot in water, wastewater, definitely good strength, in addition from the current customer base.

Just a pretty broad—the European market's a little different for us in that there's less oil and gas penetration within the market in Europe, but a broader industrial base, and seeing real strength there across the board on the products space. We're going to start seeing that in the rentals in Europe as well too, and the rentals in the Rest of the World, in the Middle Eastern market, as we put some investments into there.

I'll shorten that up to say that what you're seeing if the results of the work the team over there has done, and the alignments here with the teams here, globally to get the region on the track that we want it on.

Jason Zandberg:
Okay, no, that's great. My second question just relates to your ARR. It was a nice jump this quarter to $47 million; quite impressive given where you've been trending. This is definitely a step up, a step change. Just wondered, what's your outlook on your annual recurring revenue from this point forward? Do you expect it's… First of all, what was the reason for the jump, and then second of all, what is your expectation on the growth in this number moving forward? Thanks.

Shane Grennan:

Hey Jason, it's Shane here. Yes, we did have very good movement this quarter. We were 11% sequentially from our second quarter through to our third quarter. Reasons for that were expansion within the existing customer base that we have moving onto more high-level service plans that we're moving there, and as well as new device sales taking place within the previous periods and those service plans coming online in the third quarter. Going forward, it's certainly great to have the 11% increase sequentially; it'll probably be something a little bit maybe more modest from a modeling perspective on a go-forward basis. But yes, it's fantastic to have that $47 million up 43% from where we were at this time last year.

Jason Zandberg:

No, that's great. Thanks very much.

Operator:

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

David Kwan:

Hey guys. Just wanted to get back onto the G6 here. Obviously, you had a bunch of customers that were looking for more G7-like features in the G6 that you guys have been working on and accelerate that product roadmap. Could you give us a better sense on how we should think of the ramp in the G6, understanding that you're launching it right now, and to what extent there might be some pent-up demand, or whether we're still going to need—there's going to be, somewhat some in the G7 launch, you have customers that want to go through POCs and stuff like that, and then maybe see more of a ramp in a couple of quarters?

Cody Slater:

Yes, I think it'd be a little bit of a mix between the two. I'd say a bit more the latter, but yes, we have customers who've been waiting for some of those enhanced feature sets, particularly the higher level of data and visibility of workforce that we can provide. We're going to start to see a ramp in shipments in Q4. But I think the real pipeline build is as we get those new Protect and Protect+ features really into the market. We'll be in three major tradeshows at the end of this quarter.

Our biggest really is the shows for the year, in both Germany, the Middle East, and North America. That'll be the core focus of that, and I think that will really start to build the ramp we're really looking for into next year, going into Q2 going forward.

David Kwan:
That's helpful, thanks, Cody.

Maybe a couple questions for Shane; just on the receivables, that's continued to trend upwards. I think it's up over double year-over-year versus roughly a one-third increase in the revenue. Can you provide some colour as to what's going on there? It clearly seems like customers are taking longer to pay, so how much of a concern is that? I also noticed that the loss allowance, it's still relatively small, but that jumped significantly since the end of last year, so looking for some colour on that.

Shane Grennan:
Sure, David. Yes, we were at, overall, $35 million at the end of July, that was $30 million compared to April, obviously in reference to greatly increasing revenue numbers over the periods that we had. From a day sales and selling perspective, we are higher at our July quarter-end as compared to, say, our April quarter-end. A lot of that is to do with the timing of sales and whether it happened within a particular fiscal quarter.

In our July quarter, we had a large preponderance of our sales taking place within the last month of the period, which means that those will be recovered through cash receipts in the fourth quarter, as opposed to being received in the quarter we're at. From a provision for potential bad debt perspective, we calculate that in accordance with IFRS and there's no unusual items within there from an outstanding or a concerning point of view, from my perspective. Overall, it is a larger number at the end of July, but it has been actively managed in terms of cash receipts on that, on a continuous basis.

David Kwan:
No, appreciate that. Yes, I didn't know whether you just had a lot of sales late in the quarter.

Shane Grennan:
Mm-hmm.

David Kwan:
But it has increased over the last couple of quarters, and I think it's roughly about $5 million a quarter. I don't know if you've just—over the last few quarters, you've been getting a bunch of sales towards the end of the quarter, or if there's something else going on?

