Blackline Safety Corp.
Third Quarter 2024 Results
Conference Call Transcript

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Speakers:

Cody Slater
Chief Executive Officer and Chairman of the Board

Robin Kooyman
Chief Financial Officer

Elisa Khuong
Vice President Accounting and Finance, Corporate Controller

Sean Stinson
President and Chief Growth Officer

Jason Zandberg
Director, Investor Relations

Operator:
Good day and welcome to the Blackline Safety's Third Quarter Results Conference Call.

All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key, followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star, then one, on a touch-tone phone. To withdraw your question, please press star, then two. Please note, this event is being recorded.

I would now like to turn the conference over to Jason Zandberg, Director of Investor Relations. Please go ahead.

Jason Zandberg:
Welcome and thank you for joining us. On this call we will be discussing our fiscal results for the third quarter ending July 31, 2024, which were released earlier this morning.

With me is Cody Slater, CEO and Chair of Blackline Safety Corp., as well as Blackline's new CFO, Robin Kooyman, and Blackline's VP Finance and Accounting Corporate Controller, Elisa Khuong. I will turn the call over to Cody for an overview of our third quarter and introduction to Robin. Following that, Elisa will discuss the financial highlights of the quarter in greater detail. Cody will close with our outlook and some additional commentary before we take questions.

I would like to remind everybody that the archive of this webcast will be available on the Investor 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 these statements. For a discussion of those risks and uncertainties, please review the forward-looking statements disclosure in the earnings news release, as well as 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 in 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 over the call to Mr. Slater.

Cody Slater:
Thank you, Jason.

Good morning everyone and welcome to Blackline Safety's third quarter 2024 conference call.

I'm pleased to share with you today an update on our progress, as we just released our Q3 numbers. Blackline Safety achieved another record quarter through revenue, reaching $33.7 million, an increase of 36% from last year. Since the G7 was launched in 2017, we have achieved top line growth every quarter, a streak that now sits at 30 consecutive quarters. The strong market acceptance of our connected worker solutions is apparent in the fact that we generated more revenue this quarter than we did in the entirety of fiscal 2019.

Our top line growth has always been consistent at Blackline, and this quarter I am very pleased to announce that we also achieved positive EBITDA. This milestone signals we are reaching scale as a business with significant growth opportunities still ahead of us. Both standard EBITDA and Adjusted EBITDA were profitable this quarter. EBITDA crossed into positivity from a negative $4.8 million only a year ago. Adjusted EBITDA reached $0.8 million, an improvement of $4.6 million from a loss of $3.8 million last year.

Gross profit was $19.9 million, up an impressive 48% from the prior year. Gross profit for the first nine months was $52.5 million, which is nearly equal to our gross profit for the entirety of last year with our strongest quarter still to come.

This quarter, we reached a record annual recurring revenue of $62 million, up from $47 million last year, a 32% increase, a testament to the strength of the hardware enabled SaaS business we have built. Net dollar retention was 128% during Q3 as our clients continue to see value and expand their business with Blackline.

Our gross margin set a new record at 59%, up from 54% last year. We are proud to report our highest product gross margin ever at 38%, normalized for COVID relief programs. This was over double what we achieved just two years ago when it stood at 17%.

Software Service revenue growth was 34% year-over-year to $18.2 million. Not only has Service revenue reported strong year-over-year growth, but the quarterly growth also accelerated as Service revenue grew 9% relative to Q2, surpassing the 5% growth reported between Q1 and Q2, as well as the 5% growth between Q4 to Q1. This acceleration was driven by a number of significant customers coming online.

Service gross margins maintained their record level of 77% established last quarter.

Our largest geographic market, the U.S., reported strong growth at 34% compared to last year, and our European revenue grew 29%. The Rest of World revenue was up an impressive 212%. I would highlight that our quarterly revenue for Rest of World was 40% higher, than the full year 2021 revenue in this segment, a testament to our expanding global reach.

While top line growth remains crucial, the cost discipline demonstrated by our entire company is commendable. Operating costs as a percentage of revenue have decreased from 126% in Q3 2022 to just 67% this quarter. This improvement is evidence of our ongoing efforts to optimize costs while maintaining growth. We saw every expense category reduce as a percentage of revenue. General and administrative expenses decreased from 23% to 22%, sales and marketing from 38% to 31%, and R&D from 17% to 15%. This disciplined approach positions us well for continued success in the quarters to come.