Shane Grennan:
It does happen, David, that there are sales at the end of the quarter. Again, our revenues have continued to increase through the year. Q2 and Q3 are a little static, but that has been at least the status of where we are at with that.

David Kwan:
How should we look at that going forward? Should we expect a reversal and then the DSOs, correspondingly, to come down hopefully as early as Q4, if not early next year?

Shane Grennan:
Yes, certainly, David. I would like that to come down to—turn that more often and then have the cash receipts come in a little bit faster, and that's something we have to obviously work on. But I would say it is dependent on when sales fall within a particular period, as to when they can be brought in within our general credit terms or not.

David Kwan:
Yes. I was wondering, because typically, obviously, with the Q4 being a seasonally stronger quarter, that your sales have usually jumped, not surprisingly. I was just wondering whether, given the increases that we've seen in the receivables so far this year, should we expect Q4 receivables to increase, maybe not to the same extent as we've seen in prior years, but whether it increases a little bit or maybe stays flattish so you can work on the receivables that are already outstanding?

Shane Grennan:
I would think, and Cody's made a reference already to pipeline for Q4 that's there, so it wouldn't be unexpected. It would be a Q4 larger receivables number than, I would say, Q1, Q2, and Q3.

David Kwan:

Okay, okay. Last question, just on the inventory side, it was down a bit to help offset that increase in the receivables. I know you guys are making changes there in terms of delivery times and whatnot. Is this a level that you feel comfortable at, based on the sales trajectory, where, based on the inventory levels that you'd like to hold, or could you see that number start to trend up again?

Shane Grennan:

Sure, yes. We ended—our July quarter-end was $16.6 million unturned inventory. That was down from $18.7 million at the end of the fiscal year. To answer your question, yes, we would like to see, can we improve our turns again on that as we go into the fourth quarter? We would like just to see that be a source of cash again in our fourth quarter.

David Kwan:

Okay, perfect. Thank you.

Operator:

The next question comes from Gabriel Leung with Beacon Securities. Please go ahead.

Gabriel Leung:

Hey, good morning, and thanks for taking my questions, and congrats on the progress.

I've just got a couple questions. First, just going back to the EBITDA guidance, EBITDA going positive in fiscal Q4; with operating expenses being relatively flat expected quarter-over-quarter and Services revenue is relatively predictable, it would imply a relatively big jump in Hardware revenues to get to that EBITDA-positive milestone next quarter.

I'm curious, what sort of visibility do you have into hitting those Hardware revenue milestones this quarter? Is any of that predicated on some maybe chunky orders that might have to wait until the last week of the quarter to close out?

Cody Slater:

Sure, Gabriel. A couple points maybe I'll just add first before talking about price-wise, the other thing you're going to see in Q4, we expect to see in Q4, is a continued expansion of our gross margins. You're seeing that as the Hardware's moved from 17% year to 29%. The service margin's moved up into that 75% range. You'll see an increase in the gross margins, particularly on Hardware in Q4, is our anticipation, based on volumes and product mix. You'll see a strengthening In the rental program as well too. Shane, I think, noted that rental was actually down Q3 from Q2. It's a bit of a seasonality, but Q4 is a strong quarter and we have good visibility into that returning to very strong growth.

We have continued strength in the whole Service channel. Then, when you look at the product side, we have good visibility into our pipeline reaching the targets that we need to hit that EBITDA number. There was some decent-sized orders in there; there's no one order that makes up a third of the number or some massive portion of the number, but there are large-scale orders, obviously, within that. There's risk within those, whether they slide or slide out, but there's also ones that we're actively looking at pulling into the quarter. We have a strong view of the pipeline going forward. It gives us confidence that we can reach those numbers.

I think the other question in that becomes supply chain and the ability to shift everything that we have incoming in the orders, and that's another challenge that we're actively managing as we look to what is always our largest quarter. Without getting into the details, there's always supply chain challenges, but we believe those are well-managed for the quarter as well.

Gabriel Leung:
Got you, thanks for that.

Secondly, just on G6, Cody, you mentioned you've also got a much clearer line of sight to some more material purchase orders on the G6 side, now that the features and functionality are completed. I'm curious whether you've seen any change in behaviour from your traditional competitors in this space, now that you are getting closer to potentially signing a large PO? On the G6 side, whether you've seen any changes in—specifically, around pricing and whether you might have gone a bit more predatory in terms of pricing with the imminent release for the launch of your products?