In terms of net cash used, we have seen a dramatic improvement with only $0.9 million used for operations this quarter compared to $5.5 million in the same period last year. In fact, for the first nine months of the year, net cash used for operations has improved from $20.1 million in the prior year period to just $2.9 million in 2024 to date, a reduction of over 85%. As this trend continues, we will see the Company reach another milestone and achieve cash flow positivity in the near future.

At the end of the quarter, Blackline had $40.8 million in cash and cash equivalents and short-term investments. The Company also had $14.8 million available on its senior secured operating facility.

With $55.6 million in liquidity and nearing cash flow breakeven, our balance sheet has never been stronger. Net loss has also significantly decreased, now at $2.5 million compared to $6.8 million a year ago, representing a 64% reduction.

In Q3 2024, Blackline demonstrated strength in all aspects of the business, reaching the milestone of positive Adjusted EBITDA, advancing us on our path to a Rule of 40 company, the gold standard for SaaS businesses. Only two years ago, we were at negative 16 according to this metric. This quarter we reached 38 with our seasonally strongest quarter still ahead of us.

Finally, I wanted to take this opportunity to welcome our new CFO, Robin Kooyman. Robin brings 15 years of global experience in finance, capital markets and strategic leadership, having held prominent positions with Brookfield Corporation, TD Securities, and RBC Capital Markets in Canada, the U.S. and the U.K. I and the entire team look forward to working together with Robin as we build the world's largest connected safety company.

Robyn Kooyman:
Thank you, Cody.

I am excited to be part of a successful team. I look forward to presenting the financial highlights in the quarters to come. For this quarter, I would ask Elisa, the person that carried the load as interim CFO, to present the financials to our shareholders today.

Elisa Khuong:
Thank you, Robin, and welcome to Blackline.

In the third quarter ending July 31, 2024, the Company achieved total revenue of $33.7 million, marking a 36% increase from $24.8 million in the same period last year. This growth was driven by a surge in new hardware sales and a significant rise in recurring service revenues through customer upselling and the expansion of services on existing devices.

Over the nine-month period ending July 31, 2024, total revenue grew by $21.6 million or 31% compared to the previous year, primarily due to higher product sales and continued growth in the Company’s service revenues, particularly from connected safety monitoring, analysis and compliance solutions.

Product revenue for the third quarter was $15.5 million, a 38% increase from $11.3 million in the same quarter of the prior year, reflecting the success of the Company's expanded sales network and targeted demand generation activities.

For the nine months, product revenue rose by $9.9 million to $41.7 million, largely driven by investment in the sales team, particularly in Rest of World and the U.S. market.

Service revenue also showed strong performance with a 34% increase to $18.2 million in the third quarter. Software Services revenue for the quarter reached $15.9 million, up 28% from the prior year, which also drove AR growth of 32% to $62.1 million due to new device activation and service expansion within the existing customer base.

Net dollar retention for the quarter was 128%, up from 125% 12 months ago, which reflects our existing customers continuing to expand their current contracts with Blackline.

Rental revenue for the quarter doubled to $2.3 million, reflecting strong demand in the industrial, construction and maintenance markets. Over the nine-month period, Service revenue increased by 31% to $49.9 million, with Software Services revenue specifically growing by $10 million to $44.4 million, underscoring the Company's focus on expanding its service offerings.

In the third quarter of fiscal 2024, the United States market saw significant growth driven by strong new hardware sales and increased service contracts, particularly in the utility and energy sectors, resulting in a 34% increase in revenue. This success reflects the Company's ability to capitalize on existing customer relationships and expand its markets presence within these key industries.

Internationally, the Company experienced even more impressive growth, particularly in Rest of World market, which saw a 212% increase in revenue. This surge was largely due to the Company's strategic extension into Asia, the Middle East and the African continent. The Company's focus on targeting specific industries such as energy, water treatment and utilities has been crucial in driving this international growth.

Despite ongoing geopolitical conflicts such as those between Russia and Ukraine, and Israel and Hamas, the Company's Rest of World markets remain unaffected. The growth in these regions is attributed to the strategic deployment of sales personnel over the past year, and the careful targeting of customers in industries that demand the Company's safety and monitoring solutions.

The Company's lease program, which allows our North American customer to bundle safety monitoring equipment and services into simple monthly or quarterly payments, also contributed to its revenue. The hardware component of this finance thesis is recognized as product revenue upfront, while service and interest revenue are recognized over the life of the contract. This approach ensures a steady revenue stream for both the immediate sales of hardware and the ongoing provision of services.

The Company's gross profit improved significantly, reaching $19.9 million for the quarter, with gross margin percentages rising across both product and service segments due to higher sales volume, product automation and cost management efforts. The nine-month gross profit also saw a substantial increase, reaching $52.5 million with product gross margins up to 34% and service gross margins at 77%.

For the three months end of July 31, 2024, total expenses were $21.9 million, up 9% from $20.1 million in the same period last year. This increase of $1.8 million was mainly driven by higher general and administrative expenses, sales and marketing costs, and product research and development expenses, slightly offset by a foreign exchange gain. I would like to point out that expenses are growing at a significantly lower rate relative to revenue growth. While expenses grew 9% in the quarter, revenue growth was 4x higher at 36% as we see increased efficiencies in all our operating segments.

Over the nine-month period ending July 31, 2024, total expenses reached $63.6 million, an 11% increase from $57.5 million in the prior year. This $6.2 million rise was primarily due to higher sales and marketing expenses, and general administrative costs, partially offset by a reduction in product research and development costs and a larger foreign exchange gain.

The percentage of total expenses relative to revenue dropped to 69%, down from 82% in the previous year, reflecting increased efficiencies in the business.

The Company recorded a net foreign exchange gain of $0.6 million in the quarter compared to a loss of $0.8 million in the same period last year. This gain is mainly attributed to fluctuation in the

Canadian dollar, affecting the Company's foreign currency denominated assets and liabilities. Additionally, net finance expenses were $0.3 million and $0.7 million for the three and nine months ended July 31, 2024, respectively, compared to net finance income in the prior year. The shift was due to increased interest expenses on the Company's secured operating facility and lease securitization facility, alongside the rising prime lending rates.

The net loss for the three and nine months end of July 31, 2024, decreased to $2.5 million and $12.5 million, respectively, compared to $6.8 million and $21.1 million in the previous year. This reduction in net loss was largely due to higher revenue, increased gross profit, and a foreign exchange gain, despite the rise in operating expenses.

EBITDA also improved, reaching $53,000 for the quarter, and a loss of $5.2 million for the nine-month period, compared to a loss of $4.8 million and a loss of $15.5 million in the prior year. Adjusted EBITDA followed a similar trend, improving from a loss of $3.8 million in the prior year, to a gain of $0.8 million for the quarter.

Inventory totalled $16.1 million at the quarter end compared to $17.1 million at the end of the prior year, as we are effectively managing our supply chain and continuously work towards improving inventory turns.

Blackline accomplished a significant improvement in net cash used in operating activities with only $0.9 million used in operations this quarter, a substantial decrease from the $5.5 million used during the same period last year. Notably, over the first nine months of the year, net cash used for operations has decreased from $20.1 million in the prior year to just $2.9 million in 2024, representing a reduction of over 85%.

Blackline's already strong balance sheet significantly improved in the third quarter due to the concurrent spot deal short form prospectus offering and a non-brokered private placement for combined gross proceeds of $34.6 million.

At the end of the quarter, the cash and cash equivalent combined with short-term investment totalled $40.8 million. In addition, the Company has $14.8 million available on its senior secured operating facility.

With that, I will now turn it back over to Cody to discuss our outlook and provide closing remarks.

Cody Slater:
Thank you, Elisa.

I also want to take this opportunity on behalf of the whole company and the Board to thank you for stepping into the role of interim CFO and doing such an incredible job during our CFO transition. We'll continue to benefit from your extensive expertise as you resume your role as Vice President Finance and Accounting, Corporate Controller.

Blackline's strategic plan is centred on driving sustainable profitability through continued top line growth, robust margin expansion and disciplined cost management. Our business model strength and scalability are clearly reflected in our third quarter performance where we achieved our highest ever quarterly revenue of $33.7 million, highest ever gross margins of 59%, highest ever gross profit of $19.9 million, and reached the milestone of positive EBITDA. The Blackline platform has been a key driver of this growth with our annual recurring revenue reaching $62.1 million, an impressive 32% increase compared to the prior year quarter.