Cody Slater:
It's an interesting question. I think there's been a couple of situations we'd say where we've seen competitors actively marketing their low-cost products, practically at below cost pricing, but not targeting the kinds of customers that we're looking at Gabriel. They're really the ones that are

looking to buy—the six are the ones who are looking for that higher value, and most are trending towards looking at our enhanced service level, being that Protect+, which actually is at a significant price increase over the original core launch of the G6.

We don't see that kind of predatory pricing doing anything but damaging our competitors' margins. It really doesn't hurt our margins. It's not our customer.

Gabriel Leung:
Got you, thanks for that. Thanks for the feedback. Congrats on the progress.

Cody Slater:
Thank you.

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

Raj Sharma:
Yes, thank you for taking my questions. Solid quarter, solid results, congratulations.

I just wanted to understand a couple things; just the cadence of the securitization facility and the levels that you see, up, down, during the quarter, and also relevant to that, the percentage of the leased versus outright purchases, if you can give more colour on that? What level of the securitization facility do you foresee, the balance on it, in the quarters and the year ahead?

Shane Grennan:
Raj, it's Shane here. The Lease securitizations, its been utilized now, it's been extremely successful for us from a working capital management perspective. The usage that we had during our second quarter, from a third quarter perspective, the lease was probably a little lighter than some of the previous quarters that we've had, compared to our second quarter and other quarters and our prior fiscal year.

The uptake of these is, again, it's customer-dependent in the period as to what capital allocation decision a customer wants to make in terms of their buying the devices through bundled plans or whether they wish to do it through a financed lease. From a look forward perspective, the numbers that we have for Q3 would be good indicators for what Q4 and forwards may be, but I will just caution that it is dependent on the extent to which customers enter into financed leases through the period as to what we can finance.

We have $50 million CAD equivalent available for that facility with CWB Maxium until the end of July. We'll continue to actively utilize that facility on a go-forward basis for those customers that we will put through that securitization program. We look forward to continuing to manage our working capital effectively through using that tool and program.

Raj Sharma:
Yes, thank you.

I wanted to understand the securitization facility; so, the percentage of the lease is what of the total, in products? You also...

Shane Grennan:
(Multiple speakers 37:34). I'm sorry, Raj, I think you broke up the last piece of your question there.

Raj Sharma:
No, it's fine. I'm trying to understand the leased revenues versus total, and how that plays in. The use of the securitization facility, and how that would play in with the—and how should we look at that modeling, when you look at also the accounts receivable balances, and what level of AR could we expect in terms of DSOs over the years, how that plays with the securitization facility?

Shane Grennan:
Yes, sure, Raj. By way of indicator, the percentages that could go through leased could be low teens up to sometimes 30%, 30%+ within a quarter, depending on what the customer decision is. From a modeling perspective, you can take an average of somewhere in there, look at what the product sales in the period is, and then factor off of that in terms of what would be financed through that program. Our preference is to fully utilize, where possible, customers within North America, which is where the lease program, securitization is centred for those North American customers, to put as many as possible through that program to aid us. Hopefully that benefits in terms of your model planning.

Raj Sharma:
Great, thank you.

Then just moving on to the product gross margins, you are expecting the expense levels to stay constant here, the overall operating expense levels. Then the gross margins on the product side, did I hear from Cody that you expect significantly higher product gross margins in Q4…

Cody Slater:
Yes.

Raj Sharma:
…because of the volumes?

Cody Slater:
If you looked at it throughout the year, we've gone up every quarter. Quarter-on-quarter, in those margins, Q4's our highest-volume quarter. There's also a price increase that took place in June that will impact this as well too. We've talked a lot about the price increase we did a little over a year ago of 15%. We did a price increase of 6% in June of this year, so that's going to also help impact those margins. Yes, you should look to see a strengthening of the Hardware margins and a slight strengthening on the Service margin I'd say, as well, because of that price increase and just the volumes, at the end of the day.

Raj Sharma:
Great, thank you. That's it for me, I'll take it offline.

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'd just like to thank everybody for participating today, and wish you all a good day.

Operator:

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