In addition to this financial success, we have secured several major contracts during the quarter, further propelling Blackline's leadership in transforming the gas detection and lone worker industries towards a connected future.

We are confident we have the necessary resources to execute our business strategy effectively, ensuring continued growth and disciplined cost management.

I'm extremely proud of the success, we have achieved in the first nine months of 2024, and as we enter the final quarter of the year, our focus on both top line and bottom line growth remains unwavering. Blackline's consistent success across all geographies and verticals is a testament to the solid foundation we have built.

Our ongoing emphasis on efficiency and scalability will further enhance our gross profit, building upon our positive EBITDA as we look to solidify Blackline as a Rule of 40 company, a metric that only the strongest SaaS businesses are able to achieve. This is truly an exciting time for Blackline.

As we see the Company reach scale, the strength of the financial metrics speak for themselves. Underlying this is a company that has a relentless focus on protecting workers and adding value for our more than 2,000 customers in over 75 countries around the globe. As we look to the future, you will see Blackline launch new products and services that will further accelerate the transformation of the industrial workforce into a connected future.

I want to express my gratitude to our customers worldwide for their continued loyalty and the entire Blackline team for their dedication to our mission. Your hard work and commitment are critical to our success, ensuring that every worker has the confidence to get their job done and return home safe at the end of the day.

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

Operator:
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 your handset before pressing the keys. To withdraw your question, please press star, then two. We will pause for a moment as callers join the queue.

Our first question today comes from Amr Ezzat with Ventum Capital Markets. Please go ahead.

Amr Ezzat:
Thank you. Good morning and congrats on a very impressive quarter. Robin and Jason, welcome to your first call. Looking forward to working with you both.

Cody, just on the EXO 8 launch, it was mentioned very briefly in the MD&A. I wonder if you could elaborate on the specific pain points the product is designed to address compared to other area monitors on the market that also offer gamma and gas detection?

Cody Slater:
Sure. We're going to be launching, as we indicated, the EXO 8 at the National Safety Council in—next week actually. It's really a dramatic upgrade from the current EXO which is actually, to be blunt, a dramatic upgrade from the competitive products in the market space. The same things that

are there in the past, the connectivity, the high battery life, are still there in the 8, but it's a far more technically sophisticated product, and when you get into the particular aspects of gamma, it's really around the quality and the sensitivity of the sensing technology we're utilizing. That's one of the dramatic differences, and again, backed up by the fact that we're the only connected product in the world, so when you deploy you can see what's happening in the environment. You can record. But we're also utilizing more modern technology that allows us to detect radiation elements that are literally a quarter of the size of what the core competitors are. We feel that's going to be—and twice as fast, actually, as the competitive base.

For the core context of those emergency responder markets, it's a more flexible product. We can add more sensors, more gases than anybody in the world. You can drive it into different responses depending on what the emergency is, and it'll be an exciting launch for us coming up next week.

Amr Ezzat:
Fantastic. It seems like it's quite modular in nature with the gas expansion and the gamma radiation sensors. Should we think of this as the majority of sales coming from the base model, or do you guys expect a big uptake of these modular options?

Sean Stinson:
Yes, Amr. This is Sean Stinson here. We expect to see leverage from that modular system, particularly in the hazmat space where responders can be responding to a variety of different hazards that might require them to change out their gas sensors on the way to a hazard even. If there's a train derailment with chlorine gas, that's responded to differently than, let's say, a factory with a lithium battery fire in it where you've got the risk of hydrofluoric acid coming from the water that lands on the lithium battery fire. That solution will be very useful for hazmat.

The other place where we expect to see a lot of penetration from the EXO 8 is going to be in the refining markets. This is where the extra two gases—the extra three gases that are in this versus today's model of the EXO will allow us to really get through some of the lockout specs that one of our competitors specifically has.

We are competing against a product that has a six-gas solution and a lot of refinery applications are looking for that sixth gas, so with 8 we'll have no problem getting in there. That's been, I wouldn't say a competitive weakness, but it's definitely an area that we'll see a lot of success from the EXO 8.

Amr Ezzat:
Fantastic. Is it too early days to speak about addressable market size and how should we think about revenue growth over the next 12 to 18 months?

Sean Stinson:
The 8, as we were saying, is going to open up a lot of new market and opportunity, but new market takes a bit of time to address as well, too. It will accelerate our EXO revenue overall, certainly, but our whole revenue growth pattern is one of acceleration as well. I think this just strengthens the portfolio and adds overall value.

Amr Ezzat:
Fantastic. Maybe one last question on the financials before I pass the line.

Noticeable improvements in your hardware gross margin over the past few quarters. We're now close to that 40% that you guys are targeting. I wonder, was there anything unusual this quarter that drove the margins higher, number one? Then, number two, with the upcoming rollout of the EXO 8, how should we think about the impact on gross margins over the next couple of quarters?

Cody Slater:
Sure, nothing fundamental. Our margins, the biggest impact for us is volume and highest-ever product revenue by long shot impacts that. A lot of the work that the operations teams have done on supply chain is helping that as well too. Product mix is one thing that can move up and down and we had a good mix of EXOs in the quarter. EXO carries a higher margin.

When you look down the line with the launch of the 8 it's an even higher margin product in a lot of those specialty areas than the current EXO, so it will likely give us the opportunity to look to move above that 40% down the line, dependent on the mix that we see.

Amr Ezzat:
Thanks. Well, it's shaping up to be a great Q4. I'll pass the line. Congrats again.

Cody Slater:

Thanks very much.

Operator:

Our next question comes from Frederic Bastien with Raymond James. Please go ahead.

Frederic Bastien:

Good morning.

Cody Slater:

Morning, Frederic.

Frederic Bastien:

Thanks. It was great to see the top line margin momentum in the quarter, but I was equally pleased with your operating expenses which continue to lag revenue in growth by quite a wide margin. They were up 9% on the quarter and they're tracking at about 11% year-to-date, so I was wondering if this low double-digit rate of growth is something that we can expect on a go-forward basis as you move into fiscal year 2025?

Cody Slater:

Yes. I think it's a reasonable assumption, those kinds of numbers, low double digits on the operations side. Right now we're achieving a pretty dramatic differential between the top line growth and the bottom line costs, and we intend to see that continue. Maybe at a slightly—maybe more like revenue growing twice the speed of costs, but similar kinds of numbers, Frederic.

Frederic Bastien:

Okay. From a line item perspective, is it fair to expect sales and marketing to grow at a faster pace than your G&A and product development costs?

Cody Slater:

One of the biggest drivers on the sales marketing side is the product—is commissions based on the product revenues. As product grows, that's an element that grows. If you remove that out, the underlying growth is really no larger in the sales side than it is in the other elements of the business.

Frederic Bastien:

Okay. Great. Thanks. Also nice to see your software service revenue accelerate sequentially on the back of new activations and the strong rental revenue. Is the 9% increase you achieved this quarter sustainable, or should we expect things to normalize back to the mid single-digit growth rate on a go-forward basis?

Cody Slater:

That's a good question. I would say that maybe a balance between the two, Frederic, is a good thing to think about.

Frederic Bastien:

Okay, sweet. That’s all I have. Thanks for answering my questions.

Cody Slater:

Thanks very much.

Operator:

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

David, your line is…

David Kwan:

Good morning. Curious to see, following the completion of the equity raise, have you seen the trajectory of the leasing activity pick up?

Cody Slater:

The leasing activity is really so market dependent and customer dependent that it does vary. But what we've seen is that the velocity of closing those deals is getting back to where we'd like it to be. The securitization, some of the challenges around some of that were more on the structural side and trying to force a program into a customer base that wasn't really the way they were looking at it—they really wanted to look at the lease structure. Having the capital balance there, as we mentioned when we did the raise, has just made it easier for us to accelerate—keep the pace of those deals moving at a natural pace and not limit them based on paperwork.

David Kwan:
That’s helpful. Thanks, Cody. On the rental side is a pretty solid quarter here in what I think is typically seasonally a weaker quarter. I think you mentioned last quarter there were some deals that slipped from Q2 to Q3, but was there anything else to point out?

Sean Stinson:
David, this is Sean here. I think rentals just continues to execute solidly across the board. We're seeing it grow internationally as well. The bulk of the revenue from rentals is in North America, but we're seeing the international segments grow with strong demand around the world for rentals. I'll say again, rentals is really a good driver of market demand for us. I'll continue to look at that as a leading indicator for the type of demand for our solutions around the world.

But we're looking—we've got a good pipeline in rentals and across the next year it's going to be about driving demand up in rentals, but also focusing on efficiency of delivery in that segment.

David Kwan:
That’s helpful. Thanks, Sean. Can you talk about what is the current capacity from a revenue basis maybe on the rental business? Just given the strength that you've seen, do you think you're going to have to make more investments in the rental fleet?

Sean Stinson:
We don't quote on our asset utilization, or we don't publish that, but we are close to full asset utilization right now. We get good leverage on the assets that go into that and over the next year we would look to make modest investments into the rental pool to support the type of demand that we're planning, or the type of growth that we're planning.

David Kwan:
That’s great. Thanks.

Operator:
Our next question comes from Martin Toner with ATB Capital Markets. Please go ahead.

Martin Toner:

Thanks so much for taking the question and congrats on a great quarter. The PR was written very confident, or it read very confident. Can you guys talk to your ability to sustain growth at these levels into 2025, please?

Cody Slater:

Sure, Martin. I think if you read that to be confident, it's probably because the Company is. The kinds of growth numbers you're looking at, we've been achieving for some period of time. I will certainly not say it's getting easier, but it's getting clearer where those markets are and where the opportunities are. We also have some very good, strong inflection points coming in 2025 with the launch of the EXO 8 and some other new products coming down the pipe. That continued expansion of our core customer base and that net dollar retention, which is really driving—which is, really, you're seeing customers adopting more and more hardware, protecting more of their personnel. Better strength across some of the core geographies also gives us some good confidence in that. To look at similar kinds of those 30% growth rates is definitely something that we're confident in.

Martin Toner:

Fantastic. Were there any unusuals in product revenue that drove growth rate or gross margin?

Cody Slater:

Growth rate, it's funny. As we were talking about it here internally, it was a lovely quarter because it was just solid execution across the different elements. Some nice sized orders but nothing dramatic, nothing that you could point to and say with or without that one order that the numbers would be dramatically different. Again, I think it's really talking to the scale the Company is reaching where we have that breadth and we have that strength across the different geographies.

Volume helped the margin product mix. It was a good one as far as the mix between EXOs in 7s and 6s, etc., but nothing unusual, Martin.

Martin Toner:

Fantastic. How are you feeling about the ability—when I look at your gross margin at 59% going into your typically biggest quarter of the year, I'm feeling pretty good about my positive EBITDA number for Q4. How about Q1? How confident are you guys that you can keep Q1 EBITDA positive?

Cody Slater:

Q1 is always a drop from Q4 for us in revenue. Really, what we're targeting is that 2025 is an EBITDA-positive year for the entire year. Q1 will definitely see a drop from Q4, but given the scales, whether we're one side of the coin or the other, Martin, I don't really see as being too big of an element. It certainly won't drive the year.

Martin Toner:

Fantastic. Last one from me. Is there anything in those nice NRR numbers that you printed the last three quarters that are nonrecurring and therefore making that number hard to sustain?

Cody Slater:

No. No. We're really clear on that number and how we calculate that. It's purely based on the actual service revenue. In fact, maybe the one thing we mentioned before, we did have one client contraction in the last quarter that is probably the only thing that shifted anything a little bit, but that would be on the negative side, not the positive side. Everything there is very solid.

Martin Toner:

Wonderful. Thanks very much. That’s it for me.

Cody Slater:

Thanks, Martin.

Operator:

Our next question comes from John Shao with National Bank. Please go ahead.

John Shao:

Good morning. Thanks for taking our question. It's a great quarter. I just want to ask about the Rest of World segment. It's obviously a meaningful driver this quarter. Do you think you're at a point that those heavy liftings like sales and support teams are complete as you're about to scale that region even further? Different from a numbers perspective, on a normalized basis, what kind of growth rate should we model for that region going forward? Thanks.

Sean Stinson:
Thanks, John. This is Sean here. I look to see the Rest of World segment between the 10% and 15% of our total revenue. We had a really good quarter in Q3; it'll probably fluctuate up and down because it's a smaller segment and there's associated volatility when you've got a smaller segment because big deals can make a big difference. But I'd look over the next year to try to see that growing from what is around 7% to 10% now up to a 12% to 15% range over the next year.

We won't be hiring significantly into the sales team, but we'll be adding support people into that team. As we roll out larger deals in those international markets, we need things like customer care and implementation support, and things like that, so you'll see a bit of a budgetary association with that, but not so much on the front end side.

Over the next year, really hold the line. We've got a lot of—we've got some high-performing people in that international team and we look forward to them growing the markets.

John Shao:
Got it. Thanks for the colour. Could you also remind us of your hardware seasonality again, based on your current backlog and whether we're going to see a similar quarter-over-quarter improvement in Q4 as in prior years?

Cody Slater:
Sure, John. Q4 will definitely be a stronger quarter for us. It always is. The services is constantly growing, of course, and it has traditionally been our strongest hardware quarter. I'd look to see that similar in the growth quarter-on-quarter. Q3 was a very strong quarter comparatively. Often Q3 and Q2 are fairly flat, so maybe a little less than what you'd normally see as a top line between Q3 and Q4 this year, but really based on the strength of Q3, not on any weaknesses in Q4.

John Shao:
Okay. Thanks. Last one from me is, in terms of your production facility, could you maybe comment on your current capacity to absorb new demands for existing product and maybe new product down the road?

Cody Slater:
Sure. Our current capacity we see taking us for the next two, three years with some modification, likely a small expansion to add some capacity for our surface mounts' capabilities, but we're well positioned for the future here. The new products are all designed to be slightly easier to manufacture. Higher automation is being added into the facility on an ongoing basis, so those balance out the growth at the same time. We will be looking at some expansion there, but nothing dramatic.

John Shao:
Okay. Thank you.

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

Raj Sharma:
Thank you for taking my questions. Congratulations on continued excellent growth and the positive profitability. Now, if I understand it correctly, you're a quarter ahead on your inflection to positive profitability. I think you had talked a lot about getting to it by 4Q, so great.

I would like to understand a couple of things. Just leasing, leasing sales as a percentage of total, how do you see the utilization of your current cred line securitization facility? Is the availability there ample for upcoming growth?

Cody Slater:
Sure, Raj. Our sales on the leasing side tend to run between the mid teens to the high 20s as a percentage of hardware. It's a program we only offer in the North American marketplace, so you can use that to look at what the scale of potential leasing deals are. We currently still have significant room on our securitization.

I think one of the things that will be a bit of a nuance given the balance strength here now is, whether or not the deals get put through securitization will really depend on whether or not there's a fit with the customer's leasing requirements and the securitization program. But it won't impact the availability of that program to a customer base. Still, we don't really see an opportunity for it to grow above that mid-20s percentage, and it's, again, vertically-oriented in certain verticals that like it, certain that don't. It's a North American product, so as you see those other markets growing, it's not a restraint for us anywhere.

Raj Sharma:

Got it. Should we extend that to a possible need for new capital? Extend that same line of reasoning to whether you'd need new capital anytime soon, or you're good on the amount of capital?

Cody Slater:

Yes. Very directly, no need for new capital, Raj. We've got $40 million in capital plus another basically $15 million on our line of credit, and you saw that cash utilization this quarter was $900,000; you'll actually see that decrease. The Company's balance sheet is in the best position it's ever been in the history of the Company.

Raj Sharma:

Got it. Great. Then, I know that you addressed this in part on the call, but you've reached substantial operating leverage with positive EBITDA now. Do you think you should be able to sustain that positive EBITDA and also achieve your positive operating cash flow soon?

Cody Slater:

The target for this year, as you brought up at the beginning of the call here, was to hit positive EBITDA in Q4; we've done that a year early. Next year, the target is to be positive EBITDA for the full year, so a full year of positive EBITDA. Again, as we mentioned before, there may be a little bit of fluctuation quarter-on-quarter there, particularly in that first quarter, and we do look to see the Company move to cash flow positivity in the new year.

Raj Sharma:

Great. I'll sign off, but thank you again and congratulations on an excellent, excellent quarter. Excellent results, all on organic growth. Thank you.

Cody Slater:

Thanks very much.

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 very much, Operator. I just want to thank everybody for their attention today. We look forward to seeing everybody again in Q4 with even better news.

Thank you very much, everyone. Have a great day.

Operator:

The conference is now concluded. Thank you for attending today's presentation. You may now disconnect.